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portland's inclusionary zoning policy

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To address the problem of rising apartment rents, Portland, Oregon has implemented an Inclusionary Zoning program to require multi-family housing developers to produce a percentage of newly-built apartments at below market rents.

In this paper, we will review the rules of the program, look at the data on housing production, and assess the impact of this program. This study will show what type of units are being produced in order to assess whether our family population is being served by Inclusion Zoning or Inclusionary Housing (IH) policy.

PORTLAND METRO APARTMENT UNITS UNDER CONSTRUCTION OVER TIME

PORTLAND'S HOUSING NEEDS

The Inclusionary Zoning program was implemented following the rapid rise in apartment rents after the Great Recession. While reviewing projects that have been completed, in construction, and proposed under this program, we will assess whether these units are serving the greatest need. Is there an appropriate balance of studios, one-bedroom, two-bedroom and three-bedroom units being built…?

The two most significant housing needs in our community are the lack of family-sized housing and a lack of housing for the growing homeless population. In the last few years, Multnomah County's population growth has halted primarily due to a net zero migration rate and a decline in the female fertility rate. A declining birth rate has implications for our state's future, including education, housing and tax revenue projections. One of the reasons cited for declining birth rates is housing affordability, suggesting that these demographic changes may be the result of the lack of affordability. To promote more family formation, we would presumably need to increase the number of larger units being built and reduce the level of market rents.

The second focus of housing policy in the City of Portland has been the growing number of individuals camping on our sidewalks and parks. Portland and Multnomah County continue to have a serious homelessness issue. In the January, 2019 Census count of the homeless population, volunteers found 2,037 homeless and unsheltered people, an increase of 22% since 2017 . For these individuals, smaller housing units and units with social services included is probably the biggest need.

THE INCLUSIONARY HOUSING PROGRAM

To mitigate the housing crisis and to attempt to preserve economically diverse neighborhoods, Portland implemented the Inclusionary Zoining (IZ) Program. On February 1, 2017, Ordinance 188163 went into effect adding the Inclusionary Housing Program to the City of Portland's affordable housing tools.

The chart on page two shows the five options for developers to meet their Inclusionary Housing obligations. Note that the regulations are different for inside or outside the Central City. In the table, MFI refers to the county-wide Median Family Income, and affordability is defined as the rent that would represent 30% of the identified income level.

Along with those options, the City has provided a schedule of incentives, designed to mitigate the burden of providing subsidized housing units.

OPTION 1
Build On-Site w/15% units priced to rent or sell @ 80% MFI

OPTION 2
Build On-Site w/8% units priced to rent or sell @ 60% MFI

OPTION 3
Build Off-Site – Maintain 100% Market Rate units for Sale or Rent, with market rate building retaining any FAR bonus, and off-site property occupied within two years.
w/ 20% Sending Building Units @ 60% MFI, or
w/10% Sending Building Units@ 30% MFI

OPTION 4
Designate Affordable units in an existing building (receiving building)
w/25% Sending Building Units @ 60% MFI, or
w/15% Sending Building's Units @ 30% MFI

OPTION 5
Fee in lieu of regulation, Central City & Gateway, $27/SF
Fee in lieu of regulation, all other Areas, $19/SF

Source: Portland Housing Bureau.

INCLUSIONARY HOUSING INCENTIVES

	80% MFI Affordable	60% MFI Affordable	Off- Site Affordable Units
10 - year property Tax exemption	Yes	Yes	Yes
Construction Excise Tax exemption	Yes	Yes	**No**
Parking Exemption (Title 33)	Yes	Yes	**No**
Density/FAR bonus	Yes	Yes	**No**
SDC Exemption - for Rent	**No**	Yes	Yes, if < 30% MFI
SDC Exemption - for Sale	Yes	Yes	Yes

IMPACT OF INCLUSIONARY ZONING.

Assessing the impact of Inclusionary Zoning is difficult because so many developers have avoided the regulation. In Portland, there was an initial rush by developers to submit plans prior to implementation of the policy. If a developer had submitted a plan to the city prior to February 1, 2017, they did not need to meet the conditions of the Ordinance. As a result, during the first two years of the Inclusionary Zoning program, there was a flurry of new multi-family production, as developers and property owners with even the most remote hopes for a redevelopment advanced their proposals to avoid the program. At first blush, this behavior suggests that the incentives in the program were not that attractive and did not compensate for the costs of the program. The incentives in the program may have partially mitigated the impact of the rent restrictions, but they didn't make participating in the program more attractive than avoiding it.

Despite this adverse reaction to the policy being implemented, the real estate data firm, CoStar, authored an article on November 19, 2019, highlight the difficulting in proving that the IH policy had caused the slowing of new construction. Vancouver, Beaverton, Hillsboro, Oregon City and other cities encircling the city of Portland have also seen construction drop, though development in these cities is unconstrained by Inclusionary Zoning. However, this shift to urban living and development has been part of a national trend followed the Great Recession as younger workers have delayed marriage and family formation. Hence, while one can document a decline in construction, teasing out how much has been caused by IH is challenging.

Developers must maintain their profit margins in order to be sustainable. If in fact the incentives of the IH policy do not offset the decrease in margins, then we would expect to see a decrease in the land values for multi-family residential sites. This is not the case. According to the Multi-Family Average/Median Price by Month report of RMLS, the average sales price has not changed since the IH policy has been implemented.

The majority of developers are using option 1 and 3 and few are using option 2. According to the Portland Housing Bureau, no developer is using option 4 or 5. One developer I've spoken with indicated that they planned to use option 2, by using a feature of the ordinance that measures the percent of affordable housing by bedrooms, rather than by units, with only 15% of bedrooms needing to be affordable.

CREATING INCLUSIONARY HOUSING WITH LARGE UNITS

BEDROOMS	MARKET UNITS	REQUIRED NUMBER OF SUBSIDIZED UNITS	NUMBER OF BEDROOMS	PROPOSED SUBSIDIZED UNITS	NUMBER OF BEDROOMS
Studio	50	7.5	7.5		
1	100	15	15	1	1
2	20	3	6		
3	0	0	0	9	27
Total	170	25.5	28.5	9	28

MAXIMUM MONTHLY RENTS

BEDROOMS	30% MFI	60% MFI	80% MFI
Studio	$462	$924	$1,232
1	$495	$990	$1,320
2	$594	$1,188	$1,584
3	$685	$1,371	$1,829

SUBSIDIZED RENTS VS. MARKET RENTS

BEDROOMS	60% MFI	80% MFI	GRANT VILLAGE
Studio	$924	$1,232	$1,214
1	$990	$1,320	$1,524
2	$1,188	$1,584	$2,200
3	$1,371	$1,829	$2,400

SUBSIDIZED CONDO PRICES VS. MARKET PRICES

BEDROOMS	60% MFI	80% MFI	MARKET MEDIAN	MARKET AVERAGE
2	199,745	299,324	365,000	468,700

This option penciled out due to the SDC exemption incentive and lower cost of extra bedrooms, compared to the cost of additional kitchens and bathrooms.

As you can see in the table to the left, the developer is providing 9 affordable units, or only 5% of the units in the project. However, these subsidized units are large and comprise 14% of the bedrooms in the project.

Another way to assess the impact of this regulation is to compare market rents with the maximum regulated rents that the City allows. As a proxy for market rents, I will use tbe current market rents the Grant Park Village complex at NE 33rd and Broadway, that was built in two phases in 2013 and 2019. I will then compare the Grant Park rents to the maximum affordable rent by bedroom size.

In this comparison, the studio affordable rate is equal with market rate rents and that as the number of bedrooms increase, there is a growing differential between market and what is defined as affordable. Because of the widening gap between maximimum monthly rents and market rents, most new units that will be produced by regulation will likely be either studios or 1 bedroom units.

The option of providing affordable housing via subsidized units for sale is highly unattractive for developers. The home ownership sale price restrictions for affordable units are severely under the market price for a new condominium. There were few condominiums being produced for sale prior to the inclusionary housing policy, so I surveyed the last 24 months and found the average sales price for an existing 2-bedroom condominium in Multnomah County was $468,699. The maximum sales price for a 2-bedroom condominium at 80% MFI is $299,325, implying a $170,000 subsidy per unit of housing. Moreover, the sample of condo sales reflects both new and existing units, while the subsidized units are new, by definition. In the single-family market, new housing units have a $100,000 premium over existing units, suggesting that the implicit subsidyis over $200,000 per unit.

5965 SE MILWAUKIE (COMPLETED)
MARKET RATE DEVELOPMENT WITH 54 UNITS

BEDROOMS	UNITS	TOTAL NUMBER OF BEDROOMS	REQUIRED 20% SUBSIDIZED UNITS	IH REQUIREMENT (# OF BEDROOMS)
Studios	9	9	1.8	6
1	39	39	7.8	3
2	6	12	1.2	1
3			0	
Total	54	60	10.8	10

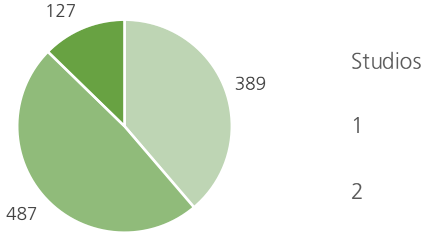
1725 SE TENINO BUILDING (UNDER CONSTRUCTION)
MARKET RATE DEVELOPMENT WITH 90 UNITS

BEDROOMS	UNITS	TOTAL NUMBER OF BEDROOMS	REQUIRED 20% SUBSIDIZED UNITS	IH REQUIREMENT (# OF BEDROOMS)
Studios	45	45	9	4
1	45	45	9	14
Total	54	90	18	18

1645 NEHALEM BUILDING (PROPOSED)
SUBSIDIZED DEVELOPMENT WITH 63 UNITS

BEDROOMS	UNITS	TOTAL NUMBER OF BEDROOMS	REQUIRED 15% SUBSIDIZED UNITS	BURDEN FROM ABOVE PROJECTS	IH REQUIREMENT (# OF BEDROOMS)
Studios	14	2	2.1	10	12
1	47	7	7.05	17	24
2	1		0.15	1	1
Total	62	9	9.3	28	10

INCLUSIONARY HOUSING UNITS
PRODUCED BY SIZE



LARGE SCALE DEVELOPERS ADVANTAGE

At least one large developer is deferring developing their required IH units for up to 2 years by choosing option 3, which allows them to build the affordable housing off-site. Large developers have the financial capacity to have multiple development projects going on at once, giving them the advantage of maintaining 100% market rate units in their initial buildings and deferring affordable housing for two years. The developer is building 54 market rate units in the Yukon Flats project at 5955 SE Milwaukie and 90 market rate units at 1725 SE Tenino.

To meet their Inclusionary Housing requirements, the developer will build a third project located at 1645 SE Nehalem, with 28 subsidized units rented at 60% MFI and 9 subsidized units at 80% MFI. By producing the market rate units early and the subsidized units later, the developer is increasing her rate of return.

When I spoke to a Portland Housing Bureau staff member, they stated that large developers with the capacity to do multiple projects may obtain better financing by front-loading market rate units and thus increasing cash flow. The benefit to large scale development is a disadvantage to smaller scale developers who struggle to build 20 unit projects, one project at a time. A Portland Housing Bureau representative stated that there are few 2 and 3 bedroom units being produced and there are no for-sale condominium buildings being produced in projects greater than 20 units, which would trigger Inclusionary Housing requirements. The lack of large units is an indication that few Inclusionary Housing units are being produced to accommodate families.

The Portland Housing Bureau maintains a map showing completed IH projects as well as projects in the pipeline. I took a random sample of 10 projects with a total of 1,003 units and compiled the number of studios, 1 bedrooms and 2 bedrooms (there were none with greater then 2 bedrooms). There were no units developed as condominiums for sale.

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CONCLUSION

The City's Inclusionary Zoning regulation is affecting multi-family development in profound ways. First, the regulation imposes costs on new development to achieve a social goal of assisting low-income households find affordable housing. While the city estalished incentives as part of the package, most developers avoided the regulation by advancing proposals before the grandfathering deadline. The lack of new supply will drive up market rents in upcoming years, which defeats the purpose of the regulation. Most low-income households will receive no benefit.

Second, development in the city's central core will likely shift from apartments to offices. Portland's Central Business District (CBD) location has a high level of services and amenities that benefit both commercial and residential development. While the City's Inclusionary Zoning maximum rent levels are the same in both close-in and more suburban locations, the opportunity cost of development in the Portland CBD is greater. As a result, office, hotel, and retail development is likely to outcompete apartment development for those sites.

Third, the burden of the regulation makes the construction of large apartments unattractive, given the widening gap between subsidized rents and market rents as unit sizes increase. New development is more likely to produce studio and one-bedroom apartments, rather than units that are designed for family living.

Fourth, some developers may pick the option of providing affordable bedrooms, rather than affordable housing units. In this way, they can build less costly bedrooms and avoid the high cost of providing expensive kitchens and bathrooms. While this strategy could provide housing for families, the result will lead to fewer affordable housing units being produced and could lead to the stigmatization of low-income households since the subsidized units would be substantially different than the market rate units.

Finally, the regulations appear to favor larger developers who are able to develop a pipeline of projects which can alternate between market rate development and subsidized development. Small developers may decide they are better off with smaller projects (ie, below 20 units) that avoid Inclusionary Zoning regulation entirely.

The City will begin its analysis of Inclusionary Zoning in 2020 under a study long-promised by Mayor Ted Wheeler. We do not know how the City will determine success. However, if the analysis focuses on overall housing production and looks at the size of units in subsidized and market rate development, the study should find a negative overall impact on housing production.

02 //

the three elements *of* portland's housing crisis

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As we enter into the election season, voters continue to rank housing affordability and homelessness as the top issues facing the Portland metropolitan region and, by extension, the State of Oregon. However, the housing crisis that we face in the region is better thought of as three inter-connecting crises, and unfortunately, we are on the wrong track on at least two of those crises. This paper tries to separate the discussion and look at the impact of the various initiatives in the last three years.

The three crises that face the region are the rise of the homeless street population, income inequality, and the lack of housing supply. What connects each element together is the housing market, but the roots of each problem are distinct. One might add a fourth element, which is the finances of state and local government with Oregon, which has led policy makers to focus on land use controls and taxation of real estate development as their main tools to address the housing crisis. Oregon has moved from one of the least regulated housing markets to one of the most regulated in the last three years. As I will argue later, increasing housing supply should be our goal and yet much of state and local policy inhibits it.

During the last two election cycles, we've seen a significant concentration of power in the state legislature under the leadership of House Speaker Tina Kotek, that has placed housing reform and affordability at the center of policymaking at the state level. However, I would argue that this effort is, at best, incomplete, and significant changes are needed to restore the proper functioning and equity in the real state market.

STREET POPULATION

The first and most obvious crisis in our housing market has been the rise of the homeless street population, centered around downtown Portland, but extending into other neighborhoods. Many of our public spaces along freeways, parks, and trail corridors have become sites of permanent encampments of homeless people living in tents. We also have an untold number of individuals living in automobiles, which is a precursor to homelessness.

The rise of Portland's "visible homeless" population was spurred by the 2015 decision of then-Mayor Charlie Hales not to enforce the City's anti-camping ordinances. The City stopped policing camping on sidewalks and parks, leading to decline in public safety and public order. However, rising rates of heroin use, methamphetamine use, and untreated mental illness have also played significant roles in the growth of the homeless population. This issue has also become more prominent in national discussion, as Federal courts appear to be advancing a "right to camp" theory, in cases where local communities do not offer sufficient shelter space for the homeless.

For its part, the City of Portland and Multnomah County seem reluctant to offer that space. When offered the opportunity to convert the abandoned Wapato Corrections Facility in North Portland into a homeless shelter, the County refused. The Wapato Jail was built by Multnomah County 16 years ago during a peak in prison sentencing. Criminal justice policy has changed and crime levels have fallen, so the jail has sat empty for 16 years. Given the Federal court rulings, the decision not to build shelter capacity would appear to encourage a permanent crisis of street people in the core of downtown.

The decision to live on the streets is a truly desperate action, as we know that many health pathologies are made worse when living on the streets, not to mention the loss of dignity, privacy, and safety. Most homeless are single men; very few are families. The street homeless suffer from poor nutrition and untreated health problems more than they would in a sheltered setting.

At the same time, city and state policy has focused on finding "permanent supportive housing", which is probably the most expensive way to offer assistance to this population. This type of housing provides both shelter from the weather, but also shelter from the housing market. Rents are typically tied to the occupant's income and only available if they remain in that unit.

Per recipient costs are high, mostly because new housing is more expensive than existing housing. And while new construction is designed to be a permanent asset of the community, the result is that recipients experience a permanent tenancy, given how affordable and attractive those units are relative to market conditions.

At a recent conference, my colleague Mike Wilkerson of ECONorthwest pointed out that the rate of homelessness in a city is positive correlated with levels of rents and home prices, perhaps explaining as much 50% of the variation. In that presentation, Mike noted that Portland was an outlier, having a much higher homelessness rate than would be expected given our real estate prices. People on the margin of society are better able to find rooming houses and low cost apartments in communities with lower housing costs and more depreciated buildings. Without abundant housing, the homeless cluster in downtown Portland where income-earning and welfare service opportunities are greatest. Our public policies and our mild climate accommodate street living in ways that diminish the livability of our most vital city neighborhood.

With these policies, Portland has accepted a higher permanent street population than the US as a whole, at levels similar to that in Los Angeles or San Francisco. The street population has concentrated itself in the most attractive parts of Portland – the downtown, the Pearl District, and the Central Eastside – as well as in parks and in somewhat hidden locations in many of our close-in neighborhoods. 20 years of city policy have created a vibrant mixed-use downtown, yet our policies are making downtown living unattractive. Depending upon their mental condition and level of substance abuse, the homeless seek the places in our region with the greatest panhandling and street trading opportunities. These concentrations of the poor have significantly deteriorated the quality of living and working in downtown Portland for other residents, threatening one of the biggest real estate and urban planning success stories of the last quarter century.

I don't pretend to have the answer to Portland's homeless crisis, but the current policy seems woefully inadequate. We allow the most valuable real estate within our metropolitan region to be occupied by people with serious mental health and substance abuse problems. And we throw significant resources to help a favored few among that population find permanent supportive housing, with little relief for the majority and little turnover to help next year's homeless in their transition. It would help if we had a better functioning housing market, with a larger number of single room occupancy and congregate housing facilities, but that can only come from a more aggressive housing supply effort. If we had a housing production rate that was double the current level, soaking up the demand of incoming residents and allowing move-up opportunities for existing residents, more affordable housing would filter to the poor.

