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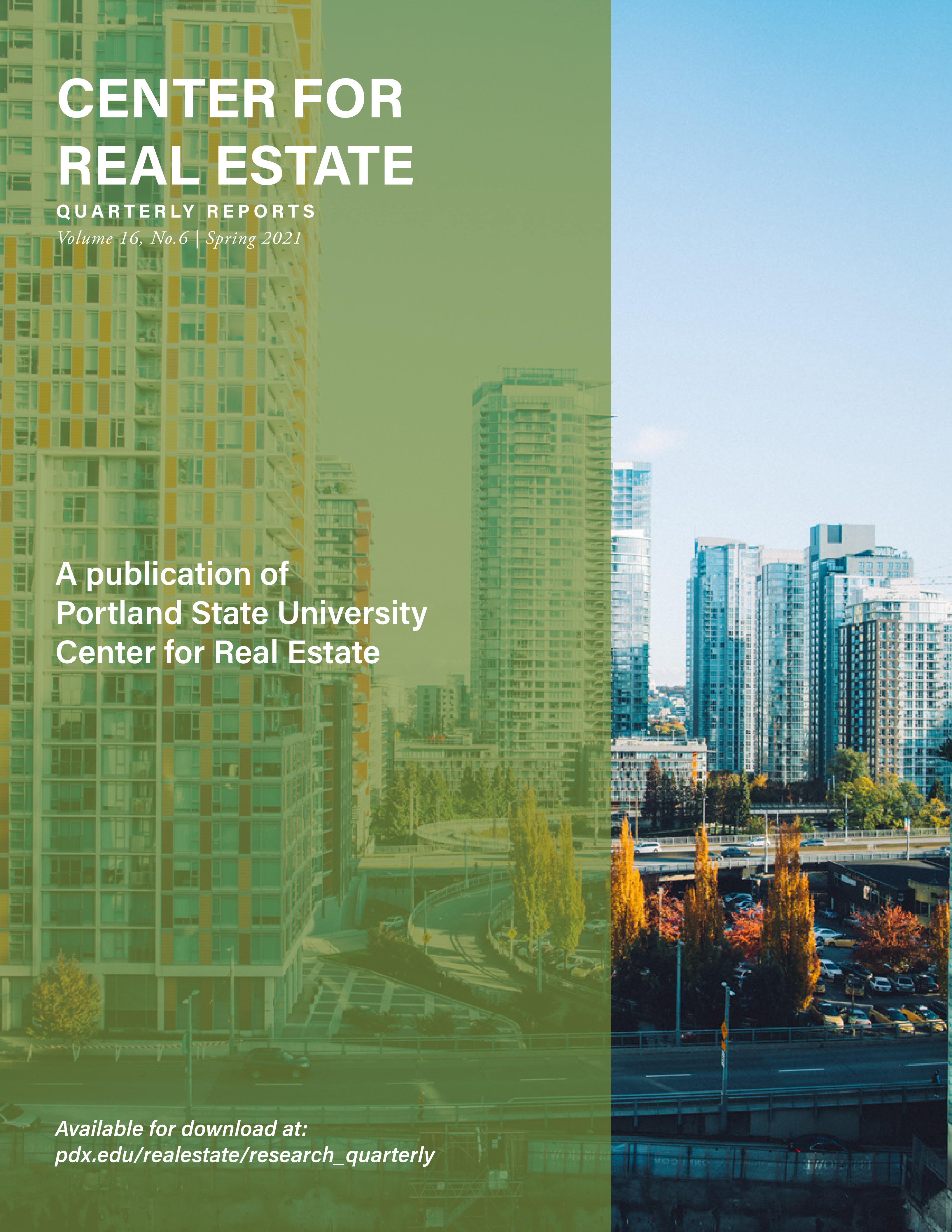

CENTER FOR REAL ESTATE

QUARTERLY REPORTS

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MARKET ANALYSIS

The Collapse of Portland's Suburban Housing Production

Gerard C.S. Mildner

Portland State University

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As downtown apartment rents declined during the pandemic, rents and prices in the suburbs have risen, particularly for single family homes with an office and a backyard for children. Using the Case-Shiller index, Portland-area home prices have risen 10.6% in the past year and over 100% in the last decade.

Prices in Portland now rival the most expensive housing in the country. In the last 20 years, Portland is the 6th fastest appreciating market of the 20 metros in the index, along with Los Angeles, San Diego, San Francisco, Seattle, Miami, and Washington, DC.

These seven markets all suffer from housing production barriers, whether that's exclusionary single-family zoning in California or regional land use controls in Oregon or Maryland.

Comparing 1990-2007 and 2011-2019 (ie, ignoring the Great Recession), annual housing production in Clackamas County fell by 32% and in Washington County by 40%. River Terrace in Tigard is booming, but we don't have projects in the pipeline to replicate the success of Villebois, Bethany, Forest Heights, Cooper Mountain, and other suburban communities.

Since 1980, the population of our three-county region has increased by 74%, while the urban growth boundary has been expanded by only 15%. Beyond the UGB, land prices fall by a factor of 10 to 20, suggesting that our allocation of that land for grass seeds, strawberries, and hazelnuts rather than housing is a misallocation of resources.

Our regional government, Metro, justifies this starvation land diet by measuring housing capacity by the theoretical level of housing production allowed by zoning, rather than the likely development outcome determined by cost of construction and consumer demand.

Metro's "Region 2040 Plan" assumed that we would build high density construction in town centers from Gateway to Oregon City to Hillsboro, yet the rents and prices in those markets cannot possibly justify that intensity of development.

