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review *of* oregon's housing legislation *in* 2019

TIMOTHY LAWLER
Portland State University

Timothy Lawler is a graduate student in the Master of Real Estate Development (MRED) program and a Multi-Family Northwest Student Fellow.

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Housing policy is one of the most important state and local issues in Portland, affecting both the quality of life and economic opportunities. Its importance comes from the rapid population growth over the past decade and the challenge in accommodating that growth. According to a recent CoStar report, Portland's population grew by about 24,000 with about 30,000 jobs added in the city (Anderer, 2019). Housing supply has had trouble keeping up with the increase demand, causing rents to rise rapidly. Yet while housing prices and rents have risen, Portland remains relatively affordable compared to the large metropolitan areas in the west. CoStar notes that, "of the 12 west coast metros with at least one million residents, only Fresno has cheaper average rent then Portland" (Anderer, 2019). This relative cheap rent combined with a high quality of life for a west coast city will keep the flow of people moving to Oregon.

In response to these changes, the Oregon State Legislature and Portland City Council have taken steps to pass regulation that they feel will help the current and future housing issues Oregon faces. In this article, we will review the major pieces of legislation that will have an effect on tenants and landlords in Portland and Oregon. Over the next year we will follow up monthly with more specific in-depth analysis of these changes, comparing the intended impacts and unintended impacts on the market

THE CITY OF PORTLAND'S LEGISLATIVE LEAD

Prior to the 2019 Oregon legislative session, the housing market in Portland experienced a number of new regulatory initiatives in 2017-2018, including inclusionary zoning, Portland's city rental registration program and the City's mandatory renter relocation assistance program. These regulations have challenged the assumptions held by real estate investors, developers, landlords and property managers, causing great uncertainty about future regulation and higher costs of capital for producing new housing.

The City renter relocation assistance program created what many observers saw as a "back-door" rent control program by requiring landlords to offer mandatory renter relocation assistance if rent increases exceeded 10%. And to pay for the administrative costs of the quasi-rent control, landlords were forced to register their units with the city, at a rate of $60 per unit per year.

And in 2019, the city passed new tenant screening rules to encourage landlords to overlook past criminal convictions (among other issues). These regulations have challenged many developers, landlords and property managers. At a recent breakfast hosted by the Commercial Association of Brokers, appraiser Patrick Barry reported that the tenant screening issue alone has led to a 50-100 basis point increase in property management fees and an increase in mom-and-pop landlords using third-party property management to reduce their legal exposure.

THE LEGISLATIVE SESSION IN 2019

The Oregon Department of Housing and Community Services opened the 2019 legislative session by announcing "Six Priority Strategies" for the next five years. These priorities of the Governor included addressing equity and racial justice, homelessness, affordable rental housing, homeownership, permanent supportive housing, and rural communities (OHCS, 2019). Unlike previous sessions, many of the resulting bills were written without significant input from landlords and skewed the regulatory environment in favor of tenants. Combined with the recent inclusionary zoning and mandatory renter relocation laws, the new regulations have left many property owners nervous about their liability and confused on what they can and cannot do as owners and property managers.

Some of the legislation had broad support. Senate Bill (SB) 484 passed unanimously in May and prohibits multiple application fees for a tenant that applies to multiple dwelling units owned or managed by one landlord within a 60-day period. This bill should save potential tenants some money and have no negative effects for a landlord as one would have already checked the prospective tenant's information (OLIS SB484, 2019) SB 534 passed in June which allows for narrow lot homes to be developed as single family dwellings, and should allow for more housing then the City of Portland's pending Residential Infill project would require. Finally, HB 2003 creates a new performance measure for housing and requires localities to complete an analysis, "to identify steps to remove financial and regulatory impediments to developing needed housing" (Portland Planning and Sustainability, 2019). Under this bill, jurisdictions within Metro will be required to identify existing housing stock and project housing needs for next 20 years.

A more controversial legislative effort was HB 2001, which is part of a multi-state effort to limit the ability of single-family zoning to restrict housing supply. HB 2001 acknowledges a housing crisis and requires cities larger than 10,000 people to allow so-called "middle housing" in single-dwelling zones. Middle housing includes duplexes, triplexes, quadplexes and cottage clusters, which purport to have lower costs and rents than traditional single-family homes. Additionally, the bill also contains directives to change building code rules on converting single dwellings to triplexes and quadplexes. Cities have until June of 2022 to comply with HB 2001. The key wording here is that HB 2001 "allows" for more density in single family zoning areas, which means that change in existing neighborhoods will happen slowly as individual property owners consider adding an accessory dwelling unit (OLIS HB2001, 2019). California and Minnesota are among the other states considering this change in legislation.

STATEWIDE RENT CONTROL

The most contentious housing legislation in the session was Senate Bill 608, which implemented statewide rent control, building off the city's quasi-rent control efforts. In choosing to codify actions started by the City of Portland, Oregon has established a reputation as the "first state in the nation" passing a statewide rent control ordinance. Of course, this claim to being the "first state in the nation" ignores a long legislative history in New York and California, which have much longer experiences with rent control.

First, the most important feature of this bill was the declared "housing emergency" which allowed the bill to take immediate effect after its passage which happened on February 28, 2019. This provision prevented the legislation from being referred to Oregon voters, as well as preventing pre-emptive rent increases by landlords.

Second, SB 608 limits annual apartment rent increases to no more than 7% plus the Consumer Price Index (CPI), which effectively capped rent increases at 10.3% for 2019 and 9.9% for 2020. The Oregon Department of Administrative Services will publish the maximum rent increase by September 30 for subsequent years (DAS, 2019). In reviewing market-wide increases in the last decade, this legislative limit would not have much impact on most apartments. However, it is expected to have impacts on apartments where rents have been held substantially below market value by unsophisticated landlords, as well as limiting the ability of property owners to substantially improve their properties. National data suggests that about half of all real estate investment comes in the form of property upgrades and rehabilitation, for which a developer would be expecting rent increases in the 30% range. As a result, it's expected that this part of the "trade-up" market will evaporated. Moreover, any rent increase over 10% in the city of Portland will expose the landlord to pay Portland relocation assistance if the renter chooses to leave following the proposed rent increase.

A third cause of concern for landlords with SB 608 comes with the termination of provisions. SB 608 prohibits landlords from terminating a month-to-month tenancy without cause after 12 months of occupancy. If a no-cause termination happens after 12 months, a 90-day notice must be issued along with 1 month of rent compensation. Within the first 12 months of the tenancy, landlords may be granted a no-cause eviction with a required 30-day notice. All fixed term leases will roll over to month-to-month at time of lease expiration unless renewed or the tenant decides to leave (OLIS SB608, 2019). The feature of the bill will complicate the process of landlords evicting tenants who create nuisances for other tenants within their buildings. Obtaining testimony for a for-cause eviction puts the complaining tenant in some jeopardy. The legislation provides some exemptions for landlords having to pay the relocation fee, such as when they own fewer than four units. In addition, landlords will allowed to evict tenants who violate their lease three times without relocation assistance, provided they have records of the violations and follow proper procedure in eviction.

Finally, the legislation exempts buildings 15 years or younger from rent control. This provision is quite different than similar legislation in New York and California where buildings of a certain vintage (for example, built before the year 2000) are exempt from rent control. Instead, all buildings will eventually be covered by rent control as they age, creating a "rolling-entry" into the regulatory system. While intended to remove the impact of rent control on new development, this legislation will cause investors and lenders to pay more scrutiny to future rent increases that are projected by the landlord, effectively raising the cost of capital for the multi-family housing industry.

The legislation enforces these new rules with strict penalties for landlords that fail to comply with these new laws, including being liable for up to 3 times the monthly rent as well as actual damages, relocation assistance, and attorney fees (Sykes, 2019). As described previously, this has led many small landlords to seek more expensive professional property management.

Finally, there is concern about how this law could affect VA and FHA loans. With these loans the borrowers typically must occupy the property within 60 days, yet the law gives tenants 90 days' notice to move out. Closing usually taking 30 days, this is going to create a very tight timeline for new buyers and may make it harder for sellers to sell a fully leased property to a purchaser who wants to occupy a unit (Shaw, 2019).

FAIR HOUSING LEGISLATION IN PORTLAND

In addition to the major legislation changes on the state level. Portland passed the Fair Housing in Renting Ordinance (FAIR). Portland City Commissioner Chloe Eudaly introduced the FAIR Ordinance to create a more equitable application process for housing.(Eudaly 2019). This ordinance effectively creates a "first come, first serve" system that requires landlords to accept tenants in the same order they receive applications, while restricting a landlord's abilities to check credit histories, criminal records, and identities of all potential tenants who want to live in their property. The FAIR ordinance does not go into effect until March 1, 2020, which will allow the Housing Bureau time to complete the policy (Templeton, 2019).

AN ASSESSMENT

As we have seen, the past three years have been a whirlwind of legislation changes in Oregon and Portland. Collectively, the legislation was supported by the good intention of trying to help tenants stay in their apartments and not get priced out. Unfortunately, while these regulations protect the status of current tenants, they will make the life more difficult for new tenants, whether they are moving to Portland, wanting to leave their parents' home, or facing divorce or job relocation. Because these regulations increase risk and costs for landlords and developers, they will deter housing development and decrease the supply of housing, driving rents and home prices even higher.

The Legislature's HB 2001 attempts to increase some of the supply issues by reforming the historic pattern of single-family zoning, potentially creating new housing units in large lots, garages, and the backyards of existing homes. However, these efforts are most likely to succeed in Portland, where housing costs are highest and new initiatives going by the names Better Housing by Design and the Residential Infill Project, will create additional regulatory burdens on re-development. Only time will tell the long-term effects of 2019's major changes. Hopefully, the reporting requirements on local government that are part of HB 2003 will allow these changes to be analyzed in a timely manner and help legislators to make positive amendments for all.

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02 //

Crisis *in* Portland's Real Estate Market

GERARD C.S. MILDNER, PH.D.

Portland State University

Gerard C.S. Mildner, Ph.D. is an Associate Professor Real Estate Finance in the PSU School of Business and the Academic Director of the Master of Real Estate Development (MRED) program.

Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Within the course of three years, Oregon has changed from being one of the least regulated housing markets in the nation to one of the most regulated housing markets. Whether measured by Inclusionary Zoning regulations in Portland, our long-standing system of Urban Growth Boundaries, our accumulation of Tenancy Regulation, or our recent entry in a list of four US states with some form of Rent Control, we have created a highly litigious, state- and municipally-controlled housing market.

These simultaneous policy initiatives have created problems for real estate industry participants and policymakers alike. For market participants, the shifting regulatory environment has created uncertainty about future market conditions, leading to reluctance of capital markets to invest in Oregon. For policymakers and policy analysts, the flurry of policy changes has made it very hard to determine the impacts of any particular piece of legislation, since any one of them (or a combination of several) might have caused the changes in market conditions being observed.

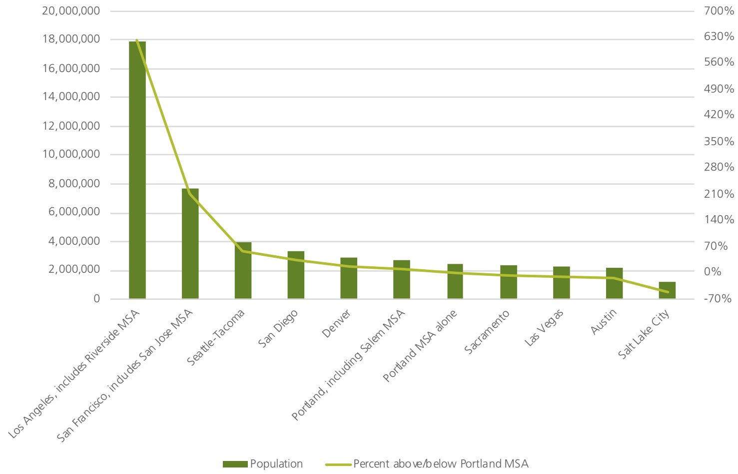
To assist in the analysis of these policies, the Portland State University Center for Real Estate and Multi-Family Northwest have entered into a partnership to create a "White Paper Series" analyzing the policy changes affecting the statewide and regional housing market. The Center has committed itself to a year-long series of monthly articles about different aspects of the housing market, using the talents of the Center staff and graduate students in the Master of Real Estate Development (MRED) program. We hope you appreciate the financial and economic analysis within these White Papers. Of course, the analysis and views expressed within each paper belong to the signed authors, and do not represent an "official" position of the Center for Real Estate, much less Portland State University

THE GROWING DEMAND FOR REAL ESTATE

The backdrop to the policy interventions of the last three years has been a booming economy and population in the Portland, Oregon metropolitan area. According to a recent Costar report, the Portland metropolitan area grew by about 24,000 residents with about 30,000 jobs added in the metro area (Anderer, 2019). Housing supply has had trouble keeping up with the demand, causing rents to rise rapidly. At the same time, Costar notes that, "Of the twelve west coast metros with at least one million residents, only Fresno has cheaper average rent then Portland" (Anderer, 2019).

The relative cheap rent and housing prices in the Portland area combined with a high quality of life and proximity to the San Francisco Bay area will support the continued flow of people moving to Oregon. California and Washington State have been the dominant two origins for migrants to Oregon for many decades. However, from a firm relocation or back-office relocation perspective, Portland is competing with many other Western metropolitan areas that lie within convenient commuting distance from San Francisco and San Jose: Denver, Phoenix, Austin, Salt Lake City, Boise, and Seattle.

METROPOLITAN AREA POPULATION, 2018



Many of these cities have a quality of life that competes with Portland. As a result, analysts who try to assess if real estate prices are “too high” for regional economic competitiveness should downplay our comparison to other “west coast cities” in favor of a comparison among similar-sized “western cities”. Economic theory and casual empiricism demonstrates that larger metropolitan areas tend to have higher real estate prices than smaller ones. Most of our “west coast” neighboring metropolitan areas have aggregate populations much larger than Portland: Seattle, San Diego, San Francisco-San Jose, and Los Angeles (see chart below).

As we can see from the table, Denver, San Diego, and Seattle-Tacoma are 18%, 35%, and 59% larger in population than the Portland metro area. Even adding in the Salem metropolitan area, where a quarter of the workers now work in the Portland area, doesn’t change the picture. Portland remains a small place compared to its larger “west coast” neighbors.

Urban economists such as Edward Glaeser of Harvard have long noted the economic advantage to workers and firms located in large metropolitan areas. Firms experience the agglomeration economies advantage of greater numbers of potential workers and increasing opportunities to research and innovate within an industry cluster. In turn, workers benefit from agglomeration economies through multiple employers seeking their services and unique cultural amenities, such as the quality and number of fine arts presentations, the number of colleges and universities, or the array of entertainment options. As a result, these larger regions tend of have higher housing prices and higher wages to compensate. The challenge in interpreting our position as a region requires analyzing whether Demand Factors, such as quality of life, amenities, and employment growth, or Supply Factors, such as housing regulatory constraints are driving the real estate price differences. Since measuring regional quality of life in more than a cursory way is a scientific challenge, we will focus on changes in prices and changes in population.

The true mega-regions in the table, Los Angeles and San Francisco, operate in an orbit of their own and have become major sources of population out-migration. Collectively, they represent 65% of the largest state in the United States. Historically, the high amenities of these regions have been a major driver in US population migration from the East to West. As can be seen in the chart below, California grew at more than double the rate of growth as the United States from 1910-1990.

Year California	California Population	Growth Rate Previous Decade	United States Population	Growth Rate Previous Decade2
1920	3,426,861	44%	106,022,000	15%
1930	5,677,251	66%	123,203,000	16%
1940	6,907,387	22%	132,165,000	7%
1950	10,586,223	53%	151,861,000	15%
1960	15,717,204	48%	179,979,000	19%
1970	19,953,134	27%	203,984,000	13%
1980	23,667,902	19%	227,225,000	11%
1990	29,760,021	26%	249,623,000	10%
2000	33,871,648	14%	282,172,000	13%
2010	37,253,956	10%	309,330,000	10%
2018	39,557,045	6%	327,167,000	6%

However, since 1990, population growth in the state has fallen to the point that the California is expected to grow at less than average US population as a whole in 2010-2020. California remains a gateway city that attracts migrants from Asia and Latin America, however California has become a steady supplier of domestic migrants, primarily to the surrounding Western states. Dowell Myers, a demographer at the University of Southern California identifies housing costs as a major driver of out-migration, although factors such as the fertility rate and the changing patterns of immigration also play a role. With higher housing costs, along the peculiar property tax system and rent control system in California that favor long term residents, older residents in the state stay longer and younger families are more likely to leave.

Given these demographic factors and housing cost differences, Western cities such as Portland as destined to grow for a long time. The question is whether we maintain a healthy housing market and build new housing that satisfies these in-migrants, many of whom are arriving with substantial equity. If we fail to provide new housing to meet their needs, they will increasingly focus their demand on existing neighborhoods, driving up the price of housing. In effect, the choice is whether we reap the benefit of California's failed housing policies, or whether we repeat them.

IMPACT OF THE URBAN GROWTH BOUNDARY

The longest standing supply constraint on housing development in the Portland area is the Urban Growth Boundary, or UGB. Mandated by a state statute in the late 1970's, the UGB is intended to limit the places of urban settlement and preserve land for use by agriculture and the forestry industry. To limit its impact on urban development, the boundary is intended to provide for a "twenty-year land supply" for both housing and employment development. I put the word "land supply" in quotation marks because this concept has little meaning in economics. A community can live with a small land supply, using density to mitigate for the limited supply of land (think Brooklyn or Hong Kong). However, the impact of a tight land supply is higher land costs and housing costs. High prices are needed to support high density. Therefore, the amount of land that's needed for a 20-year supply depends upon prices.

The responsibility for whether the land supply is adequate depends upon the implementation by Metro, our regional government. Since 1980, the Portland metropolitan area has grown by 78%, while the land supply inside the UGB has grown by only 10%. Since the mid-1990's, Metro has been following the "Region 2040 Plan", which favors using infill, redevelopment, and densification over greenfield development on the suburban fringe of the metropolitan area. With the assistance of urban planners at the City of Portland, Metro has been able to minimize the amount of UGB expansion required due to generous heights and allowed densities inside the City of Portland.

The problem with the densification strategy is that higher density development is more expensive and only likely to happen if rents and prices are sufficiently high. In the short run, the impacts are modest. Single family home developers can reduce square foot costs by changing from one-story ranch homes to two-story homes, and given the increases in land costs in recent years, almost all new homes in the region are two-stories. However, building at higher densities requires exceptional rents. In a recent study we did for Holland Development, we found that five story apartment construction requires 50% higher rents than two-story construction. Five-story development is typically four stories of relatively-inexpensive wood construction over a one floor concrete podium. "Four-over-one" construction is a common development type in the inner neighborhoods of Portland where rents and land costs are relatively high. Beyond five stories, developers need to switch to steel and concrete construction and this requires rents 50% to be higher again. There is some opportunity for mass timber construction to reduce this premium, but it's unproven and will require some rent premium. We only see unsubsidized high rise construction in the Portland's central business district, where per square foot rents are highest in the region.

The challenge is that generous zoning in Portland's neighborhoods permits city planners to assume an abundant potential housing supply, mitigating the need for new land. While medium density projects have been built along Williams, Vancouver, Hawthorne, and Belmont avenues, city planners have identified housing capacity along 82nd Avenue and the Gateway district. Development in these lower-income locations is unlikely to happen unless rents rise much higher than they currently are. More importantly, placing the region's housing supply future on high cost development almost guarantees that housing prices will become much higher.

The problem of the lack of land for subdivision development has been recognized by Metro. In December, 2018, the Metro Council approved a modest UGB expansion in four areas in Hillsboro, Beaverton, King City, and Wilsonville, representing the potential 9,200 homes. Unfortunately, 9,200 housing units represents only one year's worth of housing development in the region, and Metro doesn't intend to return to this question for another 4-5 years. The Center for Real Estate will be monitoring development in the UGB expansion areas, however obtaining land use approval and building infrastructure will take time. Unfortunately, despite Metro organizing an infrastructure bond for November, 2020, none of that money will assist these new development areas, and the four jurisdictions have been left to fend for themselves. And since the natural geography for housing markets is the metropolitan area, the cities won't experience lower costs while neighboring towns do not. As a result, these cities are being asked to perform a regional benefit, without any regional assistance or partnership.