INCOME INEQUALITY

The second element of our housing crisis is the rising income inequality experienced in Oregon and the United States as a whole, which has deep roots in federal and local policy and deep roots in American history. To begin, there are huge and long-standing differences in income levels, poverty rates, and wealth levels between white households and African American and Latino households in the United States. There are also education levels differences and migration patterns that explain some of the difference in income and wealth. Moreover, there's been a huge change in the income premium for college educated workers in the last three decades, leaving less skilled workers struggling to compete in the same housing market with higher skilled workers. Also, we've experienced several decades of strong stock market growth, particularly from a new generation of technology firms, creating great fortunes which working class Americans experience to only a limited extent in their pensions and retirement investments. Finally, we've seen huge increases in the wealth of homeowners, particularly in the Portland area, which traditionally had been much less expensive than other metropolitan areas in the US, and is now considerably more expensive.

The broader issue of inequality has become a theme of national politics, which is probably the best arena for much of this discussion. For example, the Democratic Presidential candidates in 2020 have promoted a variety of distributional strategies, from taxes on wealth, restitution payments for slavery, universal basic income, increased minimum wages, increased Social Security payments, and other strategies to reduce the inequality of incomes. However, redistributing income at a state or local level creates conditions for inducing migration between states, risking economic harm to states and localities offering higher levels of benefits. Given this risk, few cities attempt a public assistance policy independent of their states, and most states follow the lead of the Federal government policy on income support. At a local level, the traditional strategies have been to increase education and job training to promote income growth, but very few states have adopted explicit income distribution strategies.

In Oregon, the desire for income distribution has led to increased emphasis on subsidized housing production, represented by the state and Metro housing bonds, which seek to acquire and build apartment units, which are then rented at below market prices for middle and low income households. This strategy runs against the consensus in social policy since the 1970's that housing assistance is best provided in the form of housing vouchers that allow households to find the housing that best meets their needs. Tenants with vouchers have bargaining power relative to their landlord and can move when their current apartment doesn't meet their household needs. The literature estimates that as much as 30% of value of housing assistance is lost when its funneled through a housing provider, rather than offered as a voucher.

Moreover, housing assistance is a poor substitute for income support. The cost of reducing rent levels for all households to 30% of their income (the standard measure for affordability) is so great, that the Federal government has never attempted to offer this kind of assistance. Less than half of households below the poverty line (a close proxy for elibility for housing assistance) receive such assistance. Housing authorities maintain long waiting lists for units in their subsidized projects. This partial coverage means that building subsidized housing units tends to be highly inequitable in that only a fraction of eligible households receive assistance.

HOUSING SUPPLY

The area of housing policy where the state and local government deserve the most credit has been housing production. Housing supply in the Portland region has been hampered for the last 40 years by an inflexible urban growth boundary (UGB). The population of the region has grown by 78%, yet the UGB has expanded by only 10%. Urban planners report that land inside the UGB sells for 10 times more than land inside the boundary, often on the other side of the street. We face a land shortage that is quickly transferred to the housing market.

However in 2018, Metro recognized that more land was needed to meet housing supply and encouraged local jurisdictions to propose expansions in the region's urban growth boundary (UGB) that they would annex and development. This strategy differed from past attempts to expand the boundary, such as the 21,000 acre expansion in Damascus in 1999, when local residents fought Metro's attempt to create a city to manage the population growth. Metro decided to expand the boundary only when local jurisdictions were willing to annex the expansion and take responsibility for providing public infrastructure. They stated a preference for effective expansions over symbolic ones.

In 2017, the cities of Hillsboro, Beaverton, King City, and Wilsonville put forward proposals for proposals for new additions to the regional Urban Growth Boundary (UGB), adding 2,181 acres, representing about 9,000 new housing units. This was an important effort, but for a four county region that averages about 13,000 housing units per year, this expansion represents less than one year's worth of housing production. Rather than make this policy an annual event, Metro doesn't intend to revisit this topic for another five years. Moreover, Metro has provided very little assistance to these communities to accelerate housing production in these UGB expansion areas, outside of planning grants. Because the effective area of housing market is regional in scope, the benefit of lower housing prices is experienced regionally, not limited to the town facilitating the expansion. If anything, Metro should be providing large infrastructure grants to those communities, building streets and water and sewer facilities that would facilitate housing production. Instead, Metro assumes that cities and developers will pay those costs.

The second set of initiatives that the state and Metro have embarked is the issuance of bonds to support affordable housing production. These projects will fund about 1,400 new housing units, which will be distributed across the Metro area. However, these bonds will be supported by temporary increases in property taxes that will last 20 years. Therefore, unless Portland area households decide to take on additional debt, this initiative only represents about 70 new housing units per year – a very small amount given the need. And for reasons that I discussed previously, the units in these projects will likely remain occupied by the same tenant for years and provide housing assistance at a very high cost per unit.

Finally, the City of Portland and the State legislature have taken steps to remove some of the rigidity of single-family zoning, on the argument that we need a more diverse types of housing and more density in existing neighborhoods. This strategy has been attempted in states such as California and Minnesota, and builds off research on the connection of single-family zoning and racial segregation.

POLICY INITIATIVE	ANNUAL PRODUCTION	SOURCE/ NOTES
Single Family Zoning Reform	1,850	ECONorthwest
Accessory Dwelling Units	250	ECONorthwest
State and Local Housing Bonds	70	assumes 1,400/20 years
UGB Expansion Areas	900	assume 9,000/10 years
Total	2,620	

While this approach is welcome, what impact will these changes bring…? How many housing units will this upzoning create…? We can look at the work of economist Mike Wilkerson of ECONorthwest, who at a recent housing conference in Salem, suggested that the removal of single family zoning barriers has the potential of increasing housing production by 1,200 to 2,500 units/year in the region. He also suggested that accessory dwelling unit production, aided by a number of local initiatives will grow by about 250 housing units per year. If you pick the midpoint of the zoning reform estimate, along with other recent policy changes, the likely increase in housing production hardly stands up to the need.

Finally, we also need to account for the damage to housing production that comes from the City of Portland's inclusionary zoning policies, which mandate that housing developments of buildings that have 20 or more units must have 20% of those units affordable to households of 80% of median family income for the next 99 years. This regulation, which was authorized by the state legislature in 2017, has essentially halted private apartment construction in the City. Developers responded to the threat of this regulation by submitting apartment proposals representing 19,000 housing units prior to the February 1, 2017 implementation deadline. Since then, we've been burning off that inventory of development proposals and essentially no new proposals have filled the gap.

While many jurisdictions that have implemented inclusionary zoning, including Boulder, Colorado and Montgomery County, Maryland, most of these policies have done more to damage housing production, than provide a large number of rent-restricted units. Portland's experience suggests that the poor have been harmed by this policy, as less housing supply means higher rents. Developers of new apartment buildings have a daunting challenge in selling properties which have 99-year social obligations.

Given that the housing regulators and public officials writing these laws have little real estate development experience, they can have unwittingly bad effects. The City of Seattle, Washington, for example, developed an inclusionary zoning policy, which encouraged developers to put money into a city housing fund, at roughly 5% of development costs. Developers have some certainty of their exposure and build that cost into their budget. In Portland, however, the allowance for a payment-in-lieu of housing provision is so onerous that developers don't appear ready to take up that option. In Portland's core neighborhoods, the requirement of subsidized units is too great a burden. In the outer neighborhoods, rent levels are too low to justify new construction at all.

LIVING WITH POOR POLICIES

The problem that this region faces with the lack of housing production has hit critical levels. More individuals are living in the street, as they cannot find low-cost, depreciatd, older housing. Young adults are living longer in their parents' house. They are not forming independent households or they are having to drive further to find an affordable place to live. Communities such as Canby, North Plains, Newberg, and Woodburn – all outside of Portland's UGB – are experiencing very fast population growth. At a recent conference, state economist Josh Lehner noted that the number of Salem area residents who are working outside the Salem area has risen to a quarter of all workers. The majority of those workers are likely working in the Portland area. They are recognizing the $100,000 price differential between the two housing markets and find an extra 30 minutes of commuting time is acceptable.

Back in the mid-1990's, Metro organized an public debate regarding the Region 2040 Plan, where the choices were described to the citizens as "growing up, or growing out". Ignoring for a moment the biased imagery of that phrase (Who doesn't want to "grow up"…? How many of us are experiencing waist lines that are "growing out"…?), the planners at Metro argued that we had three choices. First, we could continue to expand the UGB to allow for expected population growth. Second, we could create satellite communities in the Willamette Valley to accommodate future population needs. Or third, we could increase density inside the existing UGB to handle the increased housing demand arriving in our region. Given those three options, citizens agreed with the planners that we could handle more density.

In retrospect, this was a false choice. All decisions in public life involve trade-offs, and the decision for a more dense urban pattern implies higher housing costs. Density is not merely an architectural decision or an engineering problem, but it's an economic problem. In a recent study we did for Holland Residential Development, we found that new multi-family housing production fell into three distinct types. Most apartment development consists of two-story apartments, with surface parking or tuck-under parking, using wood construction. Those developments used more land than denser development, but the structural costs were lower.

Closer to the Portland Central Business District (CBD) were the so-called "four-over-one" developments, with four stories of wood-frame construction, built over a concrete podium. Parking was either at grade under the podium or possibly one level underground. In those cases, structural costs were much higher and the rents charged were typically 50% higher on a per square foot basis. These projects have been extensively built on Portland avenues and boulevards, such as Hawthorne, Belmont, Broadway, Williams and Vancouver. Yet they are rarely seen north of Killingsworth and east of Cesar Chavez/39th Street. The reason is that rents are not yet high enough in those locations to justify this more expensive mode of construction.

Finally, true high-rise development above five stories requires steel and concrete construction (or more recently mass timber construction), often with several layers of expensive underground parking. Those projects are only being built in Portland's CBD, in places like South Waterfront, the Pearl District, the Lloyd District, and the Central Eastside. We found that rents in those apartments were 50% higher again on a per square foot basis. Because of the higher costs, the unit mix in those projects included more studio and one bedroom apartments and rarely accommodate families. I lived in such a building constructed in the 1990's and there were two children in a building with over 300 units. Those projects are only being built in the parts of our region with the highest housing costs. From this perspective, the efforts by the State legislature to boost density in existing neighborhoods seems like a worthwhile effort to mitigate high housing costs, but not a strategy that would change the underlying problem.

CONCLUSION

When we think about housing, we need to remember that housing is a long-lived good that delivers different levels of housing service as it ages. A new housing unit offers a high level of housing service when first constructed, and therefore, the unit will garner a high rent or sales price. As a result, new housing units are rented or sold to higher income households, and lower-income households will likely selected older units that have depreciated and sell or rent for lower prices. Expecting a new home to be affordable to someone at 80% of median income is like expecting automobile manufacters to produce $8,000 cars. You can find an $8,000 car, but only from a used car dealer. It's not the fault of the new housing developer that the units she builds are expensive; it's a fact of life.

As a result, when we think about housing the poor, we have to recognize that the availability of low-cost housing units is the end result of a long and indirect process. We build new housing units that soak up the demand by higher income households. As the high income households move into the new housing, they leave behind older, depreciated housing which is priced closer to the means of lower income housedholds. If we fail to allow the new housing to be constructed – whether new homes on the suburban fringe, apartment buildings in the neigborhoods, or high rises in the core – that leads the high income households to buy housing that would otherwise go the middle-class. And in turn, this limits the availability of housing to lower income households. Putting additional burdens on new housing development – whether in the form of inclusionary zoning or exorbitant system development charges – only makes matters worse for the poor.

03 //

cre sentiment survey results *for* Q1/2020

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Dr. Julia Freybote is an Assistant Professor in Finance and Real Estate in The School of Business at Portland State University. Her research interests are in investor behavior, the information environment of investors in real estate markets as well as real estate asset pricing. Her research has been published in the three leading scholarly real estate journals, Real Estate Economics, the Journal of Real Estate Finance and Economics and the Journal of Real Estate Research. In 2019, she received the William N. Kinnard Scholar Award from the American Real Estate Society (ARES), which recognizes outstanding real estate scholars early in their academic career. Prior to joining academia, she gained industry experience in institutional real estate investment, investment advisory and corporate real estate management. Dr. Freybote teaches real estate finance I and II in the Master of Real Estate Development (MRED) program at PSU.

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.

This article presents the results of the inaugural Portland State University (PSU) Center for Real Estate sentiment survey for the first quarter of 2020. First, we would like to thank everyone that participated in the survey. We highly appreciate your contribution!

The quarterly survey captures the current sentiment with regard to investment, development, asset market, leasing and financing conditions in the apartment, office, industrial and retail real estate market in the Portland metropolitan area (MSA). The purpose of this survey is to improve the information environment for commercial real estate professionals in Portland by providing them with a source of non-traditional data. Scholarly research has shown that sentiment can predict, for example, commercial real estate returns, cap rates, market liquidity, investor behavior and the risk premium required by investors1. The consensus of investors on whether to buy, sell or hold assets has been found to contain private information and predict future returns2. In the future, we aim at using the survey data to investigate the predictive power of sentiment for asset prices, cap rates, vacancy rates, rental rates and other variables in different property markets in Portland.

Data for the first quarter of 2020 was collected over the period of February 4 to 18. In total, 92 industry professionals responded to our survey. The majority of them focuses on apartment (27 responses, 29%) followed by office (21 responses, 23%), industrial (20 responses, 22%) and retail (14 responses, 15%). Of the 92 responses, we had to eliminate nine responses from our analysis as no individual property type was selected by respondents. Furthermore, no results are reported for hotels as we only received one response for this property type.

Survey respondents have a variety of backgrounds. Real estate development and brokerage represent the most frequent background with 25% and 22% respectively. They are followed by property and asset management (16%), investment (7%) and lending (7%). 18% of respondents selected more than one background (e.g. investment, brokerage and development). The majority of respondents focuses on Multnomah, Washington and Clackamas county. 73% of respondents has 10 or more years of experience. The majority of our respondents holds a bachelor's degree (49%), which is closely followed by respondents holding a master's degree (45%). The PSU CRE sentiment survey will be conducted in May for the second quarter of 2020, August for the third quarter and November for the fourth quarter. If you would like to participate in the survey in future quarters, please send an email to freybote@pdx.edu.

SUMMARY

The following section presents a brief overview of how respondents assessed investment, development, asset market, leasing and financing conditions for apartment, office, industrial and retail real estate in Portland in the first quarter of 2020.

Investment conditions for existing office buildings were considered to be the best, based on the number of respondents that answered "good" or "excellent" (81%), followed by industrial (69%), retail (64%) and apartment (52%). Development conditions were perceived to be the best for industrial, based on the number of respondents that answered "good" or "excellent" (70%), followed by retail (36%), office (34%) and apartment (19%). The majority of respondents recommends selling for office and holding for apartment, retail and industrial.

The recommendation of the majority of respondents on whether to develop new properties for their property type was "maybe" for apartment, office and retail. For industrial, the majority of respondents recommends developing. The majority of respondents for all property types considers asset prices to be overpriced, based on the number of respondents that answered "somewhat overpriced" or "very overpriced". Office is considered the most overpriced (91%),followed by retail (79%), industrial (75%) and apartment (59%). The majority of apartment (63%) and office (43%) respondents perceive the space market to indicate a tenant's market, based on "leaning towards tenant's market" and "tenant's market". On the other hand, the majority of industrial (60%) and retail (43%) respondents consider the space market to indicate a landlord's market, based on "leaning towards landlord's market and "landlord's market".

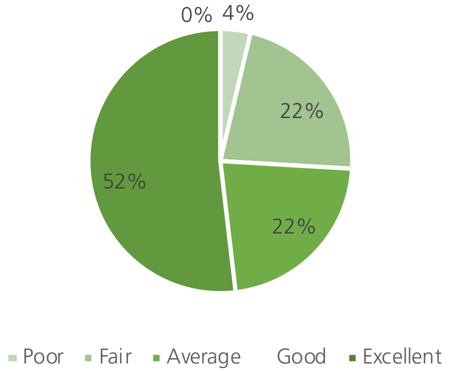
The ease of getting permanent financing, based on the responses for "easy" and "somewhat easy", is the highest for retail (71%), followed by industrial (60%), apartment (59%) and office (45%). The ease of getting development financing, based on the responses for "easy" and "somewhat easy", is the highest for industrial (50%), followed by office (40%), apartment (33%) and retail (23%). Asset market liquidity is perceived to be the highest, based on the responses to "very liquid" and "somewhat liquid", for retail (64%), followed by industrial (55%), office (50%) and apartment (40%). The attention from non-local players, based on the responses to "high" and "very high", is the highest for office (81%), followed by industrial (80%), apartment (66%) and retail (57%).

Overall, the sentiment with regard to investment, development, asset market, leasing and financing conditions in the first quarter of 2020 is the highest for industrial real estate.

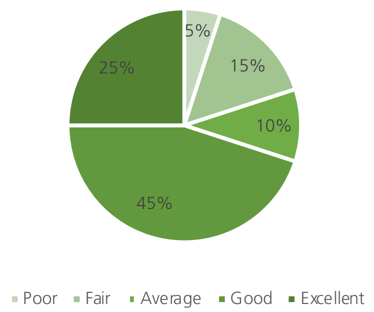
In future quarters, we hope to receive more responses in order to capture the sentiment of as many market participants in Portland as possible. The more responses we receive, the higher is the reliability of our sentiment measures. Hereby, it does not matter whether a respondent already completed the survey for another property type, or whether respondents work in the same company as other respondentsconsidering that they may focus on different typological and geographical sub-markets than their colleagues or work with different clients. More respondents will also allow us to conduct our analysis for sub-property types such as affordable vs. luxury apartment or suburban vs. CBD office.

The remaining sections present the detailed results of the PSU CRE sentiment survey for the apartment (multifamily), industrial, office and retail real estate market.