In rough terms, building at the density of 5-story wood construction over a concrete platform that's typical in Portland costs 50% more per square foot than garden apartments built with two-story wood construction. And building beyond five stories requires steel and concrete construction that costs an additional 50% more per square foot yet.

In 2015, Metro's land use planners simply assumed that rents and prices in the region would rise to the levels in San Francisco and Los Angeles to justify their no-growth conclusion, however that result was buried deep in the report's appendix.

The Metro Council agreed to expand the urban growth boundary in 2019 by 0.8% in four suburban towns. Yet the Council provided little assistance to the jurisdictions and the land developers to make those UGB expansions develop quickly. For example, no project in Metro's failed November, 2020 transportation bond served the needs of the new UGB expansion areas. Since housing markets don't stop at a city's edge, those jurisdictions are unlikely to provide infrastructure support to satisfy the region's housing needs.

On paper, our region and state have the outline of a successful land use system where we make long term plans, build infrastructure, allow for high density construction, limit the power of NIMBY complaints, and require suburbs to allow multi-family construction.

However, those pro-housing reforms have been swamped by new social burdens on large scale housing development, putting small builders out of business and scaring off national investors. The continued discussion about rent control, eviction moratoriums, and downtown violence only compound the problem.

The demand for single family housing is likely to continue as workers will seek the option to work at home for several days per month. To make that a reality, we need to remove the development barriers that we have created.

02

ECONOMIC OVERVIEW

Economic Analysis

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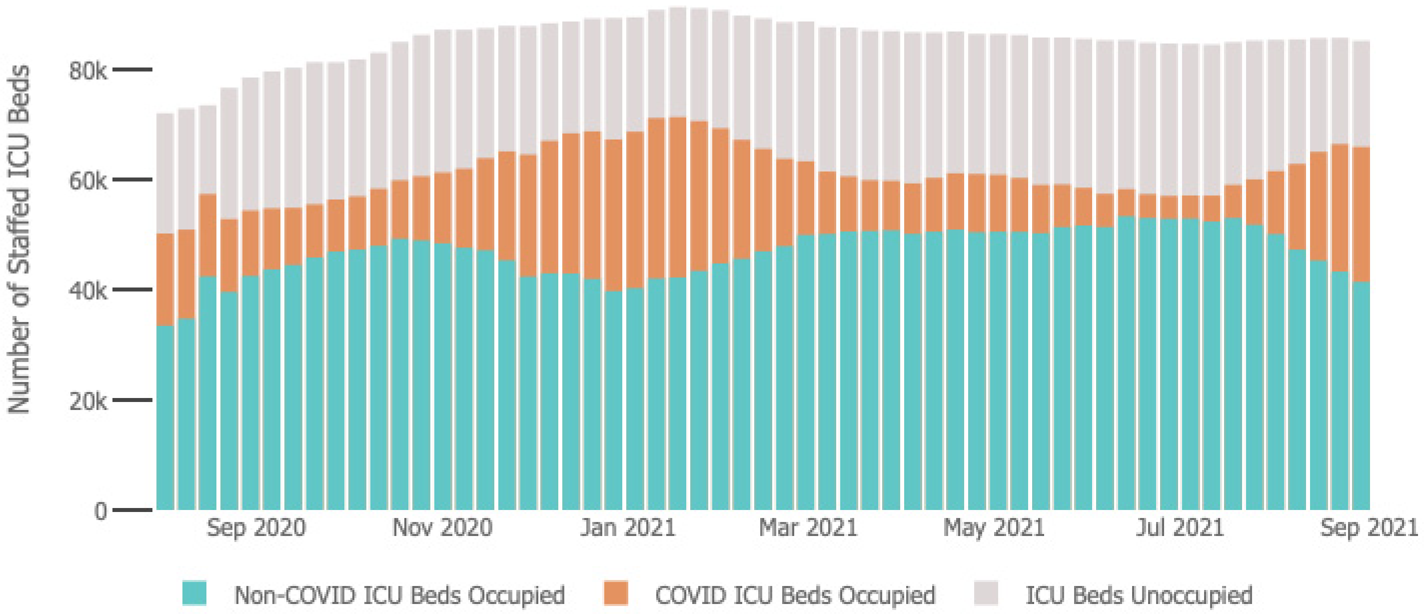
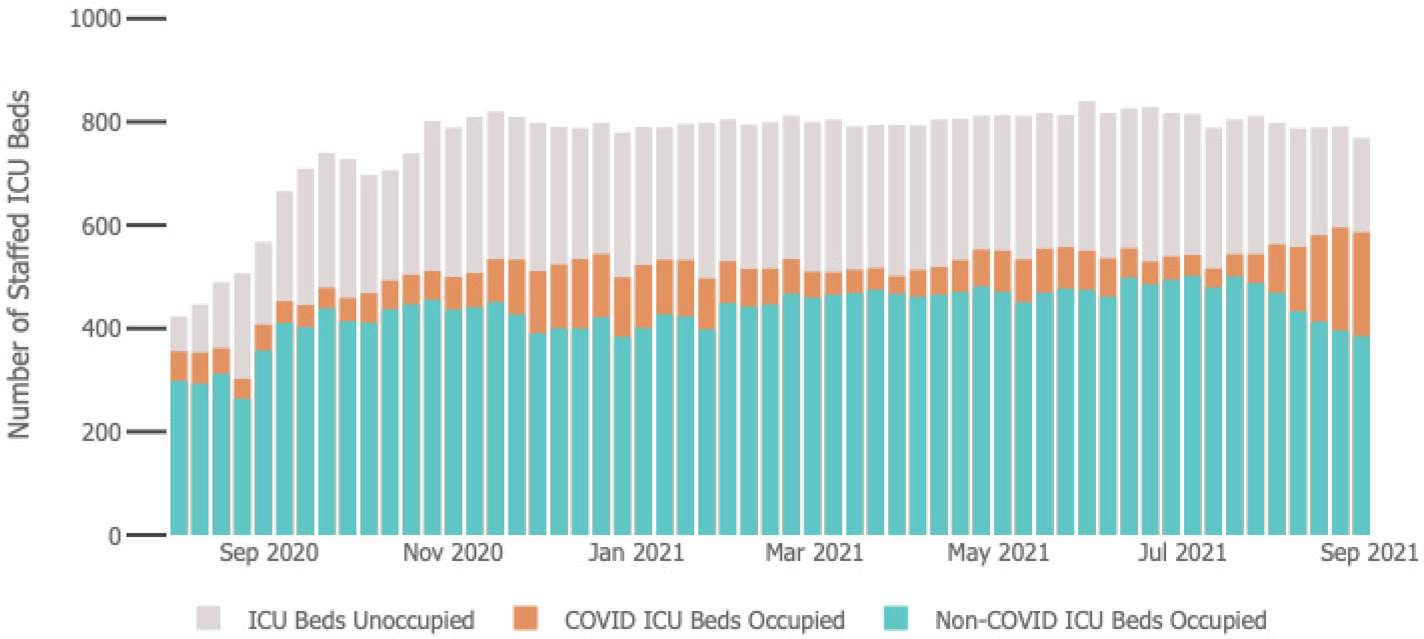
Following an optimistic spring and early summer and rising vaccination rates, the emergence of the Delta variant has pushed back plans for reopening many sectors of the economy. Economic growth was robust through the summer as COVID-related restrictions were lifted, assisted by record levels of federal stimulus. The level of vaccine resistance appears to be persistent, and we may have to rely upon immunity associated with COVID infections to increase community immunity to necessary levels. The current surge in COVID-related admissions will likely stress hospital systems nationwide, with many areas already close to or beyond capacity. In the state of Oregon, we are currently seeing COVID patients overwhelm hospital systems in areas such as southern Oregon.