INCLUSIONARY ZONING LIMITS APARTMENT DEVELOPMENT PORTLAND

A second major impediment to housing development in the region comes from the City of Portland's Inclusionary Zoning regulations. In 2017, the state legislation removed a long-standing ban on municipal inclusionary zoning, which mandates that developers of apartments set aside a fraction of their units to be rented at below market prices to households of limited incomes. While this kind of regulation seems innocuous and well-intended, the impact on development can be quite dramatic.

The City of Portland immediately adopted an ordinance that meets the maximum that the state legislature allowed. Under the new rules, developers of projects of 20 or more housing units have to rent 20% of those units at prices substantially below market levels. The regulation covers all residential development, including for-sale condominiums and senior housing. The City has offered some development incentives, but typically those benefits are short-lived, while the rent restrictions are required to last for 99 years. The regulations have been particularly onerous on downtown development, since the affordable rent levels were set at county-wide levels. With market rents reaching their highest levels downtown, the regulation has made downtown apartment construction not feasible.

To limit any immediate impact, the City allowed for projects that were submitted prior to February, 2017 to be exempt from these onerous regulations. Property owners and developers put forward a flood of development applications, representing some 12,000 housing units. Most of those projects have moved forward to completion, leaving the apartment market somewhat soft. However, very few apartment proposals have been put forward since this February, 2017 deadline. As a result, most experts expect apartment rents to rise in the next few years as little new supply is being added to the market.

Ultimately, this kind of regulation is a development tax. In the City of Seattle, for example, the inclusionary zoning regulation was designed to generate cash for the city to develop affordable housing, and the developer of a recent project found that it had to pay 5% of its development costs in the form of an in-lieu fee to the City. In Portland, the in-lieu fees were set closer to 15% of development costs, so that most developers considering their options have been forced to include the affordable units inside their projects, creating more complications for selling their projects to outside investors.

In any case, the Center for Real Estate will be following this issue in an upcoming article in this White Paper series, but the basic concept is that investment capital is mobile, and if the regulations are sufficiently onerous, housing supply will dry up and rents will rise to even higher levels.

There's also the broader question of whether this sort of affordable housing initiative should be funded by developers and apartment tenants or by taxpayers as a whole. The problem of the shortage of housing development was largely created by local development regulations, not the market. And if anything, new housing supply will reduce market rents, reducing the cost of living for everyone. The inclusionary zoning concept taxes that new supply, making the underlying problem only bigger.

OREGON'S STATEWIDE RENT CONTROL MEASURE

A third pressing issue for housing development has been the implementation of rent control across the state. Ostensibly, this legislation was written in 2019 in the mildest form to limit the impact on new development and preclude the more ambitious regulations sought by City of Portland officials. Rent increases were limited to 7% plus the rate of inflation and were limited to properties that were 15 years or older.

Of course, the problem is that these two key provisions can be changed by future legislatures, and even new development projects will require some projection of future rents. Typically, apartment developers will project their construction costs, operating costs, and rent levels for an indefinite future. Then at some distant point – often 10 years into the future – they will convert their net operating income into an asset value using capitalization rates.

The problem with Oregon's 15-year threshold is that all new housing development will eventually become a 15-year old project, with rents being subject to legislative constraints. Lenders and investors will force developers to use higher capitalization rates given the uncertainty of future rent control regulation. And since high cap rates mean low asset prices for the developer, apartment developers will be forced to wait for higher initial rents in order to make the new projects pencil out.

A further problem with the legislation is that cities and counties will need to greatly expand their monitoring of rent levels and expand the housing court system. A natural reaction by landlords to restricted rents is reducing apartment quality, whether this means adjusting thermostats, reducing garbage collection, or allowing apartment amenities to deteriorate. Many small landlords are selling their holdings or have been forced to use third-party management to insure they are in compliance with the new regulations. In some cases, landlords are being advised to raise rent levels faster than planned to insure they won't be affected by future regulation. All of this suggests an unintended regulatory compliance burden that apartment owners and local governments are unprepared.

Again, the Center for Real Estate is committed to a study of this problem in a future White Paper. However, the academic literature has little good to say about rent control. Rent control discourages new housing supply and encourages over-consumption of apartments by tenants. The benefits of rent control accrue to long-term tenants, many of whom are not low-income. And with supply reduced, market rents tend to rise, creating burdens for young adults, newly-formed households, new arrivals to the state, and divorced couples.

In the bigger picture, one of the characteristics of housing markets in the United States is the relative ease of development and low cost of housing relative to incomes. Unfortunately, Oregon has joined a relative small number of places in the US with rent control, California, New York, New Jersey, and Washington, DC, each of which have substantially higher rent levels. The experience in these places and elsewhere is not promising.

THE UNINTENDED CONSEQUENCES OF REGULATION

The net effect of inclusionary zoning and rent control has been to reduce apartment supply in Portland, which has been the mainstay of housing development since the Great Recession. Yet the connections between the legislation and its impact in 2021 and 2022 has been blurred because of the City's grandfathering clause for inclusionary zoning. Rents and prices have been stabilized for the past year, as developers and investors have sought regulatory relief. Yet rents are likely to happen in the future. And because so many actions are happening at the same time, legislators and local officials have cover for the impact of their work.

Ultimately, state legislators and local government officials have painted a false image of the inefficiency and the inequity of the rental housing market. The apartment market is typified by thousands of small suppliers, none of whom control enough of the market to have any market power. Absent regulation, they have strong incentives to maintain high quality levels and fill vacancies. Landlords desire to increase rents is constrained by their competition. Tenants gain their power in the apartment marketplace by moving when a landlord doesn't offer the apartment at a fair price. The true power over the market begins with Metro's monopolistic control over land supply and the legislature's intervention in the development process and landlord-tenant laws.

Regarding equity, which has become the North Star for legislators and officials at the city and state level, it's a common canard that landlords don't develop housing for low-income households or build for the low-income side of the market. This claim ignores the long-lived nature of housing and the decline in housing quality that occurs with time, which in the economics literature goes by the name of "filtering". The average existing home price is typically $100,000 less than the average new home price. Most newly-built housing is occupied by higher-income households, largely because of its higher quality and higher prices. As they move into the new housing, they free up existing household, which has depreciated or filtered downward. So just as one finds affordable furniture and affordable automobiles on Craig's List or along 82nd Street, affordable housing is found by looking for the housing built 20 or 40 years ago that has depreciated in value. To keep the process of filtering operating so that lower-income households find the apartments they need, we need less regulation so that more new housing is built.

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economic analysis

JERRY JOHNSON
Portland State University

Jerry Johnson is an adjunct professor at Portland State University's Center for Real Estate. He is also the Managing Principal of Johnson Economics, a consultancy based in Portland.

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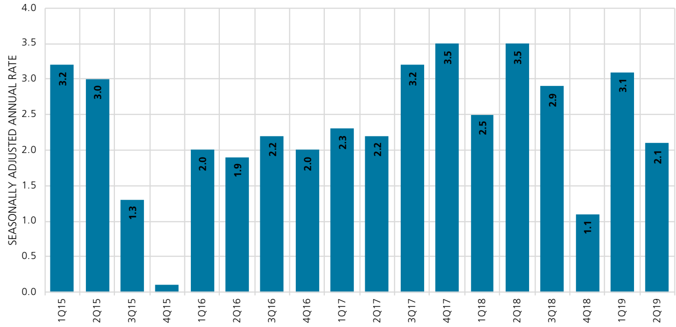
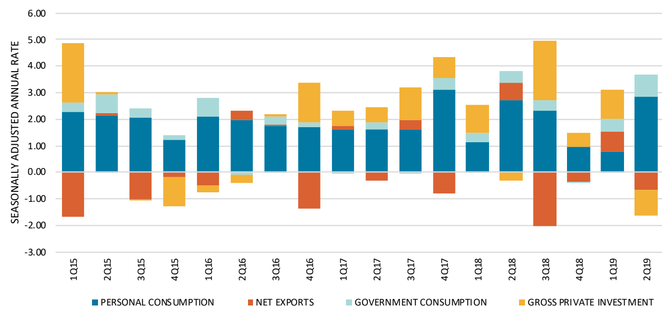
REAL GDP



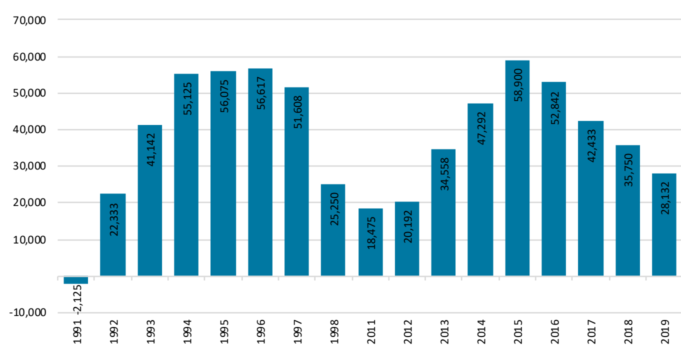
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



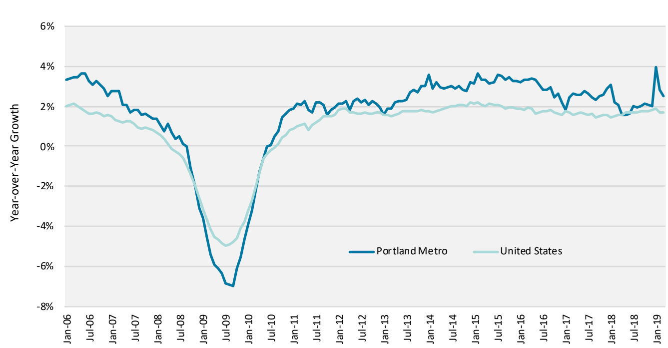
U.S. Bureau of Economic Analysis

NONFARM EMPLOYMENT GROWTH- OREGON CES DATA



U.S. Oregon Employment Department, Current Employment Statistics

ANNUALIZED EMPLOYMENT CHANGE BY MONTH



CES Employment, State of Oregon and BLS

The current expansion cycle continued through the third quarter of 2019. Gross Domestic Product (GDP) is currently estimated to have expanding at an annualized rate of 1.9% during the quarter, reflecting a modest slowing from the previous quarter.