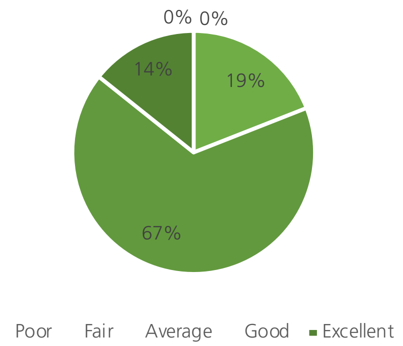
APARTMENT INVESTMENT CONDITIONS



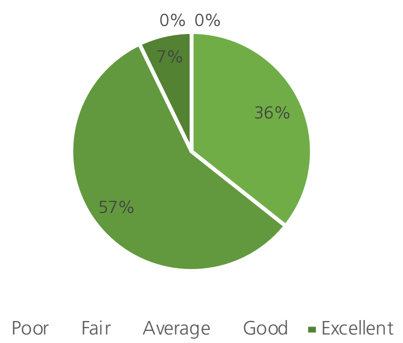
INDUSTRIAL INVESTMENT CONDITIONS



INVESTMENT INVESTMENT CONDITIONS



RETAIL INVESTMENT CONDITIONS



INVESTMENT CONDITIONS

Please note that due to rounding percentages may add up to 101%. The first survey question asks respondents to rate investment conditions for existing buildings in the Portland market. For all questions, the graphs to the left show the frequency distribution of responses for each property type.

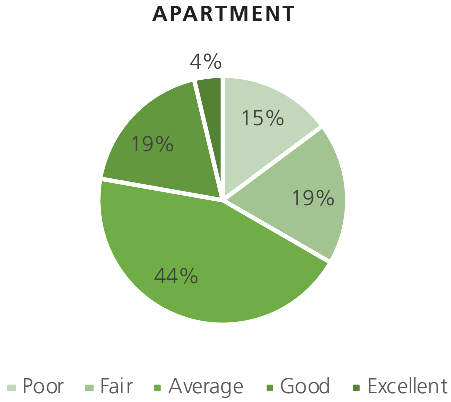
The majority of respondents focusing on apartments (52%) rated investment conditions as "good". However, 22% of respondents consider apartment investment conditions as "fair" and 4% consider them "poor". The mean rating for apartment is 3.22 with a median of 4 and a standard deviation of 0.93.

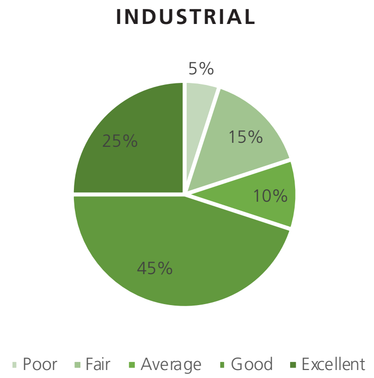
For industrial real estate, respondents predominantly consider investment conditions to be "good" (39%) or even "excellent" (33%). Only 6% of respondents rated industrial investment conditions as "poor". The mean rating for industrial is 3.89 (median: 4), however, the standard deviation of ratings is 1.05, which suggest a higher degree of variability in responses.

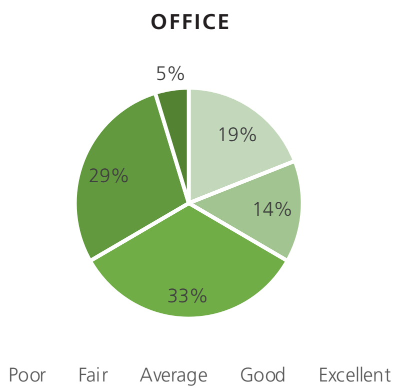
For office real estate, investment conditions are predominantly considered "good" (67%) and "excellent" (14%). The mean rating for office is 3.95 (median: 4) with a relatively low standard deviation in responses of 0.59.

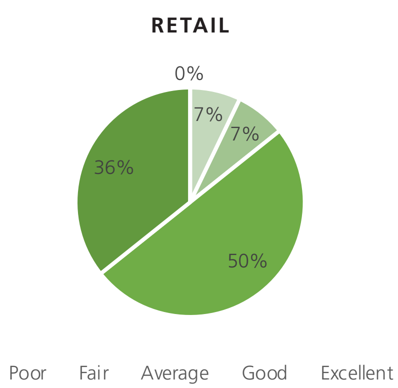
The majority of respondents focusing on retail real estate considers investment conditions as good (57%). The mean rating for retail is 3.71 (median; 4) with a relatively low standard deviation of 0.61.

Overall, the assessment of current investment conditions for all property types in the Portland market is predominantly good to excellent. Particularly for office and industrial, respondents perceive investment conditions to be favorable ("good" and "excellent"). However, it is noteworthy that about a quarter of respondents for apartment considers investment conditions "fair" to "poor".









DEVELOPMENT CONDITIONS

The second survey question asks respondents to rate development conditions for new buildings for their respective property type in the Portland market.

For apartment, the majority of respondents rates development conditions as "average" (44%). However, 19% rate them as "fair" and 15% as "poor". On the other hand, 23% of respondents consider apartment development conditions as either "good" or "excellent". The mean rating of investment conditions is 2.78 (median; 3) and the high variability in answers is reflected in a relatively high standard deviation of 1.05.

For industrial real estate, the majority of respondents considers development conditions as "good" (45%) to "excellent" (25%). However, 15% of respondents rated conditions for new industrial developments as "fair" and 5% as "poor". The mean response was 3.7 (median: 4) and the standard deviation is relatively high with 1.17.

Similarly, to industrial and apartment, the opinions of office respondents shows variability. 33% consider them "average", followed by 29% considering them "good" and 19% considering them "poor". The mean rating for office is 2.86 (median: 3) and the relatively high standard deviation of 1.20 reflects the high variability in answers.

For retail real estate, the majority of respondents considers development conditions as "average" (50%), followed by "good" (36%). The mean rating for retail is 3.14 (median: 3) and the standard deviation of 0.86 reflects less variability in the assessment of retail development conditions by respondents.

Overall, respondents consider development conditions to be the best for industrial, as measured by "good" and "excellent", which is followed by retail, office and apartments.

BUY, SELL OR HOLD RECOMMENDATION

Our third question asks respondents whether they recommend buying, selling or holding buildings of their respective property type.

For multifamily, the majority of respondents recommends holding (52%), which is followed by 33% recommending selling. Only a minority of 15% of respondents recommends buying apartment buildings in Portland. The average recommendation is 2.37 (median: 3) with a standard deviation of 0.74.

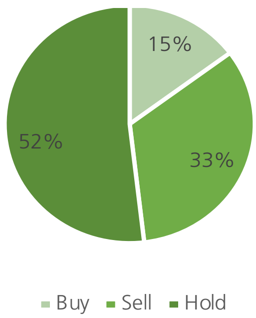
For industrial real estate, the majority of respondents (58%) recommends holding assets, which is followed by 26% recommending selling and 16% buying. The mean recommendation is 2.42 (median: 3) with a standard deviation of 0.77.

Respondents focusing on office predominantly recommend selling assets (57%), which is followed by holding (33%) and buying (10%). The mean recommendation for office is 2.24 (median: 2) with a standard deviation of 0.62.

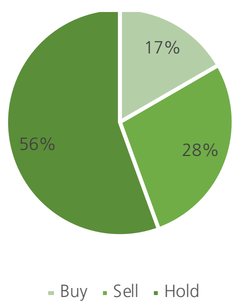
The majority of retail respondents recommends holding assets (57%), which is closely followed by selling (43%). The mean recommendation for retail is 2.57 (median: 3) with a standard deviation of 0.51.

Overall, the majority of respondents recommends holding apartment, industrial and retail assets. The sell recommendation is the second most frequent recommendation for these property types. Office represents an exception with a clear recommendation of respondents to sell. It is noteworthy that only a small minority of respondents recommends buying multi-family, office and industrial buildings in the current market. No respondent recommends buying retail properties. Furthermore, the recommendation of retail and office respondents shows the lowest variability as measured by the standard deviation of responses.

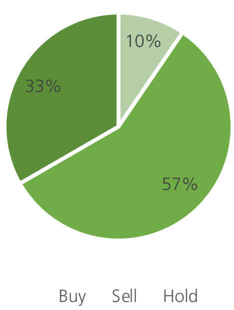
APARTMENT



INDUSTRIAL



OFFICE



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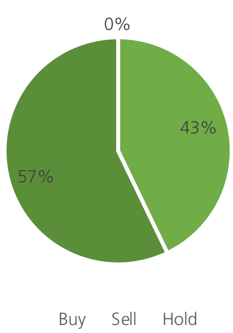
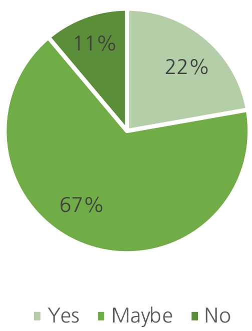


APARTMENT



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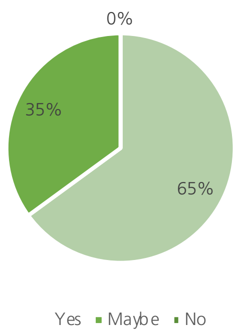

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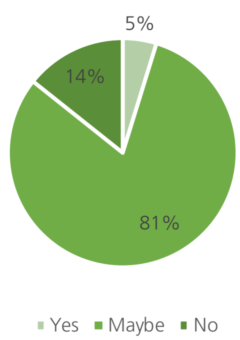

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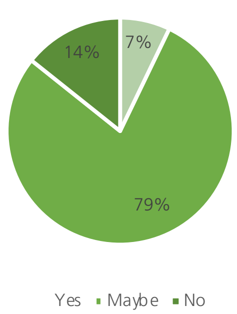


DEVELOPMENT RECOMMENDATION

The fourth question asks respondents to make a recommendation on whether they would develop their respective property type in the Portland market.

The majority of apartment respondents (67%) answered the question with "maybe", which reflects a certain level of uncertainty. The mean recommendation is 1.89 (median: 2) with a standard deviation of 0.58.

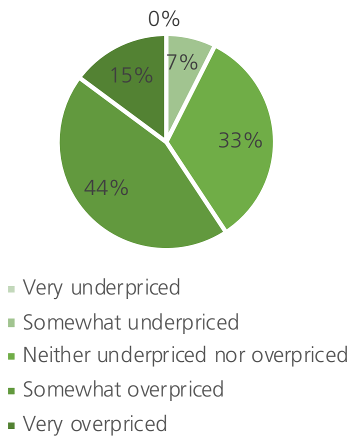
On the other hand, 65% of respondents for industrial real estate would recommend developing. The mean recommendation for industrial is 1.35 (median: 1) with a standard deviation of 0.49.

For office real estate, 81% of respondents answered "maybe" followed by 14% recommending not to develop. The mean recommendation is 2.10 (median: 2) with a standard deviation of 0.44.

Similarly, the majority of retail respondents (79%) would "maybe" recommend developing, followed by 14% not recommending developments in the current environment in the Portland market. The mean recommendation for retail is 2.07 (median: 2) with a standard deviation of 0.47.

Overall, the majority of respondents for apartment, office and retail are not clear in their recommendation on whether to develop or not, as reflected by "maybe" representing the most frequent answer. This may reflect current development, asset, financing and/or space market conditions in apartment, office and retail real estate in Portland. The exception is industrial real estate for which respondents predominantly recommend developing. It is also interesting to note that the variability in responses is relatively low for office, retail and industrial, as reflected by the standard deviation.

APARTMENT



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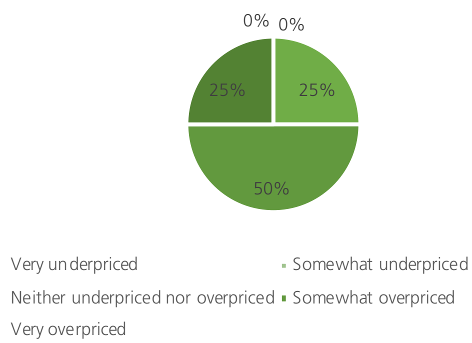

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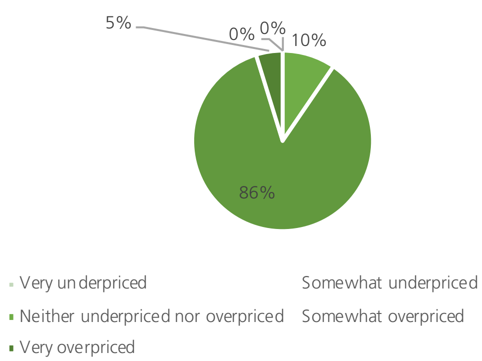

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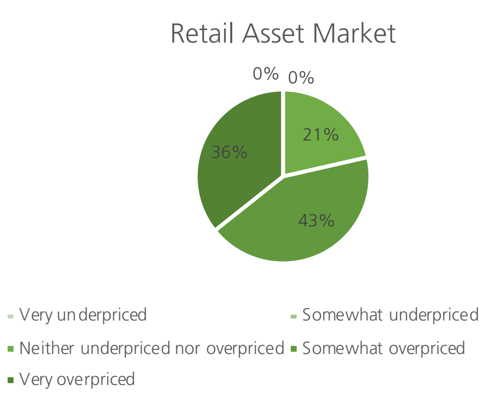


ASSET MARKET

The fifth question focuses on the asset market and asks respondents to assess prices for their respective property type in the Portland market.

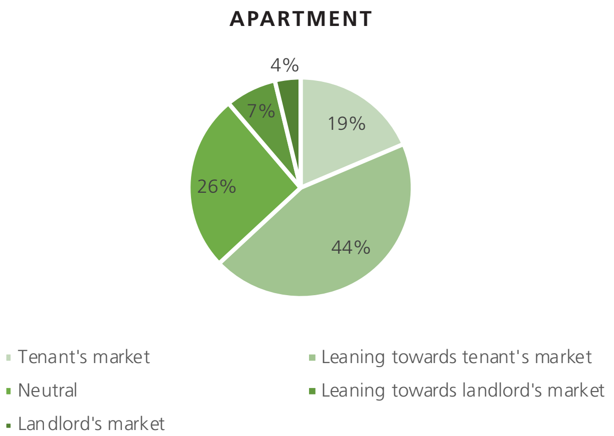
Apartment respondents vary in their assessment of current asset prices in the market. 44% consider prices “somewhat overpriced” and 15% consider them “very overpriced”. Interestingly, 7% consider prices for multifamily buildings to be “somewhat underpriced”. The mean assessment is 3.67 (median: 4) with a standard deviation of 0.83.

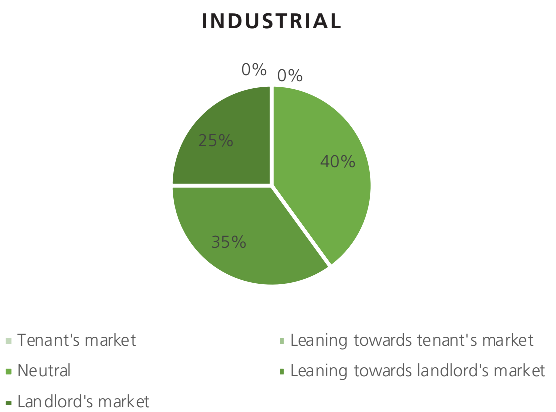
The majority of industrial respondents considers asset prices overpriced with 50% answering “somewhat overpriced” and 25% answering “very overpriced”. The mean and median assessment is 4 with a standard deviation of 0.73.

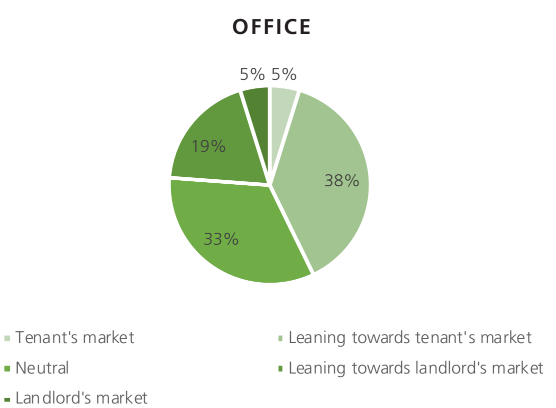
A clear majority of office respondents considers asset prices to be overpriced to some degree with 86% responding “somewhat overpriced” and 5% responding “very overpriced”. The mean assessment for office is 3.95 (median: 4) with a relatively low standard deviation of 0.38.

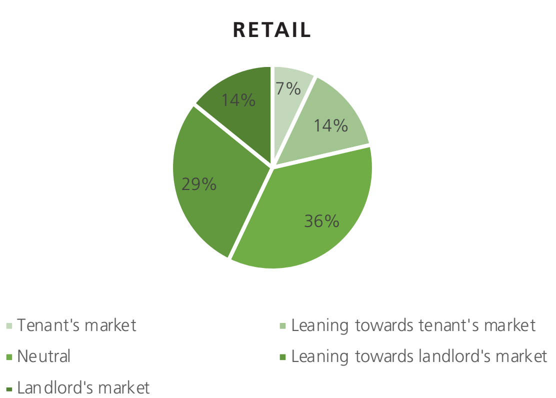
For retail, the majority of respondents considers asset prices to be overpriced with 43% answering “somewhat overpriced” and 36% answering “very overpriced”. The mean assessment for retail is 4.14 (median: 4) with a standard deviation of 0.77.

Overall, responses suggest that for all property types respondents perceive current asset prices in the Portland market to be overpriced. The variability in responses is particularly low for office, as evidenced by the standard deviation.









LEASING

The sixth question focuses on leasing conditions on the spectrum from tenant's to landlord's market for the four property types in Portland.

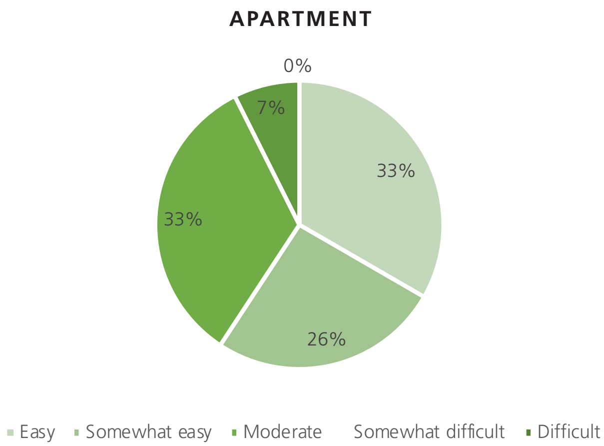
The majority of respondents for apartment considers current market conditions to be a tenant's market to some degree. In particular, 44% assess the current rental market as "leaning towards a tenant's market" and 19% assess it as "tenant's market". The mean assessment for apartment is 2.33 (median: 2) with a standard deviation of 1.