ICU CAPACITY AND COVID-19 IMPACTS, UNITED STATES



(US Department of Health and Human Services)

ICU CAPACITY AND COVID-19 IMPACTS, STATE OF OREGON

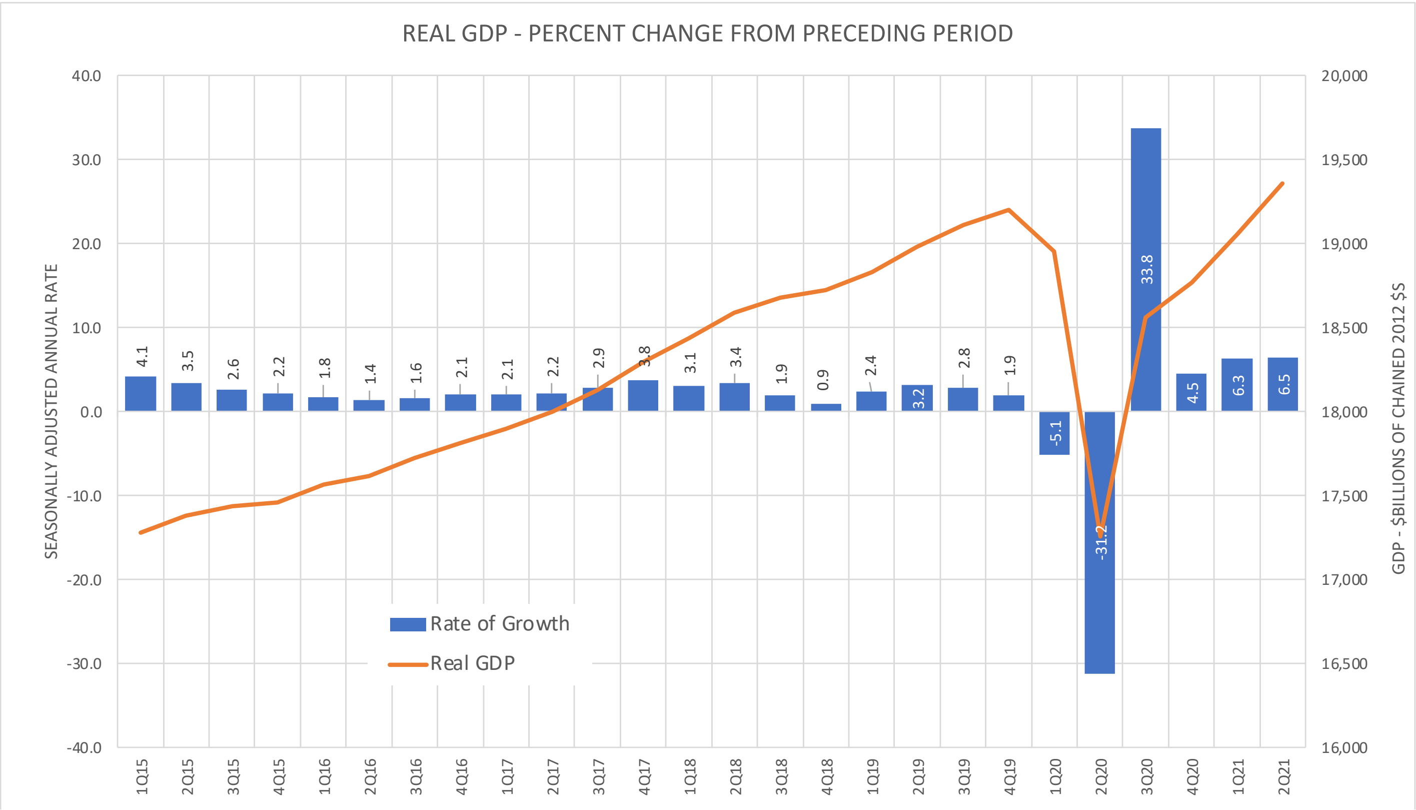


(US Department of Health and Human Services)