As with last quarter, economic growth at the national level has been driven by personal consumption, with limited support from government consumption. Declines in private investment and net exports were lower than in the second quarter. The tight labor market and continued employment growth has led to growth in aggregate as well as per capita wages.

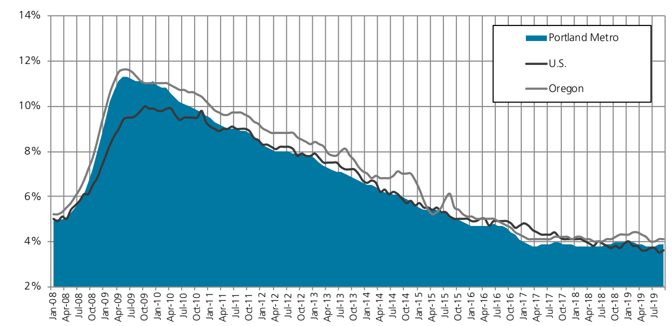
The expansion is projected to continue at the national level over the next several years, with GDP growth continuing but at a reduced rate. Tariffs on US-China trade flows and a reduction in fiscal stimulus are expected to contribute to this slowdown. As with the last few quarters, consumer spending is projected to be strong, supported by gains in employment, real wages, and household wealth. The Federal Reserve is expected to reduce federal funds rates by another 25 basis points in December and then move to a neutral stance.

Just over 30% of economists surveyed in The Wall Street Journal's November survey saw a risk of the US entering a recession in the next year. This number is elevated but reflects an improvement over the 34% rate in the October survey. The catalysts for the next recession cited most often are inventory imbalances, oil supply shocks, and monetary policy error and/or fiscal tightening. Global growth is expected to continue to slow. Europe has seen reductions in exports and capital investments, while China's growth has slowed significantly.

Employment growth has continued within the State of Oregon, with the rate of growth slowing as well. While growth early in the recent expansion cycle was led by the Portland metro area, twhe remainder of the State has largely done well over the last several years. Key concerns at a statewide level include labor shortages due to a tight labor market as well as uncertainty regarding the impact of the new gross receipts tax.

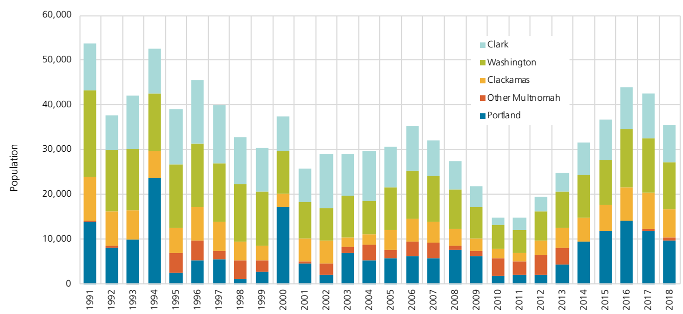
The Portland MSA is currently on track to add roughly 25,000 new jobs in 2019, representing a year over year growth rate of 2.1%. The region continues to outperform the nation as a whole in terms of employment growth, but the differential is narrowing.

UNEMPLOYMENT RATE, SEASONALLY ADJUSTED



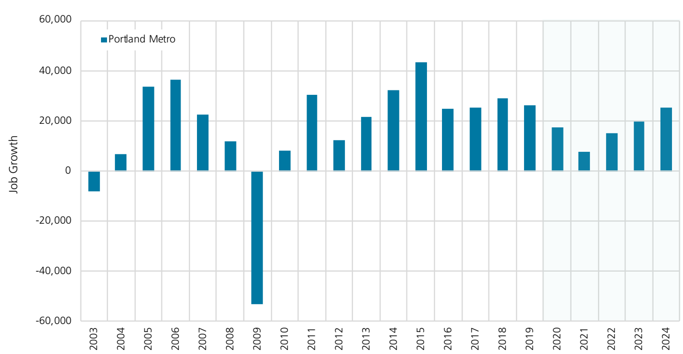
Local Area Unemployment Statistics (LAUS)

POPULATION GROWTH BY COUNTY



PSU Population Research Center

PORTLAND METRO EMPLOYMENT GROWTH



QCEW and CES Employment, State of Oregon and Johnson Economics

Labor force availability is expected to represent a significant challenge to ongoing expansion. The local unemployment rate was estimated at 3.9% in September 2019, which is slightly above the national rate of 3.6% and below the statewide rate of 4.1%.

With the labor market historically tight, the ability of the local and national economy to continue to expand will be dependent upon growth in the labor force as well as productivity. The Portland metro area has been able to attract significant levels of in migration over the last few decades, and this influx of new residents as supported economic expansion as well as providing support for the residential markets.

The rate of population growth declined somewhat in 2018, largely reflecting a reduction in growth in the City of Portland. The suburban markets continue to perform well with available residential capacity in Washington, Clark, and Clackamas counties.

We are expecting a continued deceleration of growth over the next few years due to a national slowdown as well as increased tightness in the local labor force.

The current expansion cycle has been atypical in terms of residential market response, with housing production unusually low. This has led to significant price escalation in most expanding markets, most notably on the West Coast. After peaking pre-recession at roughly 69% in 2005, the homeownership rate declined to just over 63% in 2016 and has since that time risen to just over 64%.

The rate in the Portland metro area has shown some increase over the last two years, but the pattern is not as clear. Some of this is related to a significantly smaller sample set in the local data.

04 //

single family home

JARROD HOWARD
Portland State University

JARROD HOWARD is a current Master 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. He is the 2019 RMLS Student Fellow at PSU's Center for Real Estate.

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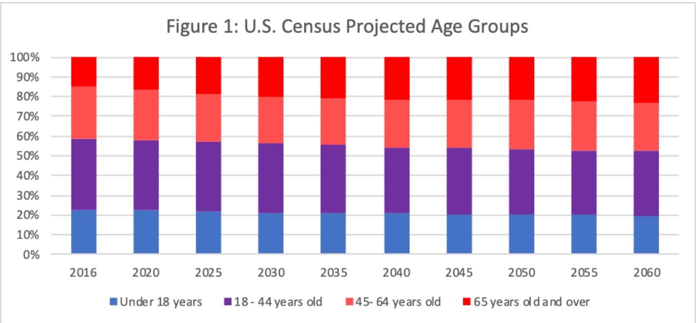
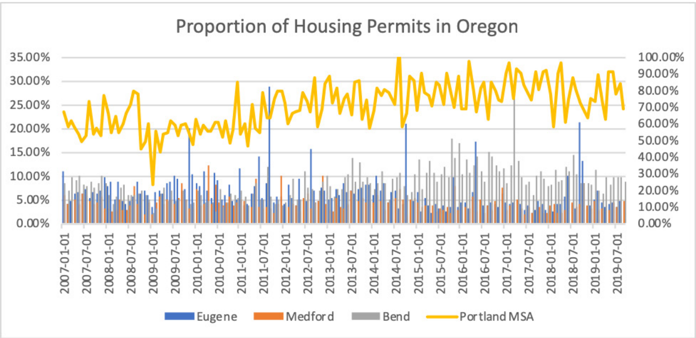
As primary coastal markets experience greater supply and demand imbalances, cost of living still escalates within numerous submarkets such as the Bay Area, Los Angeles, and numerous others. This imbalance of supply coupled with decreasing importance of location for work thanks to telecommuting advances has drastically shifted the appeal of secondary markets.

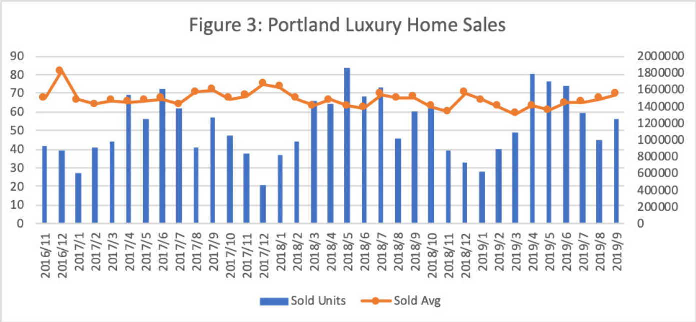
Since 2010, Oregon has experienced a forecasted growth in population of 10.64% according to the World Population Review's analysis of the United States. This outstanding growth places Oregon eighth in the nation. This massive growth in the state's population has been fueled by large growth within its cities. Portland's ever improving economy, which has seen over a 20% increase in GDP from 2013-2017 (FRED). Oregon's pristine environment mixed with rising employment opportunities offer residents who are being priced out of more expensive markets the ability to obtain a better standard of living in a thriving community. However, this growth is not equal amongst all of Oregon.



For example, Oregon's rural population like the rest of the nation's, is encountering a greying effect (see figure 1 for US Census estimate of national senior population). Central Oregon (Deschutes, Jefferson, and Crook counties) currently have a senior population that accounts for close to 1/5 of all residents (KBND). This figure is expected to continue to rise moving forward, such that by 2050 over 1/3 of all residents will be seniors. This rising proportion of the senior population within rural communities reflects ever-increasing urbanization fueled by young people electing to live within larger metros for a plethora of benefits.