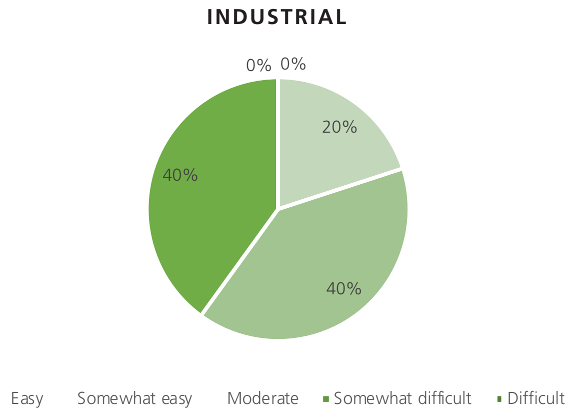
For industrial, respondents consider the current market a landlord's market to some degree with 35% that answered "leaning towards landlord's market" and 25% that answered "landlord's market". The mean assessment for industrial is 3.85 (median: 4) with a standard deviation of 0.81.

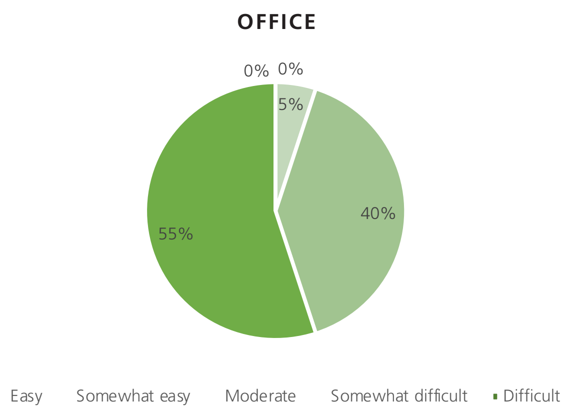
43% of respondents for office indicate tenant's market conditions with 38% that answered "lean towards a tenant's market" and 5% that answered "tenant's market". 33% perceive the leasing market to be "neutral". The mean assessment for office is 2.81 (median: 3) with a standard deviation of 0.98.

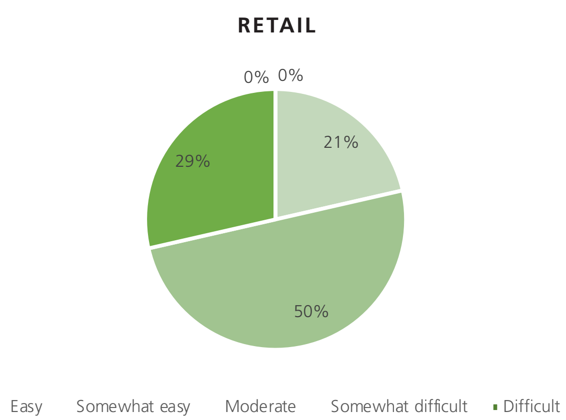
The responses of retail experts show a high variability. 36% of respondents consider space market conditions as "neutral" while 43% overall consider them either "leaning towards a landlord's market" (29%) or "landlord's market" (14%). The mean assessment for retail is 3.29 (median: 3) with a relatively high standard deviation of 1.14.

Overall, while the apartment and office market appear to be a tenant's market to some degree, the retail and industrial market in Portland currently can be best characterized as landlord's markets. However, the variability in responses for apartment, office and retail is relatively high, which may reflect different sub-property types and sub-markets.









PERMANENT FINANCING

The eight question focuses on the ease of getting permanent financing, which includes purchase or refinancing mortgages, for the individual property types.

For apartment, the majority of respondents rates the ability to get long-term financing as easy to some degree with 33% that answered “easy” and 26% that answered “somewhat easy”. However, 7% of apartment respondents assess the ability of getting permanent financing as “somewhat difficult”, which may reflect differences with regard to apartment market segments (e.g. affordable apartments vs. luxury apartments). The mean assessment for apartments is 2.15 (median: 2) with a standard deviation of 0.99.

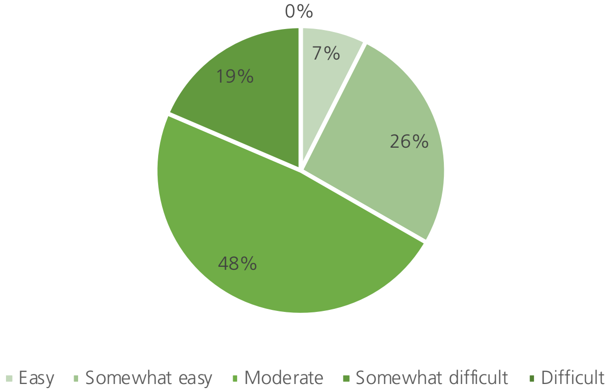
Industrial respondents predominantly consider permanent financing conditions to be easy based on the answers for “easy” (20%) and “somewhat easy” (40%). The mean rating is 2.2 (median: 2) with a standard deviation of 0.77.

The majority of office respondents (55%) consider the ease of getting permanent financing to be “moderate”, followed by “somewhat easy” (40%). The mean assessment for office is 2.5 (median: 3) with a standard deviation of 0.61.

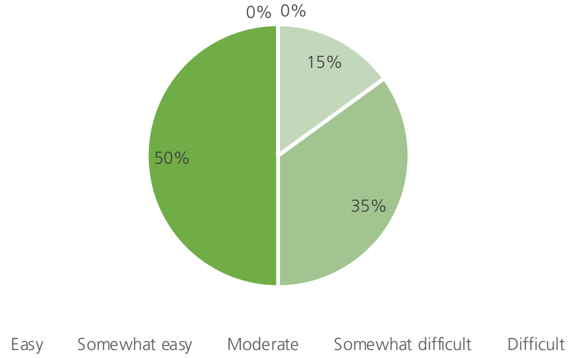
For retail, respondents consider permanent financing conditions to be predominantly easy based on the answers for “easy” (21%) and “somewhat easy” (50%). The mean assessment for retail is 2.07 (median: 2) with a standard deviation of 0.73.

Overall, the ability to get permanent financing is considered easy to some degree by most respondents for apartment, industrial and retail. Office represents an exception with the most respondents considering the ease of getting permanent financing to be “moderate”. Interestingly, the variability in responses, as measured by the standard deviation, is the lowest for office.

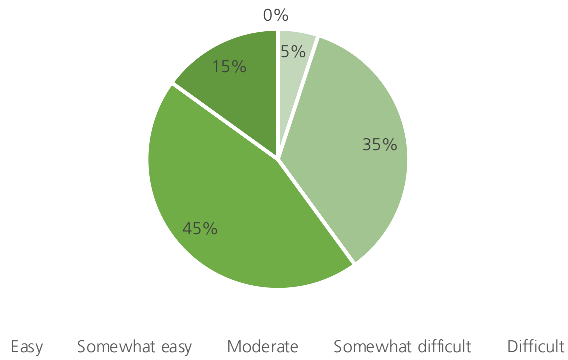
APARTMENT



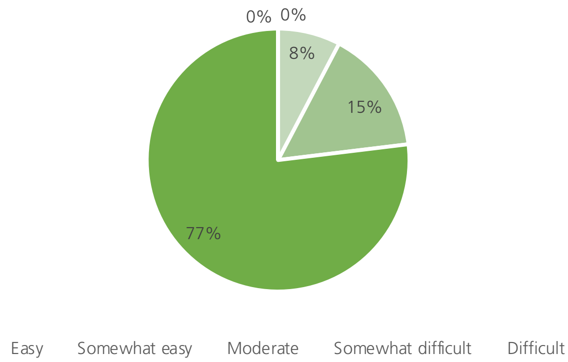
INDUSTRIAL



OFFICE



RETAIL



DEVELOPMENT FINANCING

The ninth question asks respondents to assess the ease of getting construction financing for new developments.

For apartment, the majority of respondents (48%) assessed the ease of getting development financing as "moderate" while 33% consider it easy to some degree, based on the answers for "easy" (7%) and "somewhat easy" (26%). However, 19% consider the ability to get development financing as "somewhat difficult". The mean assessment for multifamily properties is 2.78 (median: 3) with a standard deviation of 0.85.

Industrial respondents are divided 50/50 between the ease of getting development financing to be "moderate" and easy to some extent ("easy" and "somewhat easy"). The mean assessment for industrial is 2.35 (median: 2.5) with a standard deviation of 0.75.

45% of office respondents consider the ease of getting development financing to be "moderate" and 40% consider it easy to some degree ("easy" and "somewhat easy"). It is noteworthy that 15% of respondents consider development financing conditions to be "somewhat difficult". The mean assessment is 2.7 (median: 3) with a standard deviation of 0.8.

For retail, the majority of respondents (77%) consider the ease of getting development financing as "moderate", followed by "somewhat easy" (15%) and "easy" (8%). The mean assessment for retail is 2.69 (median: 3) with a standard deviation of 0.63.

Overall, the ease of getting development financing is the highest for industrial real estate. For all property type, "moderate" is the most frequent assessment of the ease of getting development financing, followed by easy to a certain degree. However, compared to permanent financing, it is noteworthy that the ease of getting development financing is assessed lower for all property types by respondents.

LIQUIDITY

The tenth question asks respondents to assess the liquidity in the asset market for their respective property type in Portland.

Apartment respondents predominantly rate the liquidity as "moderate" (52%), which is followed by 40% answering liquid to a certain degree ("somewhat liquid" and "very liquid"). It is noteworthy that 7% consider the asset market for apartments to be "somewhat illiquid". The mean for apartment is 3.41 (median: 3) with a standard deviation of 0.75.

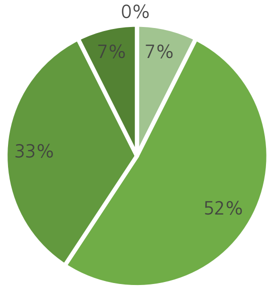
The majority of industrial respondents perceives the market liquidity to be high to some degree. In particular, 35% consider it "somewhat liquid" and 20% consider it "very liquid". The mean assessment for industrial is 3.75 (median: 4) with a standard deviation of 0.79.

The assessment of liquidity in the office market shows a lot of variability. While 50% of respondents consider the asset market to have liquidity to some degree ("somewhat liquid" and "very liquid"), 25% consider it illiquid to some degree ("somewhat illiquid" and "very illiquid"). This may reflect different segments of the office market and/or locations. The mean assessment for office is 3.35 (median: 3.5) with a relatively high standard deviation of 1.27.

For retail, the majority of respondents (64%) perceives the retail asset market to be liquid to some degree ("somewhat liquid" and "very liquid"). However, 14% consider the asset market to be "somewhat illiquid". The mean response for retail is 3.71 (median: 4) with a standard deviation of 0.99.

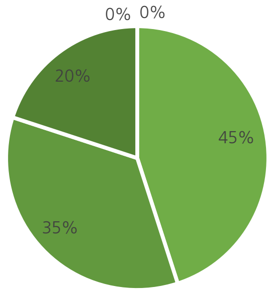
Overall, the industrial real estate market currently appears to have the highest liquidity while apartment is perceived to be the least liquid of the four property types. The perception of liquidity in the office and retail market is mixed, as suggested by the relatively high standard deviations and variety of responses.

APARTMENT



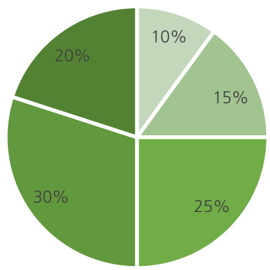
Very illiquid Somewhat illiquid Moderate
Somewhat liquid Very liquid

INDUSTRIAL



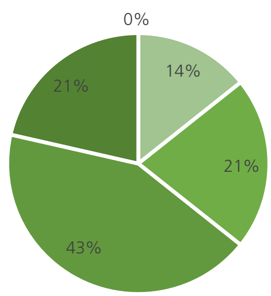
Very illiquid Somewhat illiquid Moderate Somewhat liquid Very liquid

OFFICE



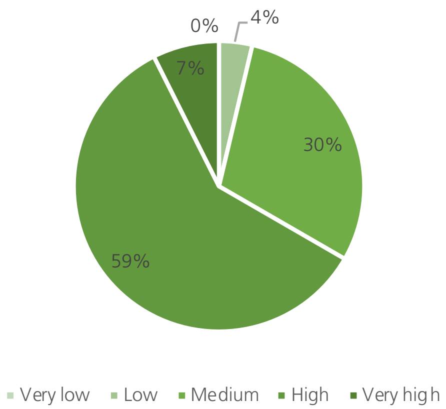
Very illiquid Somewhat illiquid Moderate Somewhat liquid Very liquid

RETAIL

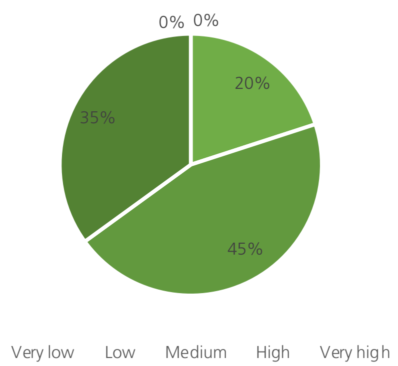


Very illiquid Somewhat illiquid Moderate Somewhat liquid Very liquid

APARTMENT



INDUSTRIAL



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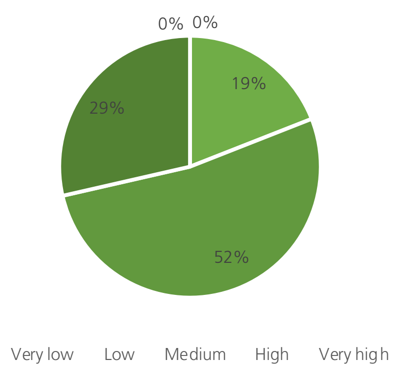

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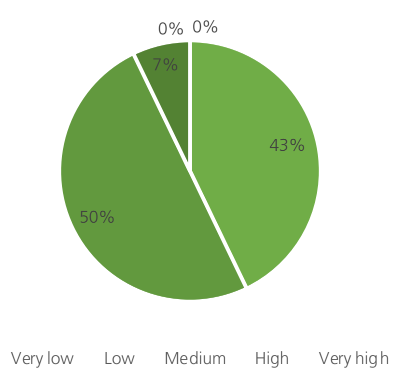

ATTENTION FROM NON-LOCAL PLAYERS

The last question asks respondents to rate the attention their respective property type in the Portland market is getting from non-local players. A higher (lower) interest by nonlocal players in the Portland market may, for example, indicate increased capital inflows (outflows) that positively (negatively) impact market liquidity and asset prices.

For apartment, the majority of respondents (66%) rated the attention as high to some degree ("high" and "very high"). The mean rating is 3.70 (median: 4) with a standard deviation of 0.67.

The clear majority of respondents for industrial (80%) perceives the attention of non-local players to be high (45%) or very high (35%). The mean rating is 4.15 (median: 4) with a standard deviation of 0.75.

Similarly, the majority of office respondents (81%) assesses the attention by non-local players to be some degree of high with 52% "high" and 29% "very high". The mean rating for office is 4.1 (median: 4) with a standard deviation of 0.70.

While not as high as for office, industrial and apartment, the interest of non-local players in the retail market in Portland is relatively high, as suggested by 57% of respondents that either answered "high" (50%) or "very high" (7%). The mean rating for retail is 3.64 (median: 4) with a standard deviation of 0.63.

Overall, our results suggest that the office and industrial market in Portland receive the highest attention from non-local players, followed by the apartment and retail market.

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04 //

economic analysis

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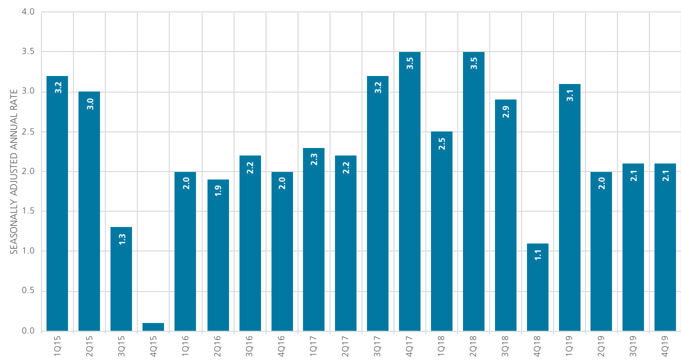
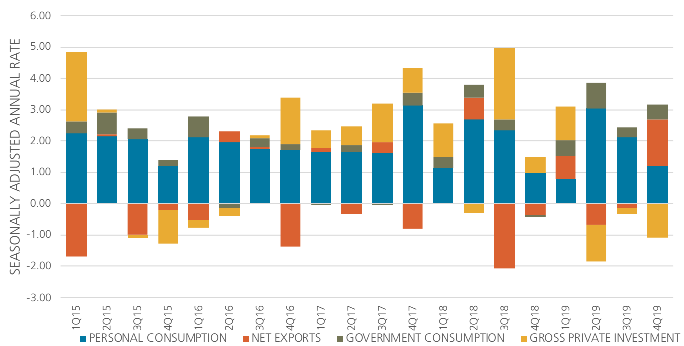
REAL GDP



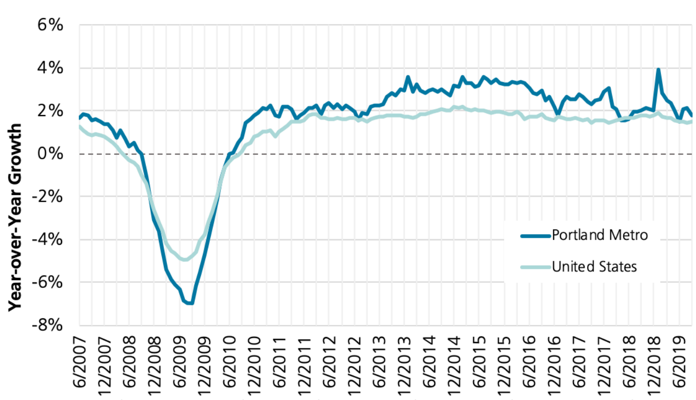
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



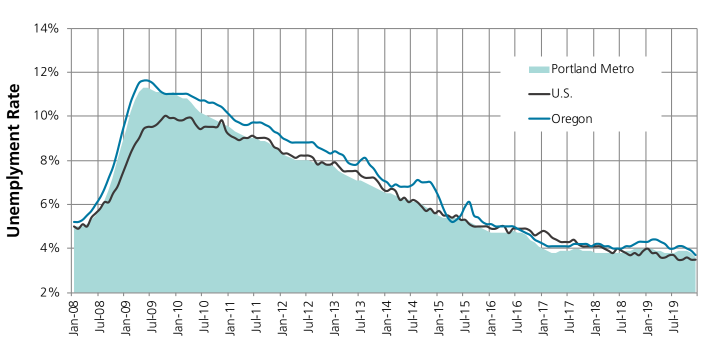
U.S. Bureau of Economic Analysis

RATE OF EMPLOYMENT GROWTH - YEAR OVER YEAR



CES Employment, State of Oregon and BLS

SEASONALLY ADJUSTED UNEMPLOYMENT RATE



Local Area Unemployment Statistics (LAUS)

Economic expansion continued through the fourth quarter of 2019, with the current GDP estimate indicating a 2.1% rate of growth during the quarter. The duration of the current cycle is now greater than 10 years, with the previous trough in June 2009. While the expansion cannot continue in perpetuity, there has been no apparent trigger for the next correction. The current coronavirus pandemic is likely to serve in that role. Efforts to control the spread has already substantively impacted the international and national economies. Disruptions to travel, quarantines, and closing businesses will continue to impact economic activity and businesses over the next several weeks or months and has introduced a greater level of uncertainty in forecasting.