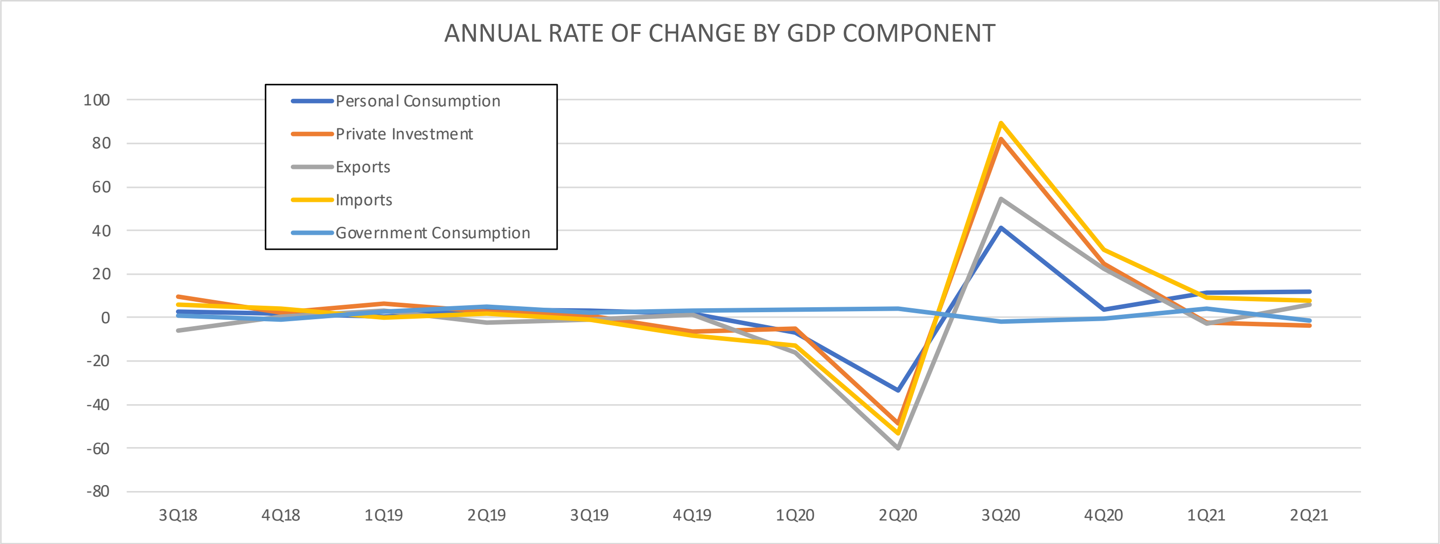
While we remain hopeful that there is an eventual end to the pandemic, recent usage patterns and preferences associated with the pandemic may be persistent. The associated uncertainty will have a substantive short-term impact on investor interest in certain asset classes and locations.

At a national level, the economy continued to expand at a robust rate through the second quarter, with overall GDP estimates now above pre-pandemic levels. The economy remains below the long-term growth trend. Personal Consumption continues to remain strong, and exports have risen rapidly in the last few quarters, but Private Investments and Government Consumption have been trending downwards. The exceptional level of fiscal stimulus to consumers during the pandemic will likely drive personal consumption for a few more quarters.

To get more current information on economic performance we can look at more frequently updated indices such as the Weekly Economic Index (WEI). The WEI is an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. It represents the common component of series covering consumer behavior, the labor market, and production. The index shows a declining pattern since May 2021, which is attributable to decreases in rail traffic, tax withholding, and fuel sales, and an increase in initial unemployment insurance claims (relative to the same time last year), which more than offset an increase in electricity output (relative to the same time last year). Because the WEI measures changes over a 52-week period, the large positive reading also reflects the sharp deterioration in economic conditions during the same time last year.



(US Bureau of Economic Analysis)