Urbanization of secondary markets possesses an increasing concern over the existing housing supply within these rural communities. The Wall Street's Journal recent article "Ok Boomer, Who's Going to Buy Your 21 Million Homes?" highlights these concerns with the findings that within certain rural communities, over 2/3rd of homes are expected to turn ownership by 2037 because of its aging demographics. As prove of lacking demand that will lead to oversupply within rural communities locally, the cities of Cave Junction, Grants Pass, and Kerby have only three active units on the RMLS and only one listed home in the last 12 months. On top of this, there have been zero transactions in these areas in the past year in the price range of $100K to $999K. This is in stark contrast when comparing to more urban environments. For example, Portland's luxury housing market ($1M+) homes have a magnitude of average sales per month of 50x the number of listings in these rural cities (refer to figure



three for Portland's luxury home sales in the past 36 months). While urbanization has become more of reality, it is not exclusively within true urban markets within Oregon. For example, Bend, Eugene and Medford since 2007 have all seen a positive upwards slope of growth for the number of private residents building permits issued. However, the one contrasting reality of this upward growth is that velocity is not equal for them all. The only two submarkets in figure two that have a positive slope, which would imply an increasing portion of homes being built in Oregon are in these areas are Portland and Bend. While Portland is an obvious case as to why it's increasing supply given various demand factors, Bend at first glance appears odd. Bend as a market as encountered YoY appreciation of over 7% on homes and an average day on market of only 36 (RMLS).

This provides an interesting contrast that select suburban markets, like Bend, are seeing increasing liquidity and appreciation of their homes. This increased demand has also sparked the rampant creation of new homes within the area. As to what builds suburban markets that overcome the reality of declining communities are those that offer great amenities and opportunities. Bend encompasses this with it's high mountain desert environment offering easy access the ski slopes, mountain paths, outstanding local artisan food and drink, increasing employment opportunities, and numerous other amenities.

In conclusion, existing housing supply in declining markets like those of Cave Junction will encounter market oversupply and face illiquidity in the future, which is in stark contrast to towns like Bend where there truly exists a shortage of homes at current pricing, which has fueled home building actives.

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05 //

multi-family residential report

CHANNA KIM
Portland State University

Channa Kim is a graduate student in the Master of Real Estate Development (MRED) program and a TigerStop Real Estate Student Fellow at the Center for Real Estate.

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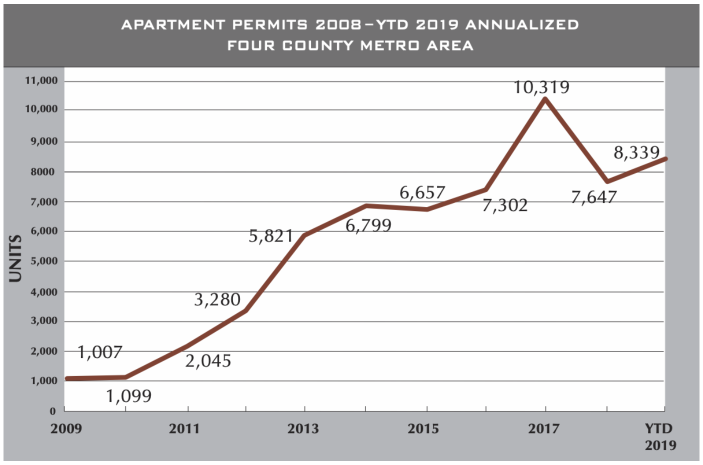
Heading into the second half of the year, the Portland metro area's multifamily housing market sustains its stable supply growth with continuous deliveries from projects that were squeezed through permitting prior to the City of Portland's Inclusionary Zoning (IZ) policy. However, as those projects all reach completion in the current year and through 2020, the number of new units proposed beyond that remains low in comparison, with projects in the pipeline quite reduced. This is attributed in part to the IZ policy, especially as it relates to the multifamily supply growth in the City of Portland. Across the broader metropolitan area, one of the largest contributors to stagnation is significantly higher construction costs, which affects the entire industry across all sectors.

Rental market demand is softening slightly, especially in downtown areas where the high-end rental inventory remains expensive. However, there has been an increase in "urban-style" rental unit inventory in the suburban markets, indicating a pointed trend of renters moving out of the city's core for more affordable, new and modern housing options nearby. This new inventory, combined with an increase in desirable jobs on the westside and the worsening commuting traffic, has decreased the relative appeal of living downtown. Suburban jurisdictions have also shown great willingness to support new development - often for mixed-use multifamily types - and they have continued to improve, invest in and encourage development in their urban cores to encourage this demographic movement.

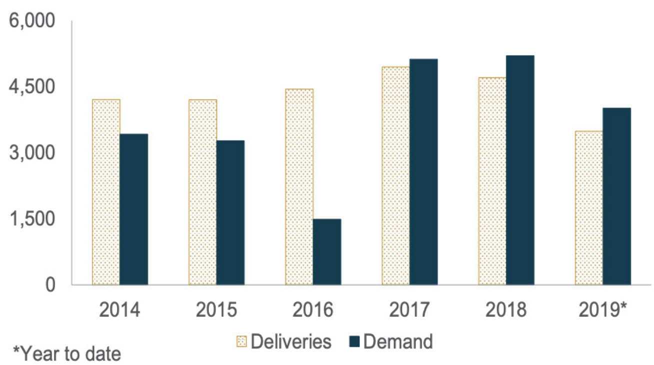
Ultimately, as the rental rates temper their growth and the sales valuations soften, we see 2019 and 2020 as the time of stabilization in pricing. While this may feel like a downturn for the Portland Metro market due to the breakneck pace of the economy and trendy reputation with institutional investors over the last 3 to 4 years, it is a normalization of the market to a more stable and sustainable level.



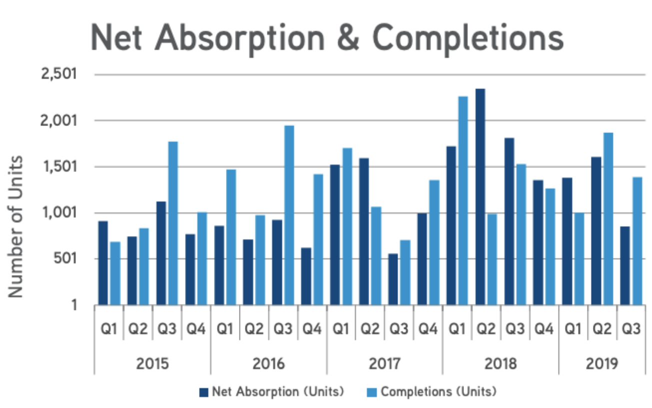
SUPPLY, PERMITTING

Since the implementation of inclusionary zoning, permit applications have declined and the number of affordable units produced under IZ is far below expectations. In response, it is expected that the City of Portland will be rolling out some changes to the policy to help mitigate the below-expectations response and encourage affordable housing production. Year to date through September figures suggest that approximately 8,339 units will be permitted in 2019. Supply figures indicate that year over year through September, Portland has 1,391 delivered units. Deliveries volumes are set to maintain this pace through the end of 2019 and into 2020, with an additional 6,700 market-rate rentals coming online. The anticipated supply is a result of the completion of several pre-IZ projects coming online over the next 12 to 24 months and will continue to affect rental rates as lease-up specials are widespread.

However, a regular stream of apartment development in the greater Portland Metro area increased development activity and densification of surrounding suburban cores, most notably in Beaverton, Gresham and Hillsboro. Many suburban jurisdictions are eager for mixed-use, dense development and have made several moves to encourage it, such as the creation of urban renewal districts, zoning flexibility, vertical housing tax credits, etc. As such – and with the recent expansion of the urban growth boundary – there is a push for 'urbanification' of suburban downtown cores, which not only means retail and commercial development but most importantly multifamily units to create high-density areas of activity.



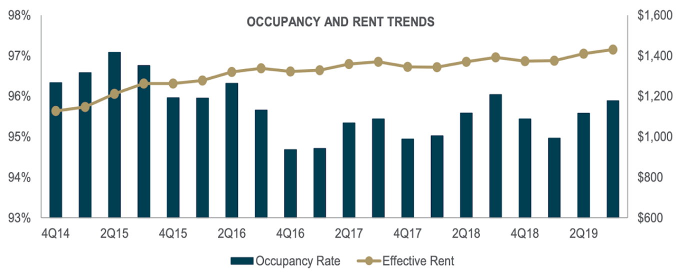
*Year to date

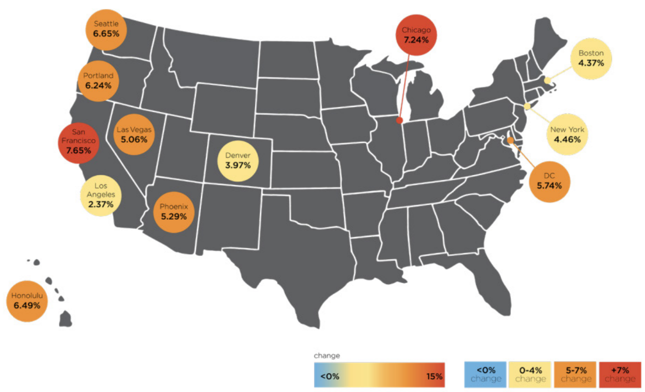


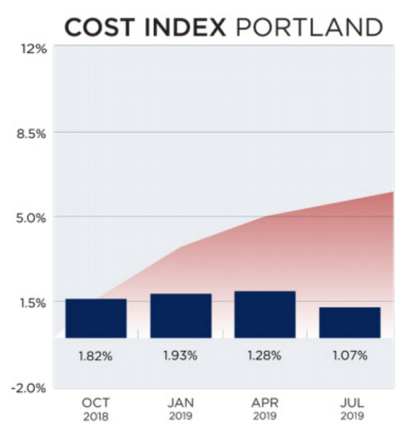
DEMAND, ABSORPTION

As of September 2019, apartment inventory has jumped to 4,570 units year over year as part of nearly 15,000 total additional units from 2016 to 2019. New inventory has been well received by the market, with positive absorption peaking in urban submarkets adjacent to the swell of new construction in the Central and East Portland submarkets. On an annual basis, leasing activity is still set to outpace supply growth: East Portland occupancy is at 96% – up 40 basis points – while Central Portland is up a considerable 20 points at around 94.6%. Overall, the consistent influx of jobs and Portland's ever-rising population have bolstered apartment absorption across greater Portland. There has also been a lift in rental demand thanks to an in-migration of nearly 13,1000 people, raising single-family home prices, and household formation exceeding regular population growth estimates.