Net exports were a major contributor to GDP growth during the fourth quarter due to an 8.7% decline in imports. Personal consumption was also strong, yet lower than the preceding two quarters. Private investment dropped during the quarter, some of which may be explained by Boeing 737 MAX aircraft delivery delays.

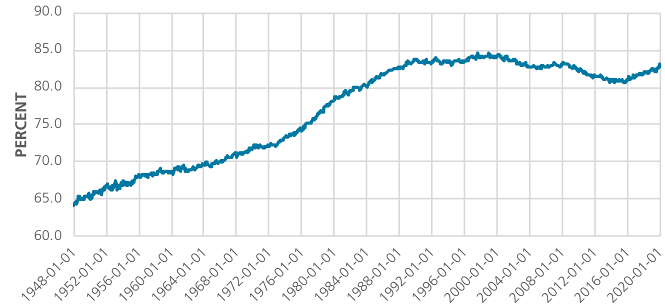
The national economy will continue to be supported by federal fiscal stimulus. Consumer spending should continue to grow as employment, real wages, and household wealth expand. While labor supply constraints are expected to represent a drag on economic growth, this is not expected to have a significant impact until 2021.

The rate of GDP growth is expected to slow over the next several years. Energy prices are expected to decline while the dollar stays strong, both of which should keep inflation in check. The continued strength in the economy will likely allow the Fed to again raise interest rates.

Just under 24% of economists surveyed in The Wall Street Journal's January survey saw a risk of the US entering a recession in the next year. This number reflects continued improvement from a September 2019 high of 34.8%. Recession fears over the summer were driven by concern regarding financial markets and trade wars, both of which have improved over the last quarter.

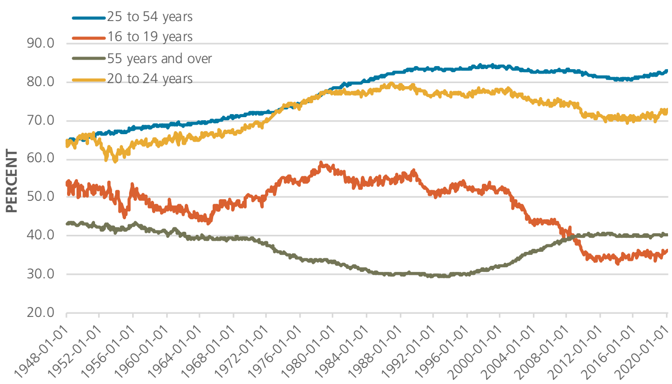
The Portland MSA is currently on track to add roughly 24,000 new jobs in 2019, but the rate of employment growth in the fourth quarter declined to more modest 1.5%. While the area has outperformed the national economy throughout this business cycle, that advantage appears to be declining.

CIVILIAN LABOR FORCE PARTICIPATION RATE: 25 TO 54 YEARS, PERCENT, MONTHLY, SEASONALLY ADJUSTED

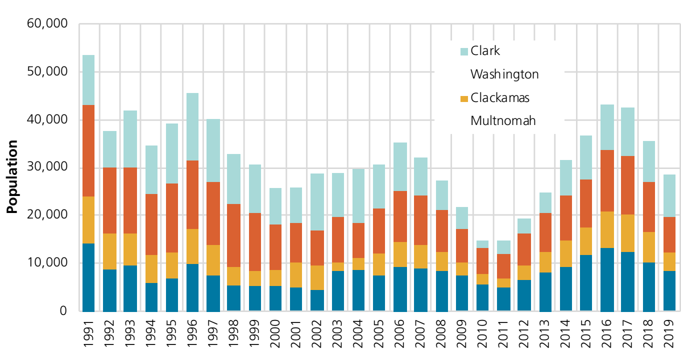


US Bureau of Labor Statistics

LABOR FORCE PARTICIPATION RATE BY AGE COHORT - SEASONALLY ADJUSTED

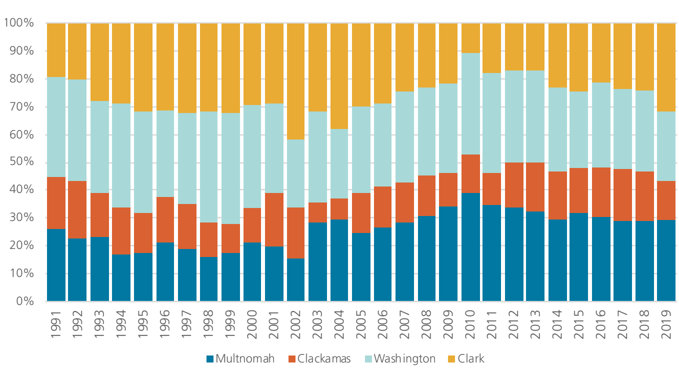


POPULATION GROWTH BY COUNTY



PSU Population Research Center

SHARE OF REGIONAL POPULATION GROWTH BY COUNTY



PSU Population Research Center

The January jobs report reported national employment growth estimated at 225,000, with the unemployment rate rising to 3.6%. This reflects an increase in the labor force participation rate of 63.4% (estimated at 63.2% in December). Employment growth during the month was driven by private service-providing sectors and leisure and hospitality industries.

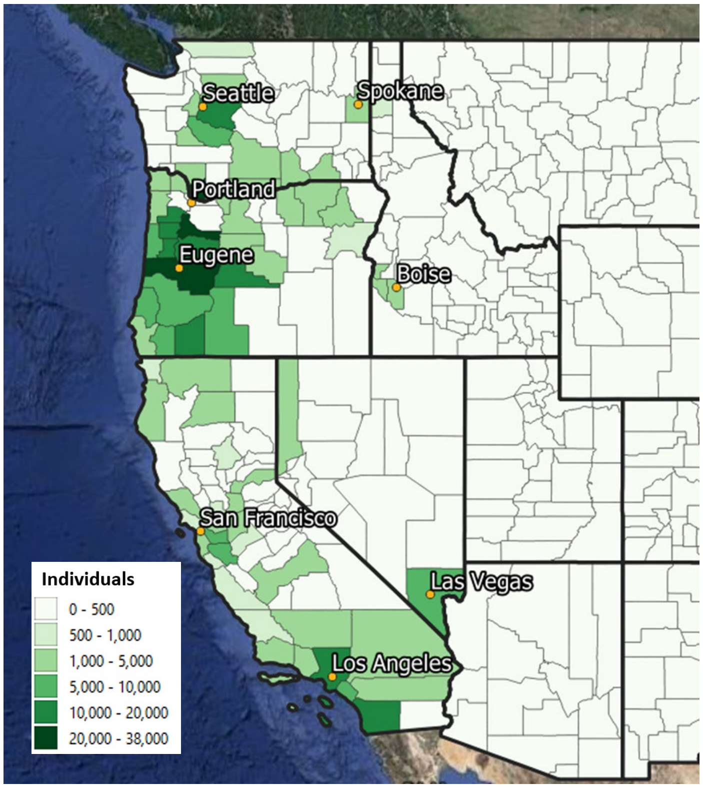
The availability of labor is expected to pose a challenge for ongoing work, both at a national level as well as locally. The local unemployment rate was estimated at 3.6% in December 2019, which is slightly above the national rate of 3.5% and below the statewide rate of 3.7%. The natural rate of growth in the region is negligible, and continued expansion will require ongoing migration into the area as well as continued increases in the labor force participation rate.

The largest drop off in labor force participation has been with younger members of the workforce, with rates for persons aged 16 to 19 now below those of persons 55 years and older.

The rate of population growth continued to decline in 2019 after peaking in 2016-17. Overall population increased by less than 30,000 persons in 2019 in the four-county area, the lowest rate since 2013.

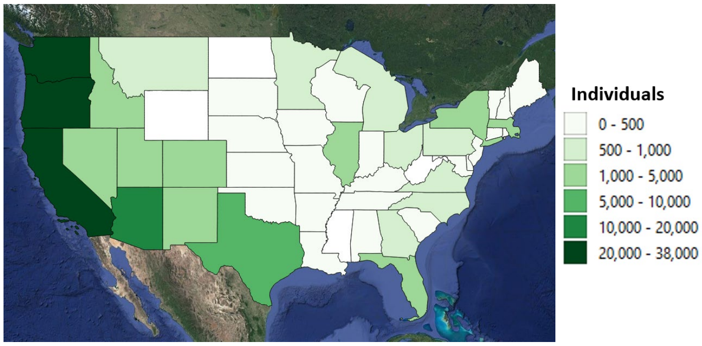
The share of growth between counties has shifted somewhat, with Clark County accounting for the greatest share of net population growth in 2019. This market has benefited from a greater residential capacity, including a significant pipeline of new residential lot supply.

WHERE OREGON RESIDENTS ARE MIGRATING FROM WITHIN WEST COAST, 2011-2016



U.S. Internal Revenue Service, Johnson Economics

WHERE OREGON RESIDENTS ARE MIGRATING FROM NATIONWIDE, 2011-2016



U.S. Internal Revenue Service, Johnson Economics

MIGRATION

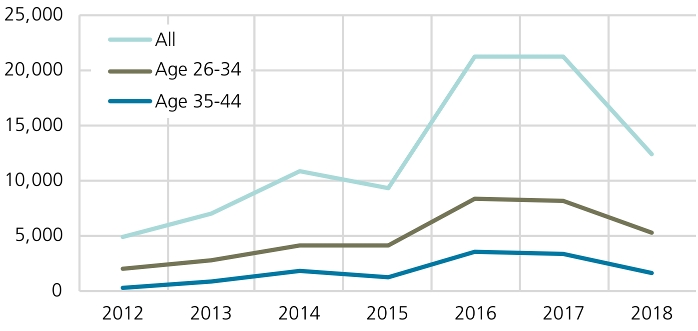
In this business cycle, two-thirds of Oregon's net in-migration has flowed into the Portland Metro Area. The IRS data does not provide demographic data on the sub-state level, but in terms of total net migration, the region reached a peak inflow of 11,300 tax returns in 2016, with Multnomah County representing 3,500 of these. The net inflow declined to 5,400 in 2018, of which 500 were in Multnomah. The latter saw a net outflow in 2017. As on the state level, the migration trend correlates with job growth, especially jobs filled by young workers.

From 2011-2016 Migration to the Tri-Counties stemmed almost entirely from the West Coast. Within Oregon, much of the migration originated from the Willamette Valley and surrounding areas. This follows a larger nation-wide trend of migration flowing from rural to urban areas as the American economy becomes ever more globalized, and the agricultural sector continues to integrate additional capital improvements into their operations, reducing the need for labor. The high levels of migration from Eugene and Corvallis are largely attributable to the flow of University of Oregon and Oregon State graduates moving to Portland for work.

Outside of Oregon, most individuals originated from urban areas along the West Coast. As housing costs in cities across the West Coast have increased, Portland remains comparatively affordable. The increasing costs of living and the relatively stagnant wages of the last decade have encouraged residents of more expensive cities to investigate cheaper options. Tens of thousands of residents from San Francisco, Los Angeles, and Seattle who have migrated to Portland may be looking for cheaper opportunities while remaining on the west coast.

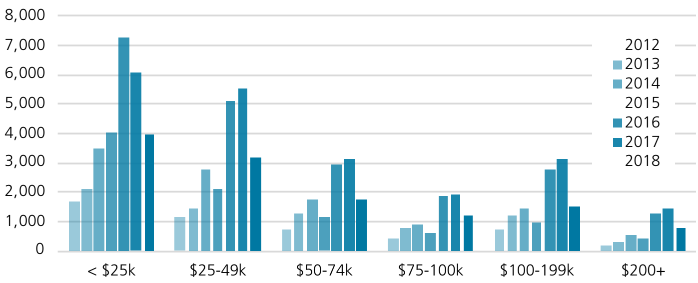
New migration data released by the IRS indicates that in-migration to Oregon subsided in 2018, after reaching a high point in 2016 and 2017. Measured in tax returns, which is a proxy for households, the inflow to Oregon was 67,000 in 2018, while the outflow was 55,000. This results in a net inflow of 12,000, compared to 21,000 in each of the previous two years. The migration rate was 8 per 1,000 existing tax filers in 2018, compared to 14 in 2016-17. The migration trend roughly corresponds to job growth among 25-34-year-olds, who are the most mobile age segment, accounting for 40% of the migration, with a net inflow of 8,000 tax returns in 2017 and 5,000 in 2018.

NET MIGRATION (TAX RETURNS) TO OREGON, BY YEAR AND AGE



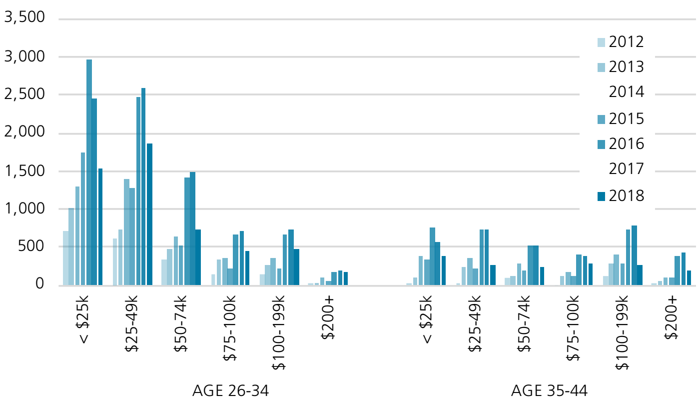
Internal Revenue Service, Johnson Economics

NET MIGRATION (TAX RETURNS) TO OREGON, BY YEAR AND INCOME



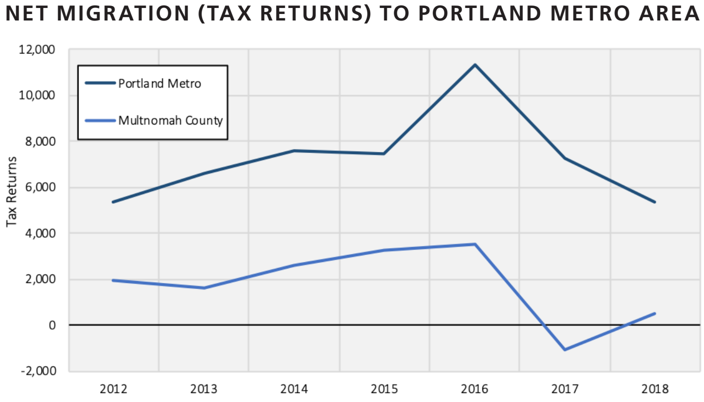
Internal Revenue Service, Johnson Economics

NET MIGRATION (TAX RETURNS) TO OREGON, BY AGE AND INCOME



Internal Revenue Service, Johnson Economics

NET MIGRATION (TAX RETURNS) TO PORTLAND METRO AREA



Internal Revenue Service, Johnson Economics

In terms of income levels, the in-migration is skewed to low-income tax filers, likely reflecting singles (mostly young) moving in search for work. In recent years, filers with incomes between $50,000 and $100,000 have represented roughly 25% of the net in-migration, while filers above $100,000 have represented around 20%.

The income distribution among tax filers between 35 and 44 years of age is evenly distributed across income brackets, with the $100,000+ category accounting for more than 30% in recent years. In the 26-34 age group, most of the in-migration is at low income levels, with the $50,000-100,000 segment representing roughly 25% and the $100,000+ segment representing around 10%.

From 2011-2016 Migration to the Tri-Counties stemmed almost entirely from the West Coast. Within Oregon, much of the migration originated from the Willamette Valley and surrounding areas. This follows a larger nation-wide trend of Wmigration flowing from rural to urban areas as the American economy becomes ever more globalized, and the agricultural sector continues to integrate additional capital improvements into their operations, reducing the need for labor. The high levels of migration from Eugene and Corvallis are largely attributable to the flow of University of Oregon and Oregon State graduates moving to Portland for work.

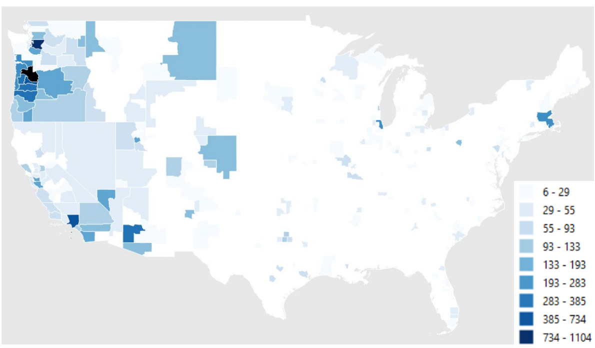
The Census Bureau's American Community Survey (ACS) data provides additional migration data with a greater level of specificity. The data relies upon samples with wide margins of error though, and only measures gross in migration. We have evaluated data for assessing the impact of migration trends on the local rental apartment markets. The data indicates that the Portland Metro Area has averaged a gain of 23,500 households settling into rental apartments annually over the 2013-17 period. These represent nearly 60% of all relocating apartment renters in the region.