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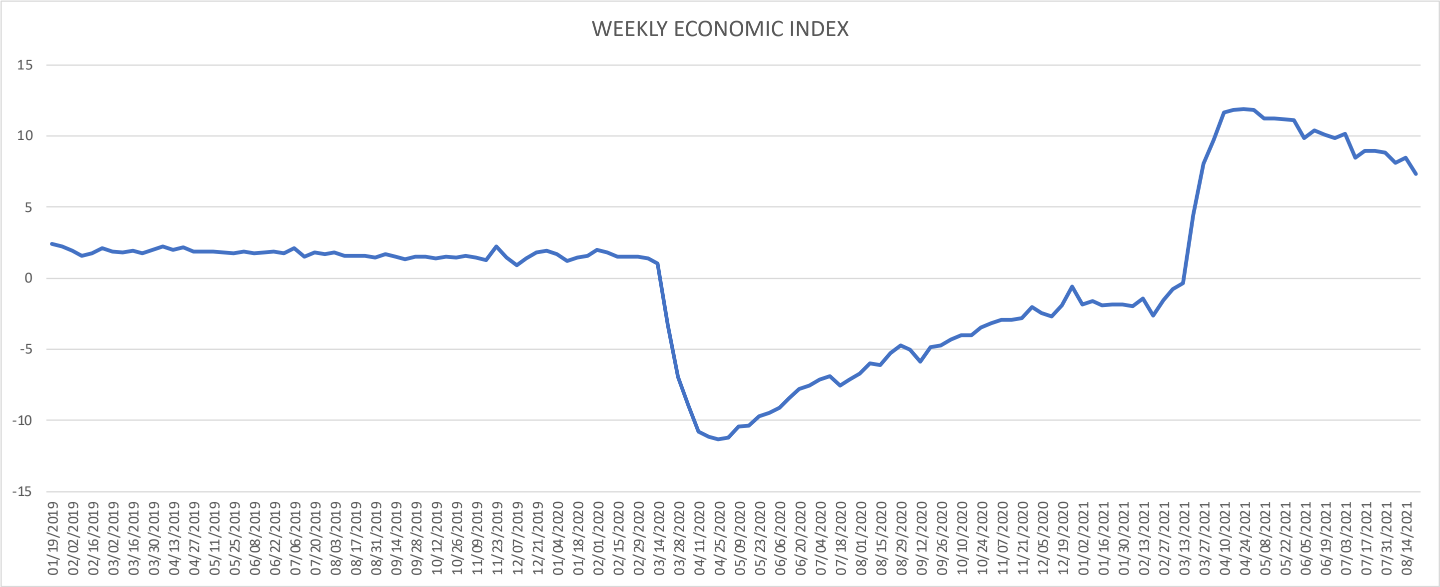
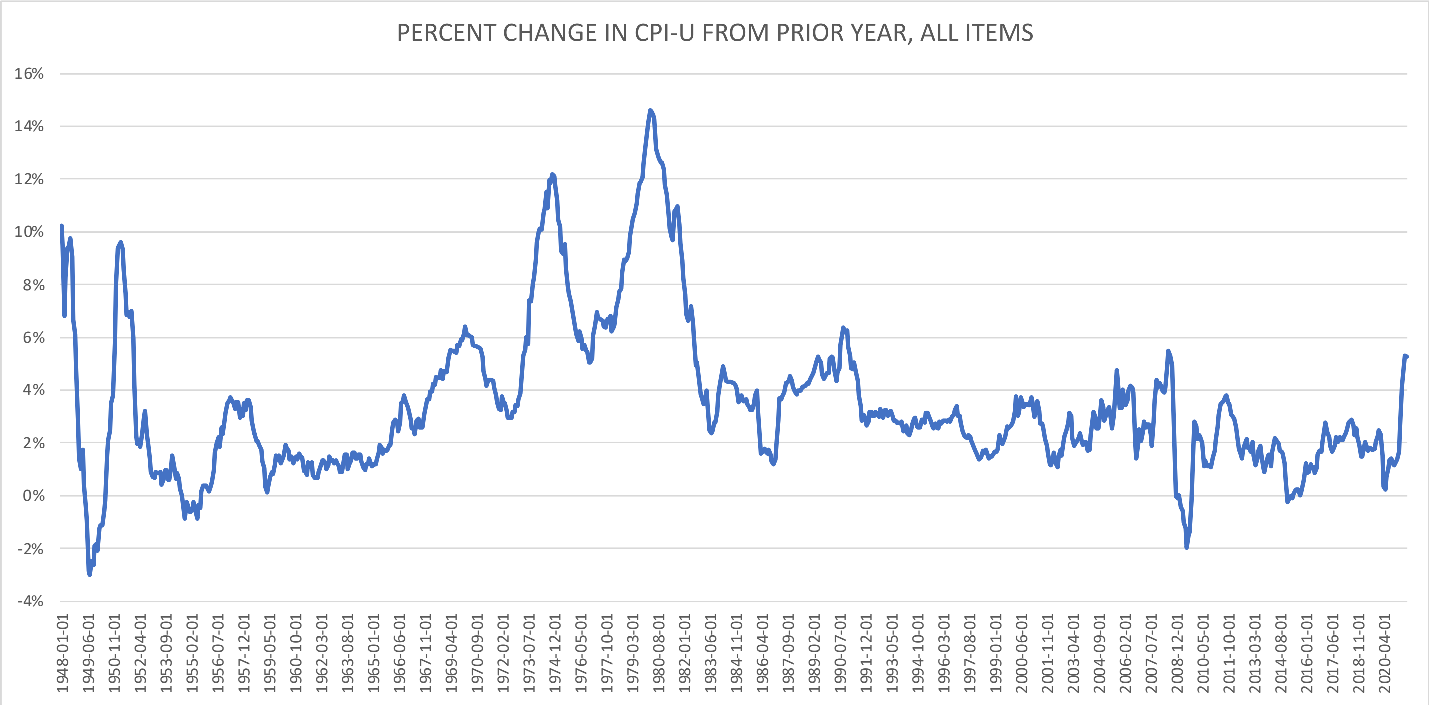