In September 2019, Portland Metro-wide occupancy dropped 10 basis points (annual) to 95.9% though it still remains above the five-year average. Year to date, rent has grown 2.8% annually to average $1,431 per month. The biggest factor affecting properties over the last quarter has been the drop in interest rates, which has led many renters to purchase single-family homes when they would not have otherwise. This will continue to be a factor as interest rates just dropped again, with renters looking to purchase and move before or after the upcoming holiday season.







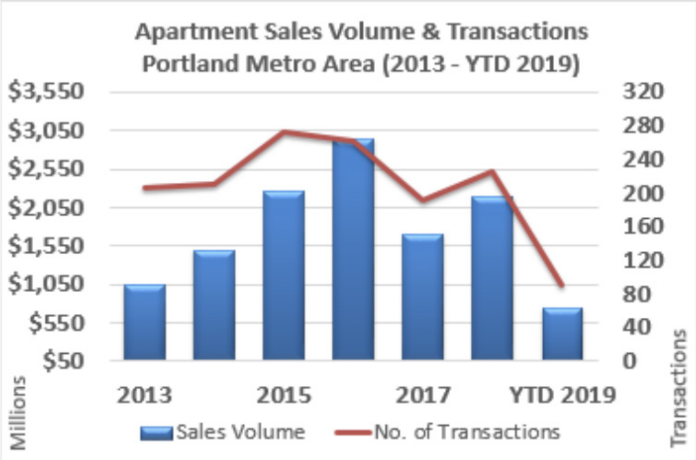
Portland's strong job market coincides with a rising household income: $79,982 as of July 2019, up 4.3% annually.

RATES, COSTS

Rental rates are still trending positively but tempering their growth from earlier in the year. Continual deliveries from completing projects keeps the competition high and the concessions generous. The most aggressive concessions are being offered in the high-end properties in the midst of lease-up, with the 'best' deals appearing in the downtown areas. Vacancy periods range from 30 to 60 days, with the longer periods in smaller suburbs such as Hillsboro and Clackamas. Conversely, the Inner, Central SE and North Portland areas still experience very quick turnarounds, with vacancy periods between 10 to 14 days. Total average rent for the Portland Metro area inched up to $1,431, representing a year over year increase of 2.8% to date.

One interesting cost increase to note during this year is the administrative cost of property management, which has sharply intensified due to new regulations. It has become extremely important for property management staff to be well-versed in the new policies passed earlier this year in both State and City capacities, depending on where the property is located, to ensure compliance. Landlords are now exposed to much more risk with the new stringent regulations, and as such, it has created an increase in overhead costs in the form of continuous training, additional staff, increased paperwork, reworked leases, legal fees, etc.

Construction costs for multifamily housing remain in the $160 to $250 per square foot range, which is about a 6.24% increase in aggregate year over year. To note, construction costs have increased more sharply in the neighboring cities of Seattle and San Francisco, but Portland still remains above the national average. This increase continues to be due to labor shortages and material price increases, inflating construction costs. In fact, the national construction unemployment level dropped to as low as 4% earlier this year. The political uncertainty and worsening trade wars have also contributed to unpredictable swings in material costs and availability. This not only affects new development but also the renovations required to keep aging properties competitive. Furthermore, Oregon's newly passed rent restrictions add another hurdle to the cost of owning multifamily units. This does not include any additional add-on costs due to BOLI / prevailing wage or MWESB / SDVBE require-



PROPERTY	SALE DATE	SALE PRICE	# UNITS	PRICE/SF	YEAR BUILT	SELLER	BUYER
GRIFFIS SOUTH WATERFRONT 0650 SW Gaines St, Portland, OR	8/29/19	$116,130,000	331	$462.09	2009	BARINGS	Griffis Residential
RIVAGE 2200 NW Front Ave, Portland, OR	8/26/19	$91,000,000	260	$395.65	2016	Fore Property Company	Magnolia Capital
THE FRANK ESTATE 7510 SW Aloma Way, Portland, OR	7/31/19	$91,000,000	309	$284.94	1989	Heitman LLC	Prime Group
THE OSPREY 3750 SW River Pkwy, Portland, OR	8/2/19	$89,500,000	270	$276.66	2016	Mack Real Estate Group	Magnolia Capital
THE GROVE AT ORENCO STATION 6710 NE Vinings Way, Hillsboro, OR	8/28/19	$72,750,000	264	$297.85	1998	Greystar	Jackson Square Properties
EDGEWATER COVE 1937 Main St, Oregon City, OR	8/22/19	$69,000,000	244	$353.85	2018	Grand Peaks Properties, Inc.	The Blackstone Group L.P.
TUPELO ALLEY 3806-3872 N Mississippi Ave, Portland, OR	7/19/19	$58,000,000	188	$207.59	2009	JPMorgan Chase & Co.	Holland Partner Group

ments, as those restrictions are subjective to a number of factors, such as the jurisdiction of the project, the financing associated with the project, etc.

SALES ACTIVITY

Recently passed state and local laws, such as rent control and restrictions on no-cause termination notices, have softened prices and shifted the economy to a buyer's market. Institutional buyers have moved their focus away from Oregon with the increasingly strenuous regulations creating cash flow roadblocks for investment. The political environment has tempered the appeal as evidenced in sales and valuations, with a wide gap between buyer and seller expectations, leading to a 30% decrease in sales volume year-over-year in the Portland Metro market. However, with several large sales having taken place in July and August, the overall sales numbers for the year will increase, but still remain below those of 2018.

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06 //

office market analysis

WUBET BIRATU
Portland State University

WUBET BIRATU is a graduate student in the Master of Real Estate Development (MRED) program and a Society of Industrial and Office Realtors (SIOR) Fellow at the Center for Real Estate. In her professional work, Ms. Biratu specializes in affordable housing projects and management.

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OVERVIEW

Positive economic activity, solid job growth, a low unemployment rate, and strong consumer confidence all contributed to a healthy, vibrant and strong office market in the third quarter. All office market fundamentals recorded robust performance. The Portland Office Market also remained robust during the quarter due to sustained employment growth.

The third quarter did not end without taking a surprise turn. The news of WeWork's free fall from a projected valuation of nearly $50 billion to just $5 billion shocked some industry experts. Within a few days WeWork replaced its chief executive, withdrew its initial public offering and said it was slowing its breakneck expansion. Derek Thompson, a staff writer at The Atlantic, argued if Softbank has helped a workable real-estate concept grow into a disastrously overpriced Goliath. According to a CoStar analysis, the company, which has 528 locations in 111 cities across the world, had been growing at a rate of at least 100% each year for the past few years to become one of the world's largest co-working firms. On the other hand the New York Times writer Peter Eavis notes that as WeWork slows down, its' biggest competitors are thriving. The business of providing office space on flexible terms to professionals and business can still provide solid returns. Mr. Dixon, the CEO of International Workplace Group, the biggest competitor of WeWork states that the important thing now is that people remain focused on this emerging and very important part of the change in how companies want to use real estate. In the real estate industry a lot of financing depends on who you've actually leased your building to, and their credit strength and so on. The business model, according to Mr. Dixon relies on presenting real estate or space as a service that businesses do not have to find, build and operate. If you do it in a shared way, it's cheaper, it's more flexible, and it's not on your balance sheet concludes Mr. Dixon.

The Financial Accounting Standards Board has established new standards for office leases, taking effect in 2019. For businesses with leases that are a year or longer, businesses now have to report these leases as both assets and liabilities on balance sheets. This alters the categorization of the lease as debt rather than an expense, affecting taxation and potentially affecting the ability of a company to borrow money for equipment and expansion. The changes from this change will likely have an impact on co-working companies who often obtain leases much longer than a one year term. However, Dr. Freybote of Portland State University asserts that this new rule may increase the appeal of coworking spaces for a variety of companies of different sizes and industries. As all leases of more than 12 months have to now be accounted for the balance sheet for publicly traded companies (effective Jan 1, 2019) and large private companies (effective Jan 1, 2020), which affects financial ratios and show the true debt of a firm, coworking agreements have the advantage that they are in a grey zone and don't have to be treated as other leases.

Despite the nuances discussed above, the third quarter remained strong across all fundamentals. Similar to the last quarter, technology companies are responsible for much of the new leasing nationally and in the Portland office market. Notable lease and sale transactions were also recorded in the Portland office market meeting the demand for creative office space in the region.

Portland remained attractive to tech and creative companies due to the net in-migration of talent pool. Relative affordability, proximity to the Silicon Valley and livability scores places the Portland market as one of the top growing high-tech job markets in the nation as affirmed by The Portland Tech Story report. This has translated into continued demand for creative spaces.

Economic and job growth in Portland continued unabated, reaching a record level in the third quarter of 2019. Nonfarm positions have climbed by 20,000 year-over-year. Economists predict the cyclical economic downturn in the near future which will soften both the national the Portland Office Market.

VACANCY & RENTAL RATES

The overall vacancy rate for the Portland office market closed the third quarter of 2019 at 10.2%, down from the reported second quarter figure of 10.3%. Increases in vacancy rates were recorded in the CBD as opposed to the suburban and other sub markets. Suburban office market and close in Southeast submarket continue to enjoy low vacancy rates and high demand and increasing asking rents. According to Newmark Knight Frank's Portland Office Market third quarter report, two of the primary submarkets in the close-in East side area, the Lloyd district and Close-in Southeast, vacancy rates are tightening. In the Lloyd district, the rate has dwindled from 5.0% in the third quarter 2017 to 4.6% in the third quarter 2018 and finally to 3.7% in the third quarter 2019.