ANNUAL APARTMENT IN-MIGRATION TO PORTLAND METRO AREA

PLACE OF ORIGIN	IN-MIGRATION	% OF IN-MIGR.	% OF APT HHS
Oregon, outside P. Metro	**4,313**	**18%**	**2%**
Marion, OR	955	4%	0%
Lane, OR	587	2%	0%
Linn, OR	615	3%	0%
Other, OR	2,156	9%	1%
Washington, outside P. Metro	**2,560**	**11%**	**1%**
King, WA	1,104	5%	1%
Cowlitz, WA	385	2%	0%
Pierce, WA	253	1%	0%
Other, WA	818	3%	0%
California	**3,298**	**14%**	**2%**
Los Angeles, CA	734	3%	0%
San Diego, CA	283	1%	0%
San Francisco, CA	276	1%	0%
Santa Clara, CA	224	1%	0%
Riverside, CA	193	1%	0%
Other, CA	1,588	7%	1%
Other U.S.	**11,557**	**49%**	**6%**
Abroad	**1,802**	**8%**	**1%**
Total In-Migration	***23,530***	***100%***	***12%***

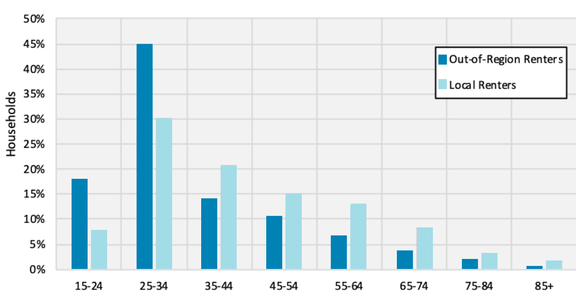
U.S. Census Bureau, JOHNSON ECONOMICS

ANNUAL APARTMENT IN-MIGRATION TO THE PORTLAND METRO AREA BY COUNTY (2013-17)



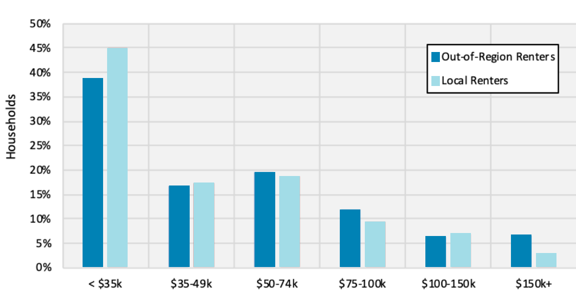
JOHNSON ECONOMICS

AGE DISTRIBUTION, IN-MIGRATION VS. LOCAL RENTERS (2013-17)



U.S. Census Bureau, JOHNSON ECONOMICS

INCOME DISRIBUTION, IN-MIGRATING VS. LOCAL RENTERS (2013-17)



U.S. Census Bureau, JOHNSON ECONOMICS

Oregon (outside Metro) accounts for the largest share – 18% – of migrating households moving into apartments in the region. California accounts for 14% and Washington (outside Clark Co.) represents 11%. King County (Seattle) is responsible for more of the inflow than any other county, at 5%, followed by Marion County (Salem) at 4% and Los Angeles at 3%.

The heat map shows apartment in-migration to the Portland Metro Area by county of origin, with Oregon counties and the largest metro areas on the West Coast dominating.

Apartment renters who come from outside the region tend to be younger than local renters. Over the 2013-17 period, 63% of those who migrated in were younger than 35, compared to 38% of the local renters. Recent college graduates likely make up a large share of these young in-migrants, coming from Eugene, Corvallis, and out-of-state university towns.

The out-of-region apartment renters tend to earn somewhat more than local renters after moving to the region. 7% earn more than $150,000 (2019 dollars), compared to 3% among local renters, and 55% earn less than $50,000, compared to 62% among local renters.

05 //

single family home

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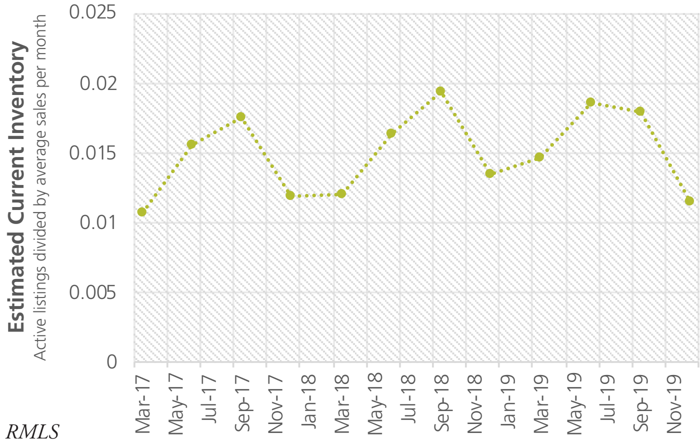
Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

The trends seen over the last year in single family housing proved that supply and demand were still inconsistent with one another, but overall residential sales and purchases increased. Demand for housing was significantly higher than supply in 2018, construction simply couldn't build residential homes fast enough for the growing population. This imbalance then continued into 2019. Supply was unable to keep up with demand as Oregon saw a 1% increase in population, approximately 40,000 individuals.

More specifically, the Portland metro area saw a population increase of 1.3%, reflecting approximately 8,360 individuals. This rise in the overall population is due to numerous variables, such as the economy. Portland's economy has stayed consistent with the nation's economy, in that it has been stable and seen substantial improvements. This is also due to the significant job opportunities available in the Portland metro area. From January to December of 2019 the unemployment rate decreased from 4.0% to 3.6% (FRED). The population increase is also a result of the cost of living in areas such as the Los Angeles, San Francisco, Seattle, Bellevue, and so forth, being drastically higher than the levels of income. This has led to movement of individuals from these cities to the Portland metro area, where the cost of living is much more manageable in relation to wage and income. This may be true for the Portland metro area, but SW Washington and Oregon as a whole have experienced different levels of growth affecting their housing supply and demand.

ESTIMATED CURRENT INVENTORY IN PORTLAND METRO AREA



RMLS

ACTIVE LISTINGS & AVERAGE SALES PRICE IN PORTLAND METRO AREA

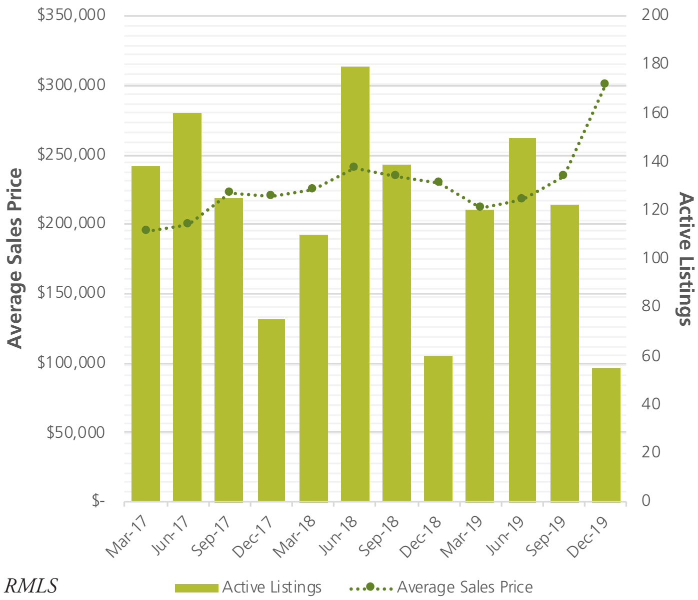
RMLS

PORTLAND METRO AREA

The inventory on the market decreased significantly in 2019 due to an increase in closed sales, as well as a decrease in new listings and new construction homes. The first quarter of 2019 had a sizeable amount of homes on the market, but that number gradually decreased in the following months. This resulted in a record low for the year in December, which hadn't been seen since April of 2018. According to the RMLS Market Action, new listings saw a decline of 1.7% by the end of 2019. Pending sales saw an overall increase yet closed sales slightly decreased in 2019. Pending sales increased 2.1%, for a total of 30,430 sales. Interestingly enough, closings dropped 0.2%, for a total of 29,700 sales. Even with this small decline, the average sales price increased by 1.5% in comparison to 2018. In 2018 the average price was recorded at $452,400, whereas 2019 it was $459,200. Looking even further than the overall market summary for 2019, the changes in the single-family housing market in Q4 of 2019 aid in showing where the trends might be headed for the first quarter of 2020.

The fourth quarter started with a decline of new listings in comparison to the third quarter. A total of 3,064 new homes was recorded in October, which gradually dropped in the following months to 2,118 homes in November, and 1,270 in December. As many are aware summer is the high season for residential new listings and closings, therefore making winter the slow season, which is another reason for the decrease. Less demand has also been identified as a cause for less listings as the construction of new homes has slowed down. This also led to a decrease in the pending sales in the fourth quarter. In October there were 2,575 pending sales, which dropped to 2,274 in November, and then 1,172 in December. In relation to these pending sales, closed sales had an interesting decrease and increased in Q4. In October there were 2,588 closings, dropping to 2,191 sales in November, but then rising again to 2,213 sales to finish off 2019 in December (RMLS). Could this increase be an indicator of the foreseeable future for the first quarter of 2020? It's difficult to speculate with the decline in new listings and demand overall for the year of 2019. It's also very dependent upon the economy for 2020. The expansion has been prolonged and a potential recession for the U.S. economy could affect the residential market significantly.

ACTIVE LISTINGS & AVERAGE SALES PRICE IN SW WASHINGTON CLARK COUNTY AREA



RMLS

SW WASHINGTON CLARK COUNTY AREA

With the Portland metro area being within such close proximity to Vancouver, Washington it would naïve to ignore their single-family housing market. Separated by the Columbia River and only a few miles away, the results and changes in Clark County throughout 2019 are intriguing in comparison to Portland's results. Vancouver has grown significantly over the past five to ten years, due to the city's enticing features of no income tax, less traffic, stable school districts, lower housing costs, and low crime rates. However, even with this population increase, the amount of new construction homes has slowed within the last year. 2019 saw a slight decrease of 0.1% in new listings compared to 2018 in Clark County (RMLS). More specifically, in the fourth quarter of 2019, new listings dropped from 808 listings in October to 420 in December. Pending sales also saw a decline in the fourth quarter, yet closed sales seemed to have spiked back up in December of 2019. Closed sales have increased overall by 0.9% in 2019 from 2018. This trend could potentially bleed into the first quarter of 2020, which again will depend upon an increase in demand and an increase in new listings.

ACTIVE LISTINGS & AVERAGE SALES PRICE IN CENTRAL OREGON

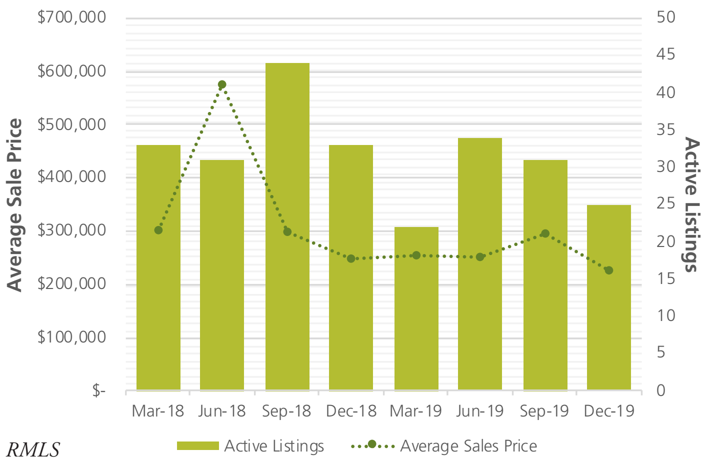
RMLS

CENTRAL OREGON

Looking further into the rural areas of Oregon, Central Oregon has seen a different level of growth, causing variations to their single-family housing market as well. As mentioned earlier, the growth in the Portland metro and SW Washington areas has been significant over the past few years. That being said, the demographic in these areas is somewhat of a mixed bag, between millenials and baby boomers. Overall, in 2017 the median age was identified as 37 years old according to Data USA in regards to Portland, OR. Most of the residing population in these rural communities, such as Deschutes, Bend, and Jefferson county, are made up of a slightly older demographic. According to the Data USA in regards to Deschutes County, the median age was identified as 42 years old in 2017. This slight difference in demographics supports the statistics regarding the decrease in demand for housing in Central Oregon, due to migration and demand being in urban areas, coupled with the oversupply of existing houses.

According to the RMLS Market Action, there was an overall decrease in new listings, pending sales, and closed sales. In comparing 2018 to 2019, there was a decline in new listings by 0.9%. In December of 2019 there was only 55 new listings recorded. These statistics support the fact that the demand for these rural areas has declined due to urbanization. Generation X and Y (millennials) are keener to living in large metro urban areas for numerous reasons, a few being accessibility and cost of living. Following this decrease in demand, pending sales then dropped by 1.9%, which was fairly drastic in terms of the minimal number of listings on the market. Closings also decreased by 4.7% in 2019 (RMLS). These declines in sales in the Central Oregon market is not only due to a decrease in demand, but also a large spike in average sales price of homes. It was recorded that there was a 5.2% increase in average sales price in 2019. More specifically, sales price in November jumped from $265,600 to $302,800 in December (RMLS). A $45,000 rise in average price is far-reaching, making it even more difficult to close these listings, especially when the average time on the markets was approximately 80 days in the fourth quarter of 2019.

ACTIVE LISTINGS & AVERAGE SALES PRICE IN SOUTHERN OREGON



RMLS

SOUTHERN OREGON

Another large portion that makes up the rural community in Oregon, are the cities located in Southern Oregon, such as Grants Pass, Medford, Ashland, and so forth. Josephine County is similar to Deschutes County in that has also been a decrease in overall demand for new construction homes. In 2019 new listings saw a decline by 22.9% in relation to 2018, which was radical. Keep in mind there was only 115 total new listings in Southern Oregon for 2019, and only eight for the month of December. It's intriguing to see the amount of new construction homes available in these rural areas in relation to the Portland metro area, the level of growth overall is night and day. Again, largely due to the movement of individuals to more urban areas. Pending sales neither increased nor decreased, which is interesting because closed sales increased by 15.6%. This could be due to the dramatic drop in average sales price.

There was a 2.6% decrease in average sales price in 2019, but even more shocking was the drop from November of $332,700 to $221,200 in December (RMLS). An approximate $90,000 decrease is huge in terms of the residential housing market, which is extremely appealing to home buyers. This dramatic drop in sales price could be due to a variety of reasons, one of which could be the average market time of which the houses for sale had been sitting. For instance, in November of 2019 the average total market time for a house that was for sale was 163 days, and after the significant drop in sales price, the average total market time in December was 75 days (RMLS). Houses sitting on the market for a long period of time without any movement or any potential buyers in sight can create a huge incentive for owners to drop the price. This decrease in price also led to an increase in both pending and closed sales, which one can assume was the main goal.

In conclusion, the overall analysis of the 2019 single-family housing market in Oregon has seen numerous changes, especially in the fourth quarter. The large growth in population over the past few years has caused an imbalance between supply and demand of houses. Yet, the tables seemed to have turned with the gradual decreases in new listings and closings. This trend of decreases in demand could be a potential forecast of the trends for quarter one of 2020. All of the extensive analysis and research of historical statistics for the single family housing market provides significant aid in predicting future trends, however we can never truly determine what the market will exactly do.

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multi-family residential report

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As we sit at the start of 2020 looking back at the final quarter of 2019, the Portland metro area's multifamily housing market closed the decade strongly with more growth on the horizon. The most recent PWC/ULI Emerging Trends in Real Estate Report lists Portland at #20 in the country for Overall Real Estate Prospects, ahead of much larger cities such as Miami, Philadelphia, and Washington, D.C. The report also notes that Portland is well above average in Investor Demand from a local market perspective, even ranking Portland at #1 in Development/Redevelopment Opportunities from a local market perspective. This is indicative of strong and consistent population growth fueled by continuous growth in high-skilled jobs thereby spurring continued demand for high-density rental housing.

These impressive rankings are occurring despite Oregon passing the first statewide rent-control measures last spring, which were put in place due to an increasingly critical housing crisis affecting the Portland metropolitan region. It appears that despite national media coverage on the topic and public concerns about deterred investment in Portland projects, investor interest in the market has remained strong to-date The rent cap on market-rate units is 7% above inflation, relatively generous in examination of standard annual increases, and new construction is exempt for 15 years. In September 2019, the Oregon Bureau of Economic Analysis released the new rent cap for 2020 at a rate of 9.9% annual increase. While there has been much public debate regarding the pros and cons of the new law, more time is needed to assess actual economic impact on Portland's investment appeal.

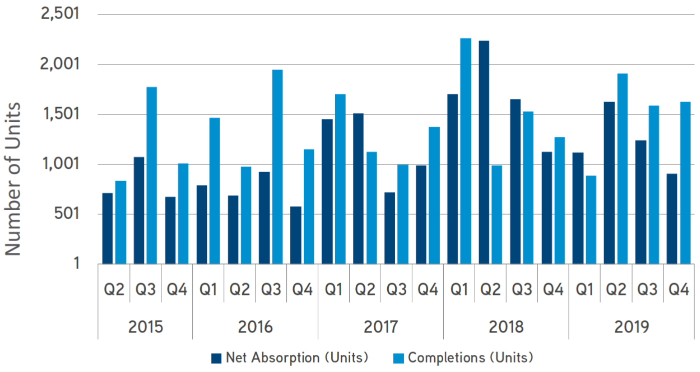
The primary driver of demand in Portland is the frenetic growth of skilled, high-paying jobs which will intensify into 2020 and is reactive to the influx of young, well-educated professionals moving to Portland and taking advantage of the benefits of the Pacific Northwest. Global technology companies such as Amazon, Google, and Apple have expanded their corporate footprints in the Portland Metropolitan area over the past year with plans to continue doing so in 2020, adding to the already strong (and still growing) presence from long-time Oregon anchors Nike and Intel. In addition, institutions like OHSU, PSU and other state universities continue to expand their local presence with more programs, more jobs and more construction. Portland remains one of the fastest-growing metropolitans in the country, and the cyclical effect between job growth and skilled population growth continues to fuel itself and push the demand for rental housing both within the urban core and into the suburbs.

SUPPLY, PERMITTING

While the implementation of inclusionary zoning has affected permit applications, due to strong demand, there are a number of projects in the pipeline. Supply figures state that through December 2019, Portland has 1,630 delivered units while maintaining an occupancy rate of 93.8%. Reports indicate that there are 1,944 units currently in lease-up mode and slated for completion within the next 6 months, with another 6,267 units currently under construction with completion dates ranging from early-mid 2020 through to the end of 2021. The anticipated influx of major supply over 2020-20201 is a result of the completion of several pre-IZ projects coming online that will continue to affect rental rates as lease-up specials abound, contributing to the already generous concessions seen at properties all over the region.