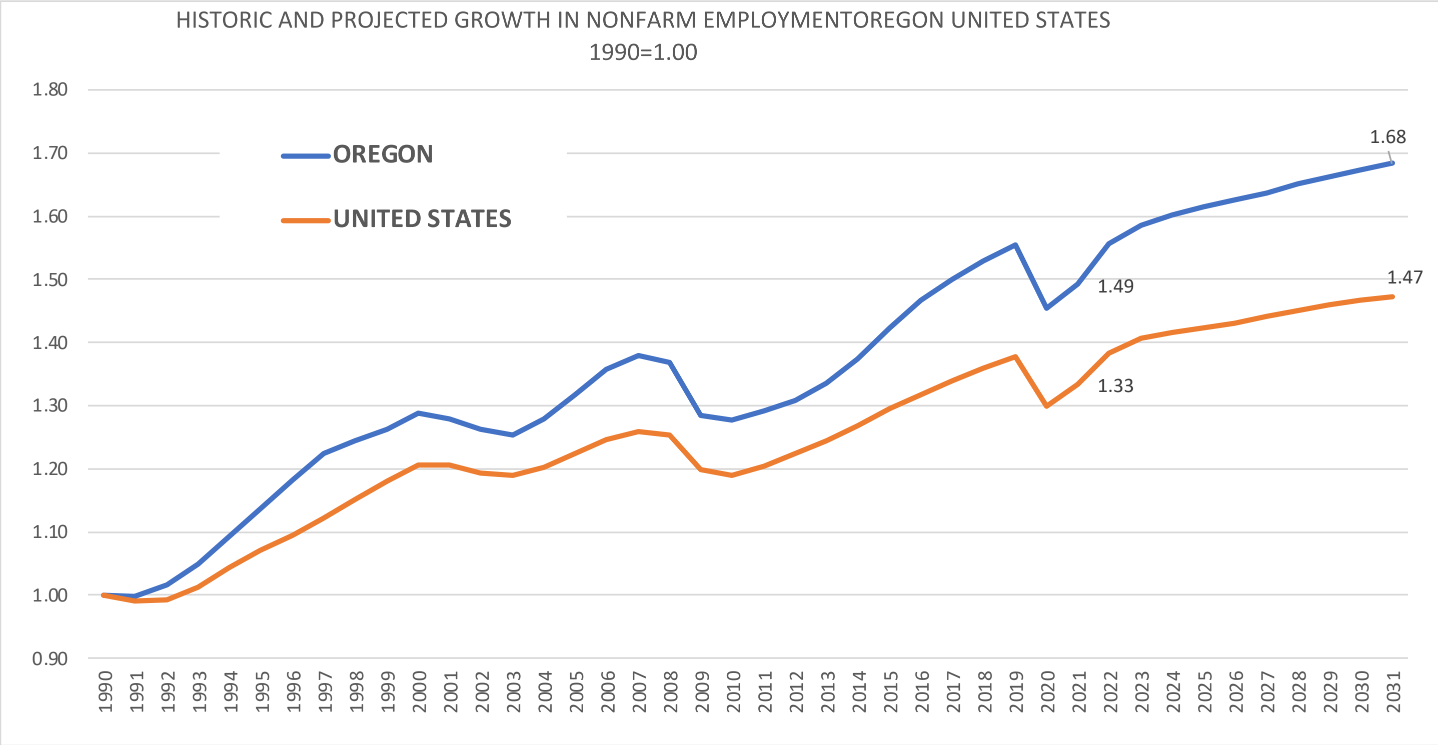
(Lewis, Daniel J., Mertens, Karel, and Stock, James H., Weekly Economic Index, https://www.newyorkfed.org/research/policy/weekly-economic-index.)

An area of recent concern is the potential for inflation, which has not been a significant factor in the market for over twenty years. In response to concerns, several Federal Reserve officials have indicated a need to cut back on central bank bond buying. Low interest rates have been capitalized into land and property values, and any significant shift in interest and/or capitalization rates would substantively impact the real estate markets. In addition, as demonstrated by the sharp run up in construction materials cost in the last year, inflationary impacts can very directly impact the ability of the market to deliver product profitably.