In continuation from previous quarters the rental market continues to grow in the third quarter across all the sub markets. Downtown class B office had the largest annual increase, with an overall growth of 11.6% since Q3 2018. JLL predicts we are likely to see another new high

TABLE 1 - TOTAL VACANCY RATES BY BROKERAGE HOUSE AND CLASS, THIRD QUARTER 2019

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
Colliers	10.0%	14.2%	14.4%	13.4%	15.2%	
Cushman & Wakefield	10.2%	11.4%	11.5%	9.6%	7.8%	9.0%
JLL	12.0%	13.8%	13.5%	13.9%	14.4%	
Kidder Mathews	10.4%	11.8%				8.10%
Newmark Knight Frank	10.2%	12.5%				

	Market Average	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	$31.10	$34.85	$38.43	$34.58	$28.75	$25.29
Colliers	$27.76	$33.29	$36.95	$29.98	$25.64	
Cushman & Wakefield	$29.54	$32.67	$36.86	$30.40	$25.17	$24.36
JLL	$33.37	$37.21	$40.81	$35.76	$28.21	
Kidder Mathews	$27.60	$32.88				$24.36
Newmark Knight Frank	$30.17	$34.64	$38.43	32.12%		

TABLE 3 - NET ABSORPTION (IN SQUARE FEET) BY BROKERAGE HOUSE AND MARKET AREA, THIRD QUARTER 2019 AND YTD

Brokerage	Q3 Overall	YTD total net absorption	Q3 CBD	YTD total net absorption
CBRE	49,786	188,261	(58,175)	(108,812)
Colliers	76,751		(64,974)	
Cushman & Wakefield	63,035	220,540	(21,792)	6`9,989
JLL	234,761	626,122	(22,438)	66,091
Kidder Mathews	38,599	61,938	(60,145)	(248,492)
Newmark Knight Frank	352,591	506,382	1,623	37,867

Tenant	Building/Location	Submarket	Transaction Size (SF)
GOOGLE	Meier & Frank/Portland	CBD	80,218
Skyworks	Amber Glen/ Hillsboro	Hillsboro	38,254
Act On Software	BofA Financial Ctr/ Portland	CBD	30,000
Ater Wynne LLP	The Lovejoy/ Portland	Northwest	27,621
Sigma Design	Vancouver Tech Center/ Vancouver	Vancouver	90,000
Regus coworking group, Spaces	Leland James/ Portland	Slab town	44,000

CBRE, Cushman & Wakefield, JLL,

TABLE 5 - NOTABLE SALES TRANSACTIONS, THIRD QUARTER 2019

	Buyer	Seller	Market	Price	Price/SF
Wilsonville Medical Plaza/Wilsonville	Braden 1996 Family LP	Dr. Richard Edelson	Wilsonville	$10.8M	$447
6Y/ 811 SW 6th Avenue	Deka ImmobilienGmbH	KBS Realty Advisors	CBD	$47.5M	$409
Bank of the West/ 401 SW 5th	Expensify	Seven Hills Properties	CBD	$10.8M	$381
Columbia Shores/ Vancouver	Bill Naito Company		Vancouver	$10.3M	$247
Smith Block Lloyd District	Melvin Mark Companies	RV Kuhns & Associates	Lloyd District	$7.5M	$243
13900 NW Science Park Drive	Columbia Sportswear Company'	ESI	Sunset Corridor	$17.8M	$171
Creekside Four/ Beaverton	Meriwether Partners	LNR Partners	217 Corridor	$6.9M	$113
1801 NW Upshur St	Longhorn Investments	Waynce C & Barbara Glasnapp	NW Close-In	$7.5M	$107

Colliers, Kidder Mathews, CBRE, CoStar

water mark for office pricing on a per square foot basis as rents for top market assets continue to outpace the rest of the market. In agreement with this prediction, CBRE Econometric Advisors predicts new developments and re-developed space pulling higher asking rents will continue to propel lease rates forward steadily with an estimated 12.0% growth in average asking lease rates over the next five years. Overall, the rising rents shows the continued strong demand for high end and creative office spaces in the CBD. It is also worth noting that rental rates in the close in Southeast submarket especially for class A space are becoming more comparable to rents in the CBD.

ABSORPTION & LEASING

In a reversal from the last quarter, the third quarter recorded a positive absorption. Overall year-to-date net absorption remained positive at 188,261 SF according to CBRE. The leading factor in the net positive absorption was leasing in the suburban submarkets. According to Kidder Matthews report, Portland metro gained close to 40,000 SF. The Suburban submarkets gained nearly 130,000 SF of absorption, the Lloyd district and Close-in Southeast saw robust absorption this quarter with 82,876 SF and 50,251 SF while the Downtown submarkets felt a loss of 87,565 SF absorption. As noted in the last quarter report the Suburban office market is still showing strong demand for office market. According to CoStar net deliveries continues to outpace net absorption.

Most of the leasing activities in the CBD has come from Google, which leasing 80,218 SF in the Meier & Frank building, vacated by Macy's Department Store that has undergone a complete renovation. Followed by the software company Act-On which renewed 46,958SF at 121 SW Morrison Street in the CBD submarket. According to JLL, the metro also saw some serious occupancy gains with Sigma Design expanding into 90,000SF at the Vancouver Tech Center and Regus co-working group, Spaces, moved into their 44,000 space at the Leland James in Slabtown. All notable lease activities for this quarter further signify the strong demand from tech companies in the Portland office Market.

SALES TRANSACTIONS

The largest transaction this quarter occurred in the CBD submarket, with Deka Immobilien, a German real estate fund, acquiring 811 SW 6th Avenue for $47.5 million, or $408 per SF This 116,244 Class B building was close to 90% occupied at the time of the sale. This sale was followed by Columbia Sportswear Company's purchase of 13900 NW Science Park Drive for $17.8 million, or $171/SF. The seller, ESI,

Building/Address	Developer	Submarket	SF	Delivery Date
Nike North Expansion Building B	Gerding Edlen	Westside	1,003,585	Q3 2019
Block 29 Center for Health & Healing	Oregon Health & Science University	Southwest	360,000	Q3 2019
7 SE Stark	Harsch Investment Properties	Lloyd District	70,000	Q3 2019
District Office	Beam Development	Southeast	90,778	Q3 2019
Tree Farm	Guerrilla Development	SE Close-in	33,750	Q3 2019
5 MLK Office	Gerding Edlen	Lloyd District	119,570	Q4 2019
Beacon	10 Branch	Lake Oswego/ West Linn	8,490	Q1 2020
250 Taylor	Third & Taylor Development LLC	CBD	190,825	Q1 2020
Premier Gear & Machine Works	Sturgeon Development Partners	Northwest	64,483	Q2 2020
The Canvas at Press Blocks	Security Properties + Urban Renaissance Group	Southwest	140,000	Q4 2020
District Office	Beam Development	Southeast	90,778	Q2 2019
Adidas Expansion	Adidas America	Hayden Island	180,000	Q1 2020

CoStar, Colliers

will leaseback a part of their office space until June 2020 as reported by Kidder Matthews.

According to Cushman & Wakefield, the largest delivery for the fourth quarter will be 5 SE MLK with 120,400 sf which is currently all available. In 2020, there is another 385,146 sf delivering, all within the CBD, with the largest being a build-to-suit project for Northwest Natural Gas, taking current preleasing for the coming years new inventory to just under 50.0%.

A single office project was delivered to the market in 3Q 2019, adding to a YTD total of nearly 100,000 SF in office completions. CoStar data indicates the pipeline is formidable, though most of the new construction is build-to-suit. Other deliveries include, Sideyard, a 20,000 SF office/retail building was completed in the Lloyd District, with Ferment Brewing Co. occupying the retail space. Close to 2.48 million SF remains under construction in the Portland metro. The largest project underway is Nike's Beaverton campus expansion, with 1 million SF expected to arrive in early 2020. 250 Taylor, a 190,825 SF Class A building at 915 SW 2nd Avenue, is the largest development project in the CBD submarket. Natural gas provider NW Natural agreed to all 183,500 SF of office space and is expected to move into the space by Q1 2020 according to Kidder Matthew's report.

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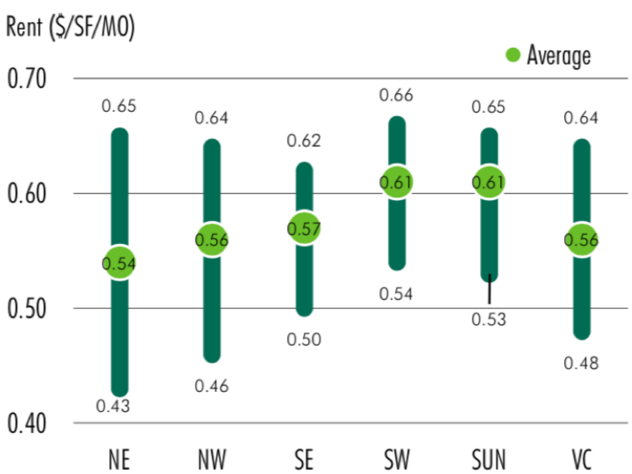
industrial market analysis

MICHAEL LOWES
Portland State University

Michael Lowes is an Associate Broker at Capital Pacific focuses on retail, office, and industrial properties. He is currently a candidate for the PSU Master of Real Estate Development (MRED) degree and a TigerStop Real Estate Student Fellow.

Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

FIGURE 1 - HISTORICAL BASE MARKET TRENDS
Source: CBRE Research, Q3 2019



Source: CBRE Research, Q3 2019.

An overarching theme of this quarter's industrial trends is delivery. About 500,000 square feet of newly constructed product was brought online this quarter alone. Much of this space was speculative, leading to increased vacancy rates while leasing brokers searched for tenants to occupy the newly constructed assets. This is in sharp contrast with the recent past where many projects were built to suit with tenants in tow. Vacancy rates jumped nearly 0.5% to 4.2% overall from last quarter.

Along with growing development in the industrial vertical - job growth - which powers much of this area continued an uptick as well. Portland's job growth, per CBRE, "has increased at an annual rate of 2.6%, compared to 1.8% nationally", a welcome trend for the Portland industrial market. Much of this is powered by construction, leisure and hospitality, and manufacturing. Manufacturing has been a big player in recent job growth. Portland manufacturing employment is 5% above pre-recession levels, while the national rate is still 5% below those same levels as stated by CBRE.

Both vacancy and absorption saw trends moving upwards - much of which can be attributed to the heavy amount of newly delivered product in the marketplace. Though vacancy is heading into the higher territory, some good absorption in comparison to the rest of 2019 is helping to bridge that gap.

THE IMPACT ON RATES

Asking rates for industrial, as has been the case for the last two years, continue to climb. CBRE projects that rates will continue to grow around 14% over the next five years - a hefty number considering industrial hasn't seen much of a slow down at all as of late. Southwest Portland and the Sunset Corridor remain the most sought after markets as reflected by their rates. Though Northeast Portland has a wide pricing range, the area delivers the most diverse of product - some older and neglected assets, as well as some that can garner top dollar.