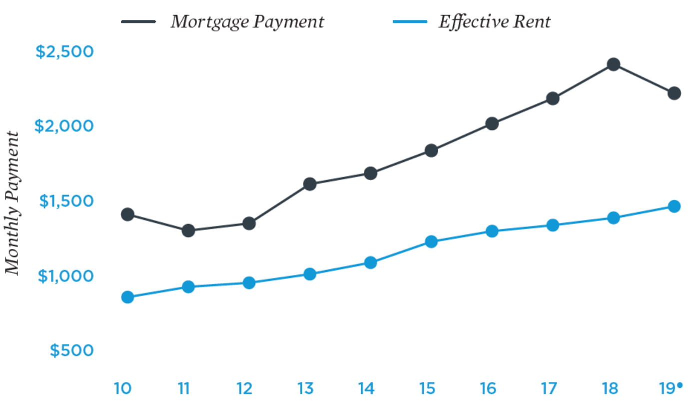
Furthermore, there are 8,415 units proposed for construction, indicating a steady interest in Portland metropolitan multifamily investment. Interestingly, there is a very strong level of proposed units slated for suburban cities outside of Portland proper, including Vancouver, Beaverton, Sherwood, Oregon City, Fairview and Camas, among others. Many of these planned projects are large properties, such as Vancouver/Mill Plain (260 units), Camas (135 units), and Fairview (200 units), indicating some heavy densification coming to some of these smaller cities. This density coming to the cores of these smaller cities will influence how their downtowns look, feel and operate to embrace and meet the needs of the new demographic groups coming in. Young people priced out of the expensive luxury buildings in Portland's urban core will move to these "new" cities, many seeking exactly what they offer: better cost of living, excellent schools, and good food.

NET ABSORPTION AND COMPLETIONS



Colliers International Portland Metro Q4 Multifamily Report

HOUSING AFFORDABILITY GAP



IPA Portland Multifamily Investment Forecast 2020 Outlook

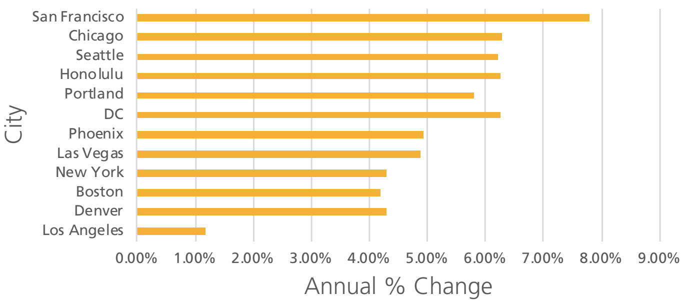
DEMAND, ABSORPTION

As previously indicated, demand remains high due to the strong job economy and continued appeal of Portland living for many young professionals migrating from all over the country. In the fourth quarter, the market saw and continues to project significant growth in office and job creation. In October 2019, Google announced its move into the historic Meier & Frank building to continue its Portland expansion; Intel is building a new plant in Hillsboro that is expected to bring over 1,700 jobs; Apple has engineering offices in Hillsboro, SE Portland and Vancouver; eBay has an office in downtown Portland; Amazon occupies the former Oregonian building in downtown Portland and in summer 2019 started expanding into 85,000 square feet of the new Broadway Tower which sits just adjacent; and Adidas is doubling its footprint by expanding its headquarters with the construction of a 400,000-square-foot extension, adding over 1,000 new jobs.

Much of the new inventory that came online in 2019 was in the Central Portland and East Portland submarkets, which attracted renters and led to high absorption. Leasing activity has outpaced supply, with Central Portland at 94.4% occupancy (up 120 basis points) and East Portland at 95.9% occupancy (up 90 basis points). Overall, Metro wide occupancy is up 30 basis points annually at 95.5% occupancy.

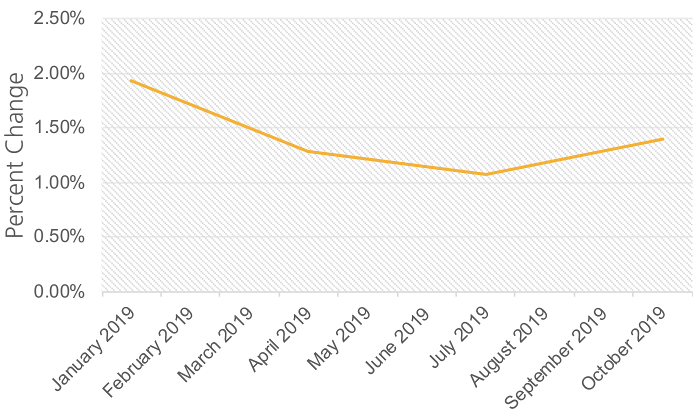
While the supply pipeline is slated to remain consistent, employment gains are expected to sustain absorption, keeping rent growth relatively healthy throughout 2020.

US COMPARATIVE CONSTRUCTION COST INDEX Q4 2019



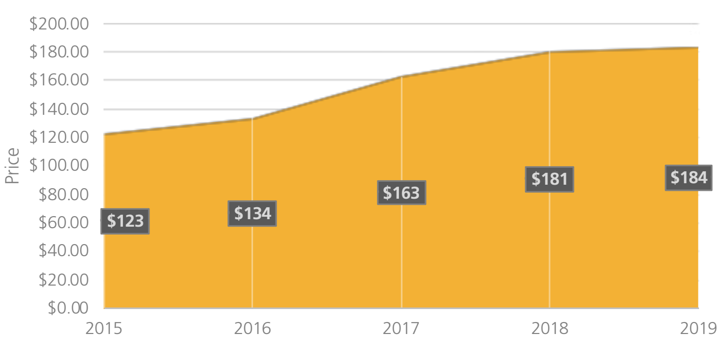
Rider Levett Bucknall Q4 Construction Cost Report

PORTLAND CONSTRUCTION COST INDEX JAN 2019 - OCT 2019



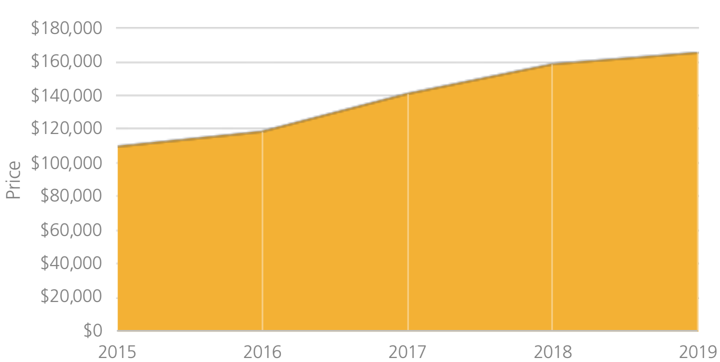
Rider Levett Bucknall Q4 Construction Cost Report

PORTLAND METRO AREA MEDIAN PRICE PER SQUARE FOOT (2015 - 2019)



The Barry Apartment Report 2019 Summary

PORTLAND METRO AREA MEDIAN PRICE PER UNIT (2015 - 2019)



The Barry Apartment Report 2019 Summary

RATES, COSTS

Rental rates dipped slightly from the previous quarter, finishing the year off at $1.54 per square foot. However, effective rent went up 1.9% annually to close out averaging $1,402.00 per month. Despite high occupancy, the concessions continue to rack up, with many new construction properties offering generous lease-up specials to keep their very similar competitors at bay. The "amenities war" amongst properties continues to be a key driver in price and perceived value, with each new property one-upping the other with their offerings.

The deluge of skilled and well-educated individuals moving into the area and the tight labor market indicates a continued rise in payrolls and consequently also in rental rates, with a projection of a 2.1% annual effective rent increase on the horizon, reaching $1,432.00 per month by EOY 2020. Major corporate expansion in downtown Portland continues the appeal of living in and/or moving to Portland, furthering the cause for additional housing supply.

While low interest rates continue to remain the primary reason that renters to become homebuyers, there remains an affordability gap between average mortgage payments and effective rent, leading renters to rent for longer periods of time as they work to accumulate wealth in order to make the transition to a permanent home. With much of the new multifamily construction focused on transit-oriented locations close to large employers, it has become flexible, comfortable and common to rent well into your career, even with a family in tow.

Construction costs for multifamily housing remain in the $160-$250 per square foot range, which is about a 5.79% increase in aggregate YOY. This cost increase continues due to labor shortages and material price increases, inflating construction costs. On a national level, the construction unemployment level dropped even lower than the previous quarter from 4% down to 3.2%, furthering the labor emergency in the trades. In addition, the upcoming election creates unknowns about how it will affect construction costs. Policy changes on trade, infrastructure, the environment, labor, and other issues could greatly impact the business community. One thing is for certain - the resources used for the massive projects by large corporations such as Nike, Intel, OHSU and even the University of Oregon have dramatically affected local multifamily construction and renovation projects by taking out large swaths of subcontractors for months at a time on big-budget large-scale projects. With no end in sight, this could be the new normal for a while in the serious struggle with construction costs in the Portland metropolitan region.

Property	Sale Date	Sale Price	# Units	Price/SF	Year Built	Seller	Buyer
Pallas 15021 SW Millikan Way, Beaverton, OR	12/23/19	$186,000,000	566	$180.33	1997	INVESCO LTD.	MG Properties Group
Vista 23 3181 NE 23rd St, Gresham, OR	11/4/19	$62,800,000	278	$219.02	1990	The Blackstone Group L.P.	Phoenix Realty Group LLC
Bridge Creek 9211 NE 15th Ave, Vancouver, WA	10/15/19	$55,900,000	270	$271.97	1989	Jackson Square Properties	SB Real Estate Partners
Terra at Murrayhill 14305 SW Sexton Mountain Dr, Beaverton, OR	12/6/19	$34,100,000	137	$279.38	1985	Pacific Urban Residential	DB Capital Management Inc.
The George Besaw Apartments 2323 NW Savier St, Portland, OR	11/18/19	$23,625,000	51	$781.41	2018	C. E. John Company, Inc.	Kunz Investments, LLC
The Rise Old Town 4545 SW Angel Ave, Beaverton, OR	10/21/19	$23,230,000	87	$322.64	2017	Encore Capital Management	Madison Park Financial Corporation
The York 7582 SW Hunziker St, Tigard, OR	11/5/19	$8,350,000	52	$178.27	1969	NBP Capital	Trion Properties
St Johns Park 2610 R St, Vancouver, WA	11/26/19	$7,228,163	45	$200.78	1983	NBP Capital	AH St. John's Park, LLC
Tigardville Apartments 11255 SW Greenburg Rd, Tigard, OR	10/11/19	$7,000,000	36	$217.43	1971	Max Sharkansky	Perry Vaz

SALES ACTIVITY

While the rent control laws led investors to pause over the course of 2019, the outcome on investment sentiment has not been as dramatic as feared. Since Oregon's law passed, neighboring states as well as others across the country have moved to do the same. However, given that Oregon's restrictions are less restrictive than those of its neighboring states to-date, market rent growth has continued to beat the national average, assuaging some investor fears and reinvigorating interest in the still-growing Portland market. With the population growth in Portland skewed toward young professionals looking to rent for longer periods of time and a shortage in supply continuing to plague the region, investors are maintaining a high level of interest in local multifamily properties, with the majority being non-local investors.

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Barry Apartment Report 2019 Portland Apartment Market Summary:

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office market analysis

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The fourth quarter of 2019 was not only an end of a year but also a decade. Over the past decade, year and quarter, the Portland Office Market continually enjoyed robust growth across all fundamentals. Portland's strong and healthy economy, job and population growth contributed to the overall increased demand for the office marketspace. The decade has been characterized by all-time high supply, demand, and investment. We will look at the variables that shaped the Portland office market for the year and the decade and what we anticipate for the coming year and decade.

In the fourth quarter, the combination of overall increased demand, stable supply and concessions offered by owners and property managers, vacancy rates continued to decrease and rental rates to increase at a decreasing rate. The vacancy rate fell 10 basis point from 9.9% from 9.8% (Costar) with the Eastside close- in submarket at reporting the lowest at 1.4% and CBD Cclass C at 16% (Colliers). Rent growth continued across all submarket, the average asking rent for the Portland metro was $27.81 (Costar) and the highest rent is recorded in the CBD at $37.97 (Colliers). Demand in the Portland office market continued to show positive absorption at 124,994 SF (Costar). Portland office investment continued to be strong both in terms of sales volume and per square foot sales price. The market has seen high demand for creative office space, which continues to be in high demand during the current cycle. The market met this demand by delivering new construction and repositioning existing buildings.

Year over year vacancy change is at 0.2% and rent growth that increased from to $30.39/SF in 2019 to from $29.01 a year ago 2018, that wasreflecting an increase of $1.38/SF from $or 4.8%. According to Costar, tThe Portland Office Market recorded net absorption of 648,930 SF positive absorption, a an increase of 181,164SF from 467,766 SF or 38.7% increase from absorbed in 2018 levels. A Delivery total of 80,000 SF of new construction was completed in 2019 with almost 1 million SFsf of it still under construction. In 2019, Portland, recorded $1.65 billion in office sales volume in 2019, up from $1.36 billion in 2018; The average price per square foot increased to $337 in 2019 that showsreflecting a 21% jump from the year prior. Oone notable factor in the increase in sale volume is lower sales price than comparable properties in other large west West coast Coast markets.

Over the past decade, the Portland Office Market has shown a remarkable growth, the Portland business Journal has reported that the Portland Office market expanded 8.9%, an increase from 98.2 in 2010 to 107 in millions of square feet in 2020. The market has also seen rent growth of , a 45.3%, rent growth from $25.,61 in 2010 to $37.20 in 2020.

The Portland Office Market will continue tois expected to remain robust in the next quarter due to sustained employment growth. In the next 12 months, the Portland office market will see increases in supply, modest rent increases and more absorption in the CBD and close-in submarkets. Demand will continue to increase across all s Suburban markets. Supply will

NOTABLE 2019 OFFICE MARKET NUMBERS

» One third of the sales volume occurred in the urban core.

» 9 out 10 buyers are out of state buyers.

» Largest sale -The $255 million sale of Montgomery Park in April marked one of Portland's largest ever office transactions.

» Largest per SF sales price was the sale of 250 Taylor in October 2019. The property sold for $141.3 million, or $740 per SF.

continue to increase in the urban core submarkets as the projects in the pipeline continue to deliver in 2020. Supply will be a bit constrained in the suburban submarket as there is not enough construction in the pipeline that to would meet the anticipated demand. This will further decrease the overall vacancy rate forecasted to decrease up to 8%. This is much lower than the national average of over 10%, with a modest overall rent growth of 1.7% as reported by Costar. Net absorption is anticipated to remain positive while vacancy may increase slightly due to newly delivered construction as CBRE predicts. There are over 100 tenants actively looking for space, equating to over 2.4 million sq. ft. market- wide.

The Portland Office Market also remained robust during the quarter due to sustained employment growth, population growth due to migration, and tech migration. The economic forecast projects overall positive job growth in office workers through year-end 2020. According to Census data, Oregon's population grew at a rate of 6.9 per 1,000 residents, migration accounted for three-quarters of that growth. That's nearly four4 times faster than the national rate. Oregon's population grew by just over 10% from 2010 through 2019, 11th-fastest in the nation during that stretch. CBRE reports that Professional services and tech remain the two most active sectors in Oregon. According to a report from Cushman and Wakefield, Since January 2010 San Francisco Bay Area head quartered tech and life science companies have taken 1 million SF of office space in the Portland Market, making Portland the 6th highest destination in the nation. Portland has a 6.5% Tech share of the total employment.

The state economists wrote in the quarterly revenue forecast that "Oregon's stronger long-run economic growth historically is tied to migration and faster working-age population gains.," state economists wrote in the quarterly revenue forecast.

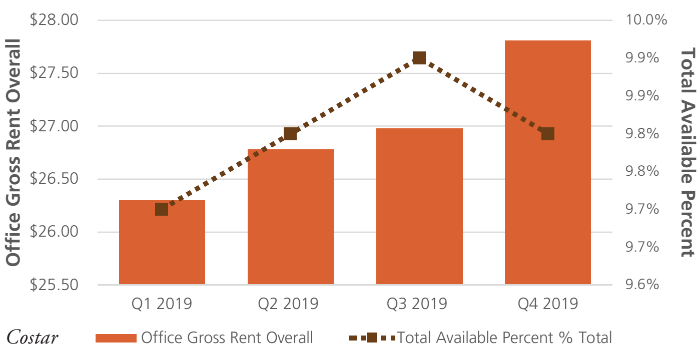
"As the nation weighs the possibility of an economic downturn, the Portland office market continues to exhibit the growth patterns responsible for the longest real estate cycle in U.S. history." Scott Miller, Newmark Knight Frank

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

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
Colliers		14.80%	14.40%	13.10%	16.40%	9.33%
Cushman & Wakefield	10.00%	12.20%				
JLL	12.30%	13.70%	13.30%	11.90%	10.40%	10.86
Kidder Mathews	7.40%	12.40%				5.50%
Newmark Knight Frank	10.00%	12.20%				7.76%
CBRE	11.90%	13.10%	10.60%	9.70%	22.70%	10.20%
Costar	9.80%					

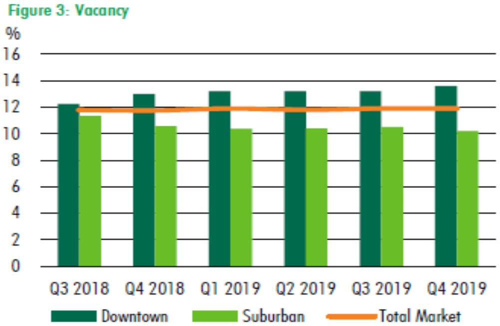
Colliers, Cushman & Wakefield, JLL, Kidder Mathews, CBRE, Costar and Newmark Knight Frank

GRAPH 1 - OFFICE GROSS RENTAL RATES



Costar

Figure 3: Vacancy



Source: CBRE Research, Q4 2019.

VACANCY & RENTAL RATES

As reported in Quarter 3, the Portland office market continues to enjoy a steady rent growth. Most of the significant rent growth comes from the CBD sectors as oppose to the reduction in vacancy. Market The overall vacancy rate for the Portland office market closed the fourth quarter of 2019 at 9.8%, down from the reported third quarter figure of 9.9%. Total vacancy rate remains under the national average of just over 10%.