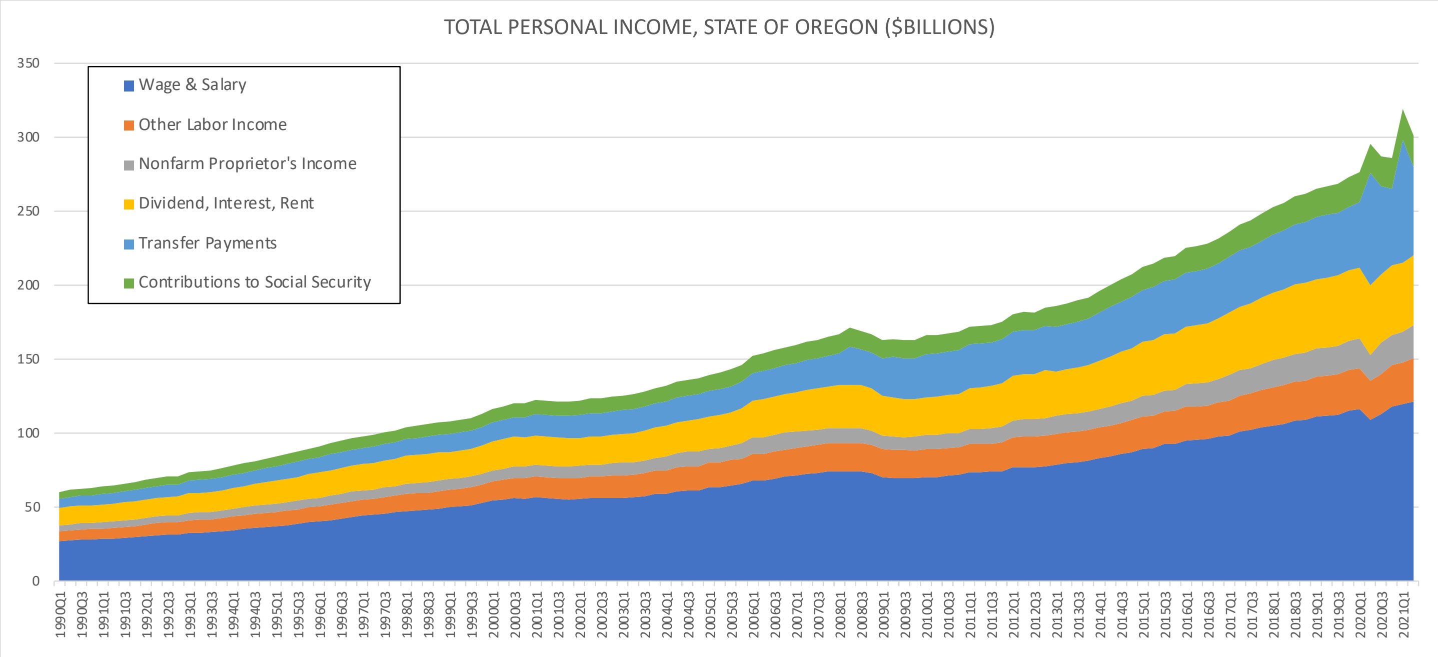


(US Bureau of Economic Analysis)

The state of Oregon has outperformed the national average in terms of employment growth for decades and is expected to continue that pattern through 2031 in the state's most recent forecasts. Income levels in the state of Oregon have risen sharply during the pandemic, with reductions in wages and earnings more than offset by sharp increases in transfer payments. While the transfer payments reflect a one-time influx, the impact is likely to be extended as personal balance sheets are improved which will fuel elevated personal consumption.

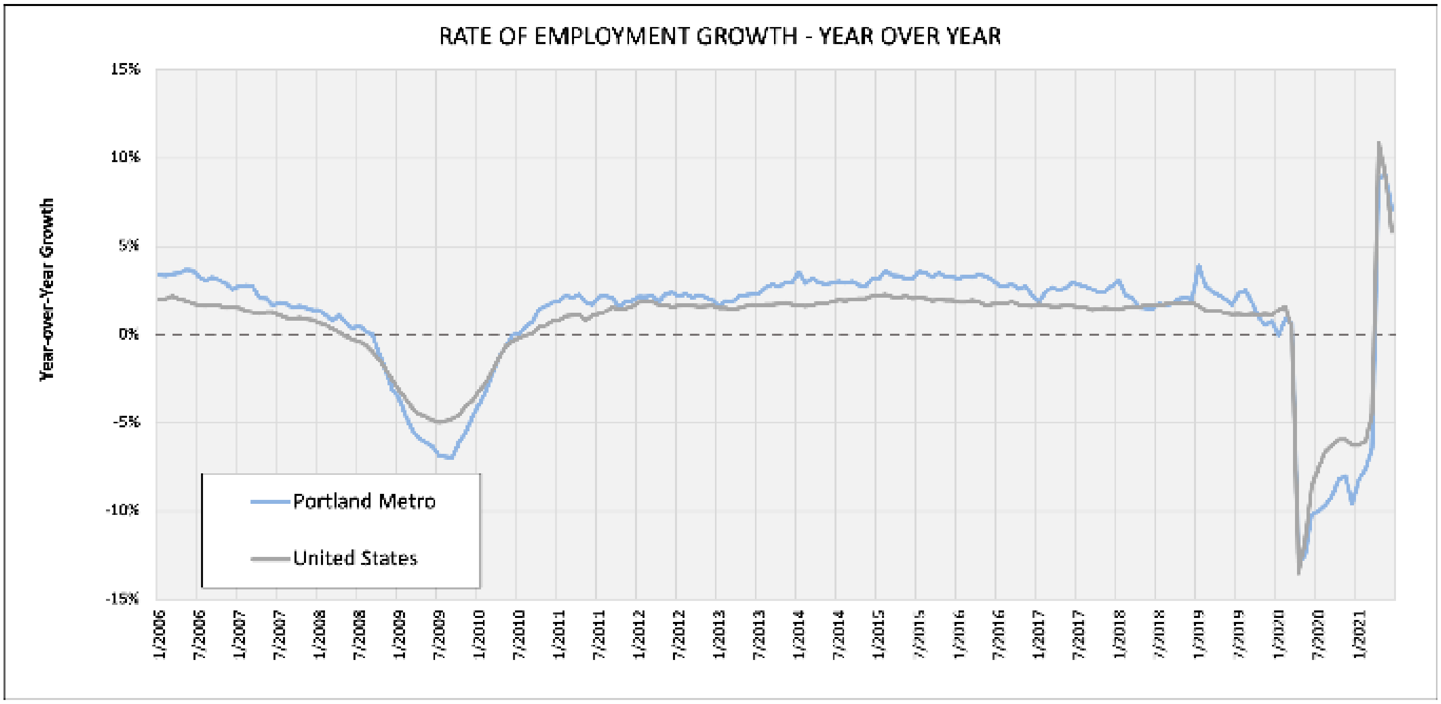


(State of Oregon Economist's Office)