Justin Carlucci of Bridge Development, a leader in the industrial space, spoke on Portland's barrier to entry being a reason industrial is still so high performing and still so sought after. Since there is limited land and space for new projects to be built the values rise, and the buzz of the market helps the industrial sector continue to grow. This does impact some of the projects that may be done - we may see less spec as land becomes more and more scarce, but development is surely not going to slow.

NOTABLE SALES IN THE INDUSTRIAL SPACE

Solar World - 4050 NE Evergreen / 688,745 SF / $44,131,105 ($92.23/SF) / Buyer - RagingWire Data Center / Seller - SunPower Corp.

14000 NW Science Park Dr. / 108,631 SF / $15,200,000 ($139.94/SF) / Buyer - Columbia Sportswear / Seller - MKS Instruments, Inc.

16913 NE Cameron Blvd. / 320,795 SF / $40,100,00 ($125/SF) / Buyer - Barings / Seller - CBRE Global

Source: Capacity Commercial Group

We've focused on the urban growth boundary in other articles, but that will be something to keep an eye on as well as more and more development is limited by the sheer lack of developable area within our city.

WHAT TO KEEP AN EYE ON

Whenever there are elections, whether on the local or national scale, the real estate market is usually on high alert and may take a pause. With 2020 being a presidential election year, look to this being a bit of a longer more drastic shift in the market. Many in the real estate world are beginning to hold steady and not make any drastic shifts until they have a clearer vision of what may be to come both here in Oregon spreading to the United States and even globally. Any shift in power creates a shift in our economy as well - so be on the lookout.

Capacity Commercial Group points out that as the GDP continues to rise, interest rates stay primarily low and unemployment continues to drop then all signs are pointing to continued growth and a positive quarter to come. If we could see into the future then we would all be extremely successful and swimming in money, but that's not the case, so reading the signs in the economy is one way to foresee what may be to come. There are a lot of positives to look at, but a lot of hurdles and unknowns still on the horizon. There are sure to be changes, hopefully for the good, but changes nonetheless.

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retail market analysis

MICHAEL LOWES
Portland State University

MICHAEL LOWES is an Associate Broker at Capital Pacific focuses on retail, office, and industrial properties. He is currently a candidate for the PSU Master of Real Estate Development (MRED) degree and a TigerStop Real Estate Student Fellow.

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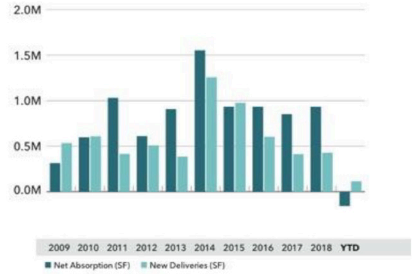
NET ABSORPTION & NEW DELIVERIES



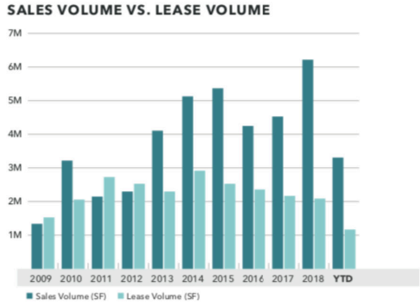
Market Breakdown

	Q3 2019	Q2 2019	Q3 2018	Annual % Change
Vacancy Rate	3.10%	3.00%	3.00%	3.33%
Availability Rate	4.20%	4.00%	4.30%	-2.33%
Asking Lease Rate	$19.92	$19.44	$19.08	4.40%
Leased SF	383,599	314,121	588,110	-34.77%
Sold SF	875,988	1,012,537	2,034,738	-56.95%
Net Absorption	-82,425	-54,266	326,906	N/A

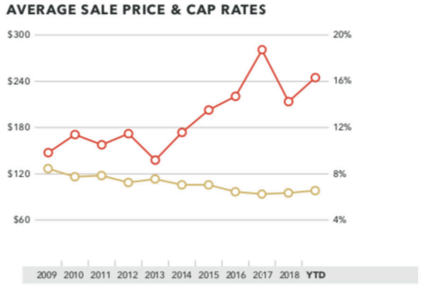
PORTLAND SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Total Net Absorption	YTD Total Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Rental Rate
CBD	4,056,970	2.40%	2.50%	2.30%	11,956	72,219	16,964	50,567	$24.12
Lloyd District	5,580,650	2.60%	2.70%	2.70%	(18,166)	20,936	7,216	16,383	$17.16
Northwest	1,818,012	1.80%	1.80%	1.60%	6,145	(4,070)	11,084	18,407	$25.68
Sunset Corridor/Hillsboro	9,696,931	1.70%	1.80%	1.80%	11,898	16,490	30,156	65,008	$21.48
I-5 Corridor	10,994,037	3.70%	4.20%	3.70%	42,424	17,026	44,834	189,913	$19.32
Northeast	21,793,579	2.60%	2.70%	2.60%	(1,849)	(63,397)	43,088	148,940	$19.44
Southeast	23,368,981	4.10%	4.10%	3.80%	(160,771)	(301,497)	54,573	251,258	$18.96
Southwest	14,101,578	3.30%	3.40%	3.30%	(42,540)	(40,647)	61,468	146,869	$22.44
Clark County/Vancouver	19,050,494	3.20%	3.20%	2.80%	68,478	86,426	114,216	290,434	$19.08
Malls	7,685,443	3.50%	3.50%	4.20%	(31,137)	4,756	10,604	13,234	$18.12
Power Centers	7,754,925	2.10%	2.10%	2.90%	24,379	48,318	19,922	72,826	$23.16
Shopping Centers	35,215,097	5.00%	5.10%	6.70%	(46,810)	(73,217)	158,168	544,160	$19.68
Specialty	1,627,999	5.40%	5.40%	6.60%	0	51,924	5,085	5,085	$0.00
General Retail	58,177,768	2.16%	2.48%	3.55%	(28,857)	(228,295)	189,820	542,474	$20.43
Portland Total	**110,461,232**	**3.10%**	**3.20%**	**4.20%**	**(82,425)**	**(196,514)**	**383,599**	**1,177,779**	**$19.92**

SALES VOLUME VS. LEASE VOLUME



AVERAGE SALE PRICE & CAP RATES



It may be hard for some lifelong Portlanders to adapt to the continued growth and change of our city, but overall it has helped our economy grow. An influx of tech companies has led to more jobs, and with more and more people moving here every day outside capital is looking to invest in our city. As much as some diehards might find this an annoyance, and not going with the "Keep Portland Weird" mantra, it is helping our City progress forward in an economic sense. With interest rates dropping as well, investors are finding it easier to borrow money and see some better returns in retail investments. Cap rates have remained pretty consistent, and NNN rental rates have ticked up about 2.5% to $19.92 in the Portland area.

Michael Lowes is an Associate Broker at Capital Pacific focusing on retail, office, and industrial investment sales. He is currently a candidate for the Portland State University Masters of Real Estate Development.

ABSORPTION

2019 has not been great for absorption in the retail market. If trends continue for the remainder of the year, Portland will post its first negative absorption year in over 10 years. It is also clear that deliveries in the retail sector have slowed as well, with third quarter only delivering around 44,000 square feet of new retail assets. Shopping Centers were much to blame for this trend in 2019 having lost close to 47,000 square feet alone this quarter. Power Centers on the other hand, like Cascade Station and Gresham Station, saw positive absorption around 25,000 square feet. Clearly displaying the popularity of those types of assets.

VACANCY

As highlighted here the positive market trends are moving in the wrong direction. No wonder the vacancy rates are rising along with the leasing rates. Usually you would want the vacancy to drop and the rates to climb as displayed through supply and demand - here we see lease rates rise along with vacancies...not the correct correlation. Year over year the leasing and sales activity has drastically slowed. Much of this can be pointed to the ever-looming bubble that is supposed to burst in the marketplace and investors are being much more cautious in their acquisitions.

The continued shift out of the CBD to other areas is displayed above, with Vancouver/Clark County leading the charge in leasing activity and absorption rate - while the CBD still holds the highest rental rates. The Southeast, which for the year has shown promise through some good leasing momentum, took a significant step backwards this quarter with some drastic negative absorption.

As we've seen pretty consistently as of late the Sunset Corridor/Hillsboro continues to stay tight with limited vacancy and still high rates compared to other submarkets. Much of this fueled by the continued growth of Portland's industrial scene and limited land available for new developments.

NOTABLE SALES IN THE RETAIL SPACE

As has been the trend for the last six years, investment sales continue to outpace lease volumes. Cap rates have overall stayed consistent over the last 10 years, while the price per square foot is almost at a record high - only outpaced by 2016/2017. There hasn't been a significant slowdown on the sales side, especially as interest rates continue to be favorable to investors.

NOTABLE SALES IN THE RETAIL SPACE

Pioneer Plaza / Springfield, OR / $15,000,000 / 7.12% cap rate

Safeway Anchored Safeway / Eugene, OR / $14,515,360 / 6.25% cap rate

Safeway / McMinnville, OR / $12,344,096 / 6.25% cap rate

Source: Capital Pacific

WHAT TO KEEP AN EYE ON

One of the biggest impacts retail real estate experienced this last quarter was the ban on vaping. The amount of vape retailers that take up real estate within strip centers alone is massive - once Oregon put the ban in place, those retailers took a major hit. Many of the niche retailers that focused just on vape sales shuttered their stores - some even on the hook for personal guarantees within their leases. The OLCC reported about 4,000 retailers would be impacted by this initial 6-month ban - with many of the stores having the now banned flavored vapes accounting for over 70% of their profits it was a sure thing they wouldn't be able to operate. Vape shops have become a staple in many neighborhood strip centers, taking up valuable suites to landlords who now have to scramble to backfill the vacancies and work to recoup what rent they can by not having a looming vacancy for the long-term.

Wesley, Lashay. "Vape Shops Closing in Response to Oregon's Temporary Ban on Flavored Vaping Products." KATU2, 14 Oct. 2019, https://katu.com/news/local/vape-shops-closing-in-response-to-oregons-temporary-ban-on-flavored-vaping-products.