In contrast to the national market, the Suburban Portland office market continue to enjoy lower than CBD vacancy rates, high demand and modest increase in asking rents year over year. However, it mirrors the national market when it comes to rental rate; the average CBD rental rate is close to $10 per SF more than suburban rental rate.

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.

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

Brokerage	Q4 Overall	YTD total net absorption	Q4 CBD	YTD total net absorption2
CBRE	39,398	227,659	8,912	-99,900
Colliers	25,439	276,290	-139,387	
JLL	-49,364	565,448	-34,739	102,249
Kidder Mathews	124,266	583,708	(170,730)	-424,399
Newmark Knight Frank	142548	142548	(170,730)	(424,399)

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

TABLE 4: DEMAND; ABSORPTION RATE BY QUARTER

Quarter	Net Absorption SF Total	Gross Absorption SF Total	Total Available SF Total	Percentage Absorption
2019 Q4	124,994	997,925	10,974,147	9.09%
2019 Q3	25,142	1,110,702	10,877,821	10.21%
2019 Q2	90,122	1,321,956	10,703,831	12.35%
2019 Q1	-27,537	1,364,766	10,545,011	12.94%

Source: Costar

TABLE 5 - NOTABLE LEASE TRANSACTIONS, THIRD QUARTER 2019

Tenant	Building/Location	Submarket	Transaction Size (SF)
University of Western States	8000 NE TILLAMOOK ST.	Gateway,	152,642
Sigma Design, Inc.	18110 SE 34TH ST.	Cascade Park	83,519
Google	555 SW MORRISON STREET	CBD	80,000
Square	Aspect on Sixth	CBD	~70,000
Lam Research Corporation	Pacific Financial Center	Tualatin	41,946
City of Portland	Jacobs Center	CBD	31,964
Campbell Global	Wells Fargo Center	CBD	17,520
Miller Consulting Engineers	Atrium West	217 Corridor	9,270
Logical Position	6000 Meadows/Lake Oswego	Kruse Way	53,589
City of Vancouver	Chkalov Building/Vancouver	Vancouver	44,812
Verizon	Historic Ballou & Wright Building/1010 Flanders	Northwest Portland	20,993
Ask Nicely	Clay Creative	SE close-in	32,358
Zapproved	The Leland James	NW Close-in	32,109
	Mohawk Building	CBD	27,198
	Capital Plaza	Barbur Blvd	24,030

Newmark Knight Frank, Kidder Matthews,CBRE

ABSORPTION & LEASING

The office market continued to experience overall positive absorption in quarter 4the fourth quarter. A Majority of the absorption comes from the suburban submarkets. According to Kidder Matthews' 4th Qquarter Portland Ooffice Market report, the suburban submarkets recorded the highest activity, with 2.59 million square feets.f. being leased in 2019. The Downtown submarket accounted for 1.15 million square feet .f. of leases, mostly stemming from the CBD submarket.

Most of the leasing activityies in the CBD has come from Apple, based on a report from the Portland Business Journal. T, the company plans to expand its non-retail Portland footprint by moving into space at the 7 Southeast Stark building in the central Eastside Industrial District, Portland office Market, ahead ofexpected to deliver in the first quarter of 2020.

According to JLL, Tech accounted for 27% percent of office leasing in 2019 in the Portland metro area-Metro, followed by professional and business services at 25% percent and finance at 17 %percent.

TABLE 5 - NOTABLE SALES TRANSACTIONS, THIRD QUARTER 2019

	Buyer	Seller	Market	Price	Price/SF
250 TAYLOR	Prospect Ridge Advisors, LLC	Rockwood Capital	CBD	$141.25M	$740.21
Power+Light	Gerding Edlen	Beacon Capital Partners	CBD	$131.5M	$483.32
River Forum	Clarity Real Estate	Shorenstein Properties	Johns Landing	$57.5 M	$311
The Public Will Building			CBD	$6.4 M	$363
Pacific Financial Center	Woodside Capital Partners	Quest Property Management	Tualatin	$14.0M	$139

SALES TRANSACTIONS

In 2019, Portland, Oregon, recorded $1.65 billion in office sales volume, the most money invested into its office market of any year since the Great Recession reports CoStar.

"2019 had the highest sales volume of the cycle and a number of properties on the market have rolled over into 2020," Harrison said in an emailed statement to the Portland Business Journal.

DELIVERIES AND CONSTRUCTION

In 2019 the total delivery amounteds only to 72,521 SF and most of it is delivered this quarterduring the fourth quarter. Kidder Matthews reports that deliveries fell sharply this year compared to prior year. Given the number of projects in the pipeline, the Portland Office market will see substantial new supply enter the market in 2020. In this quarter the only delivery is Key Development's Sideyard project delivered in the Lloyd DistrictCentral Eastside, with Ferment Brewing Co. occupying the retail space.

Colliers, Kidder Mathews, CBRE, CoStar

As reported on the table above, over 2.5 million SF is currently under construction, a majority of the construction in the pipeline are is build-to-suite. Nike alone is undertaking a massive 1 million SF expansion at the Nike Campus in Beaverton. According to Newmark Knight Frank, out of the 997,428 square feet of new office space that is currently under construction, 842,142 square feet, or 84.4%, is being constructed in one of the five urban submarkets of the central city.

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industrial market analysis

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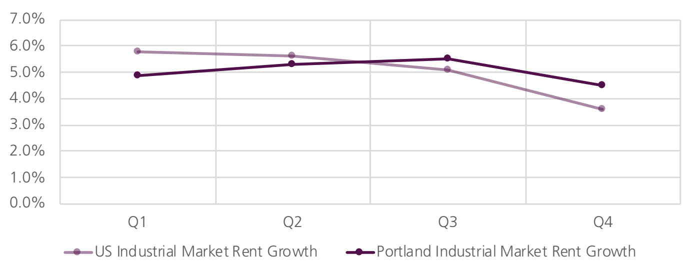
Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

At the end of 2019, the industrial real estate market is thriving. Rent is continuing to increase even as there has been a huge amount of new construction and deliveries in the market. While Amazon has largely closed its search for new properties, other industries such as manufacturing and distributing are picking up.

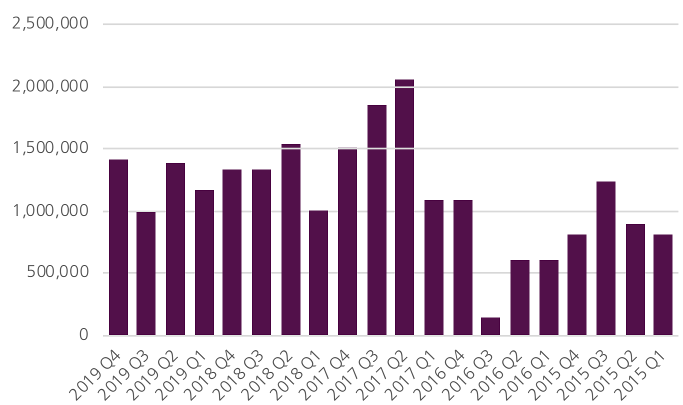
There has been a wave that is continuing through Q4 of 2019 of speculative industrial development in Portland, the largest that has occurred since the Great Recession. In submarkets such as Ridgefield, Washington and the East Columbia Corridor industrial growth has been massive. Transactions such as the one completed between Black Creek Group and Specht Properties have moved considerable amounts of money and real estate. With all this new development, there is likely to be a leveling of rent increases as new space is entering the market, which will take time to be absorbed.

US INDUSTRIAL MARKET RENT GROWTH AND PORTLAND INDUSTRIAL MARKET RENT GROWTH



CoStar

INDUSTRIAL REAL ESTATE UNDER CONSTRUCTION IN THE EAST COLUMBIA CORRIDOR INDUSTRIAL SUBMARKET



CoStar

RENTS

Rent growth in the industrial sector during the fourth quarter has been strong in the Portland metro area, but it is not what it was in the previous years. Even as it has begun to level out, it remains the strongest real estate sector in terms of rent growth. Historically in this cycle, industrial rent has had the strongest growth of all major real estate markets. Rental rates are hovering around $.66 per square foot NNN which reflects a 4.5% rate of growth. The Portland market has outperformed the national industrial market's growth of 3.6%, with a 90 basis point spread between the two markets. This growth in rent reflects continued demand for industrial real estate space by various sectors. In 2019 there was a shift away from demand being driven primarily by ecommerce giants such as Amazon, to demand coming from the food and beverage industry. Companies including United Natural Grocers and The Portland Bottling Company made moves that required more industrial space.

NEW DEVELOPMENTS/SUPPLY

Construction of industrial real estate space in the Portland metro area has been on a boom. In the fourth quarter of 2019 alone, there was 2,661,773 square feet under construction. This along with the 2,244,347 square feet of construction deliveries in 2019 evidences the large growth in the current market. Additionally, there is a good mix of speculative and build-to-suit properties coming on the market. Vista Logistics Park, built by Specht Development and delivered in 2017, was one of the primary leaders in the construction of speculative industrial space. Its development is indicative of a wave of industrial development.

There are a few notes of caution in this wave of speculative development in Portland. The primary area of concern is the amount of space for lease in industrial projects. Taking three of the major build-to-suit construction projects, the expansion of the United Natural Foods facility, the expansion of the Subaru distribution center, and the facility for Columbia Distributing, out of the equation, 80% of all industrial space under construction is available for lease. This increase in industrial property available for lease should lead to a slight rise in vacancies in the coming quarter, although absorption should still remain relatively high. In the fourth quarter of 2019 alone, there was 384,643 of square feet absorbed into the market.

VISTA LOGISTICS PARK

SOURCES

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Significantly, much of this development is in the East Columbia Corridor. This has been a trend in this recent cycle as it has the best conditions for industrial development. Trammel Crow's Blue Lake Corporate Park, Amazon Distribution Centers, Specht Development's Vista Logistics Park, and Bridge Development's Bridgepoint I-5 are some of the major construction projects that are either in the works or have recently been delivered. This trend can be expected to continue due to the availability of space in this area.

Another interesting development that should be mentioned is the recent industrial construction activity in Ridgefield, Washington. Due to the increased access to the area because of the construction of a new I-5 interchange, industrial development has taken off. There had already been a few industrial properties in the area such as Dollar Tree's distribution center and United Natural Grocer's original center, but there are now many more construction projects underway. United Natural Grocer's is undergoing construction as it is expanding its original plant by 500,000 square feet. Panattoni is also building a 117,000 square foot industrial building in Ridgefield Commerce Center. In addition to the current construction, a few projects have already been delivered including AltruVentures 130,000 square foot building and Trimaco's 200,000 square foot development. By all indications, growth will continue in this area leading to a significant increase available space.

NOTABLE PROPERTY TRANSACTIONS

There have been quite a few notable property transactions in the fourth quarter of 2019. The primary of which would be Black Creek Group's acquisition of the 733,000 square foot Vista Logistics Park from Specht Properties for $93 million. This was a major success for Specht Properties since Vista Logistics Park was the largest single-phase speculative industrial development in Portland when it was completed in 2017. Another notable sale was the 150,000 square foot property by Pacific NW Properties, Inc. to G3 Investments LLC for $10.7 million.

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retail market analysis

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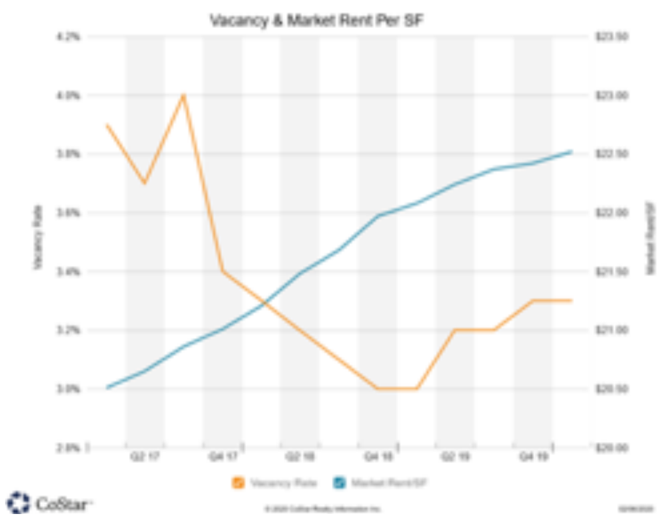
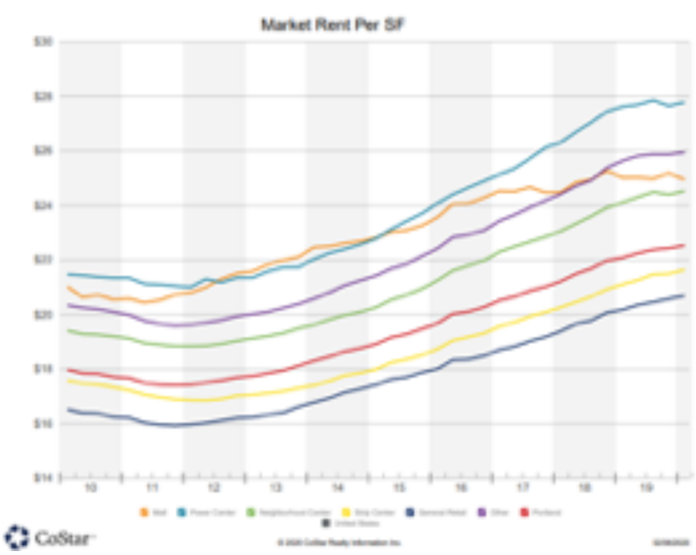
The big stories for the Portland retail market in the fourth quarter of 2019 are a minor increase in rents, negative net absorption, Amazon eating away at more of the retail market, and the purchase of Cascade and Hollywood Stations. Overall, conditions in the retail market have been fairly constant throughout the fourth quarter. Rent growth has slightly increased even as vacancy has continued to rise. Net absorption has been negative for the year marking the first time that this has happened in over ten years. This may be due to Amazon's increased market share in retail as many retailers move toward more experienced based centers in order to continue to perform. This can be seen in some of the large transactions that have happened over the year.





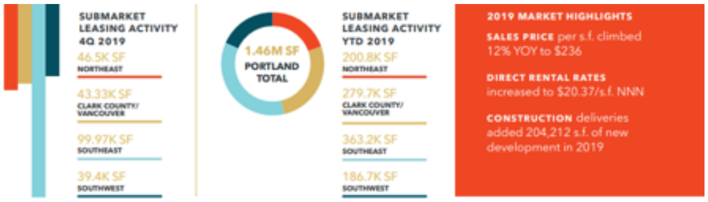
RENTS

The rents for retail space have continued to increase throughout the fourth quarter of 2019, although the increase has been minimal. CoStar reports that the average rent of retail space within Portland in the quarter was $22.42. This is only up $.05 from the market rent in the third quarter. These numbers are part of a larger trend in the Portland retail market which has reported only a 25% cumulative increase in rent since 2010. This is significantly lower than all other sectors. In fact, when the inflation rate of 2019, which was 1.76%, is taken into account, there is actually a decrease in effective market rent. Although the inflation rate is not commonly factored into rental rates, it further underscores how minimal the rental increases have been in Portland's retail market.

In light of this modest growth, it is important to reiterate that rent has still increased and the metro area has been outperforming the nation as a whole – in fact, Portland's rent growth has been double that of the national average through 2019. Additionally, such retail types as power centers perform at a higher level than retail in general. Whereas average rent in the fourth quarter for retail was $22.42, the average rent for power centers was $27.68. This is over 20% more rent than retail in general.

VACANCY AND ABSORPTION

The story of retail vacancy trends in the Portland market have not been positive. Unlike rental rates, vacancy has not been positive. Amazon and other online retailers have continued to take more market share with little sign of slowing down, the direct vacancy rate has increased by 10.34% in 2019, and there has been negative net absorption to name just a few of the issues reflected in fourth quarter numbers. In the first quarter of 2019 alone, Amazon reported a 17% increase in sales. This increase in sales shows no signs of slowing down in the fourth quarter. Because of the growth in the retail market, many stores are closing their doors, unable to compete with the ecommerce giant. Although not the sole reason for the decline in retail real estate, it is a significant factor. This decline is reflected in Portland's fourth quarter numbers. Through this uptick in vacancy rates, some submarkets within Portland have done well in leasing out space this quarter. This is especially true of the Southeast submarket which has leased 100 thousand square feet in the fourth quarter This is double that put forward by other submarkets such as Northeast or Southwest . Unfortunately, this strong fourth quarter performance does little to counteract the Southeast's total net absorption of negative 229,090 square



feet in 2019. This, in addition to negative net absorption in CBD, Northwest, Sunset Corridor, I5 Corridor, and Northeast all in the fourth quarter led to a negative net absorption of 155,181 square feet for the Portland metro area. This is the first time that there has been negative net absorption for the Portland metro area since CoStar began recording the statistic in 2006.

NEW DEVELOPMENTS/SUPPLY

Even with the increase of vacancy and negative net absorption, there is 531,114 square feet of retail space under construction which is a slight decrease from Q3. Many of these construction projects are additions to current shopping centers or stand-alone buildings. Jaguar Land Rover Portland was the largest retail construction that was completed in 2019 with over 58,000 square feet. As retailers are seeing shifts in consumer tendencies, they have shifted away from building more shopping malls such as Lloyd Center, and instead focused their efforts on constructing power centers such as Cascade Station or lifestyle centers like Bridgeport Village. One project currently underway is Parkway Village South in Sherwood. This 125,000 square foot construction project is expected to be a lifestyle center, providing opportunities for families to create experiences such as bowling, arcade, and rock-climbing. Such developments as this will continue to be the norm as retailers move toward more experience-based centers.

NOTABLE PROPERTY TRANSACTIONS

There were some notable property transactions in 2019. The largest was the acquisition of Cascade Station for $403 per square foot by Metlife and M&J Wilkow from CenterCal Properties. Another large transaction was Vista Investment Group, a company based out of Santa Monica, California, purchasing Hollywood Station at a 7.22% cap rate in Northeast Portland. The property sold in April for $22 million. Vancouver Village Shopping Center also sold in 2019 to Menashe Properties Inc. for $22.25 million. Jordan Menashe, CEO of the company, said that "Whether its retail, office or industrial, we are ready to buy and close quickly on deals along the West Coast at any time.," he said, adding that the firm also has a cutting-edge local development project in the works for the coming year." This is good news for retail sales in Portland. One last transaction that should be noted is Swickard Auto Group's $21 million acquisition of a couple of retail sites in Clackamas/Milwaukie.