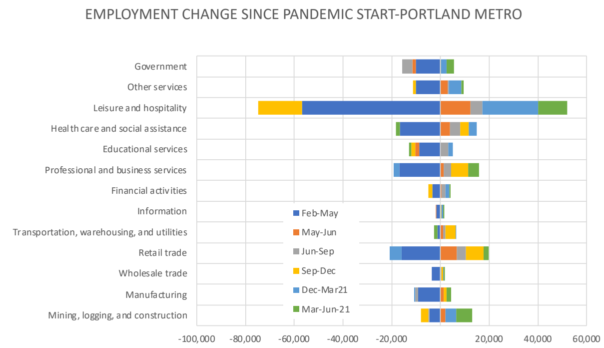


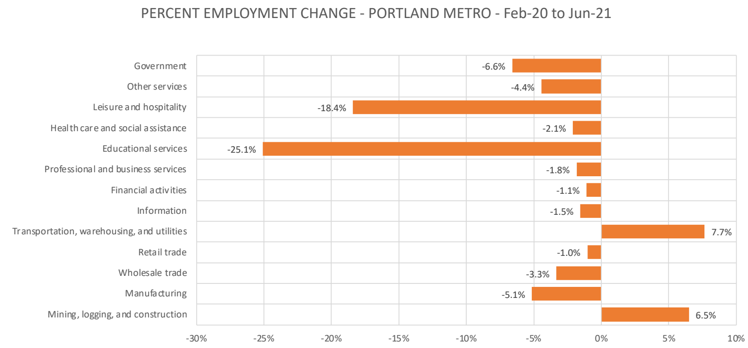
(State of Oregon Economist's Office)

The rate of employment growth in the Portland metropolitan area has largely followed the national average in the last year. Despite recent growth, only the transportation, warehousing, and utilities sector and construction sectors have employment levels above the pre-recession levels. The leisure and hospitality sector remains 25.1% below February 2020 levels, while government and manufacturing also remain well below pre-recession levels.



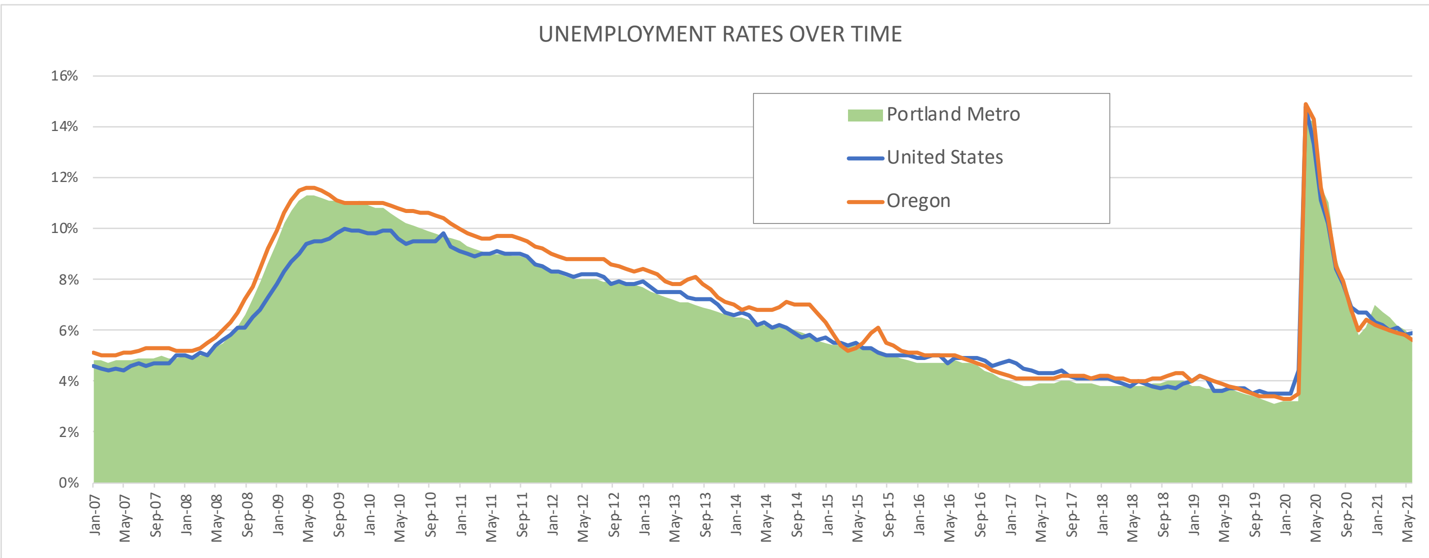
(State of Oregon Employment Department)





(State of Oregon Employment Department)

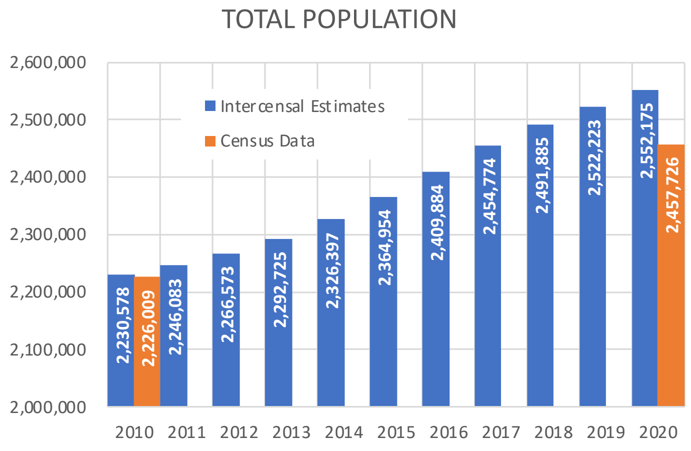
The unemployment rate in the Portland metro area has tracked with the national and statewide rate and was estimated at 5.7% in June 2021. While steadily improving, the rate remains well above the pre-pandemic level. The rate is likely a bit understated due to short-term reductions in the labor force participation rate. If school openings go forward as planned it should increase the ability to work outside of the home for significant portions of the labor force.

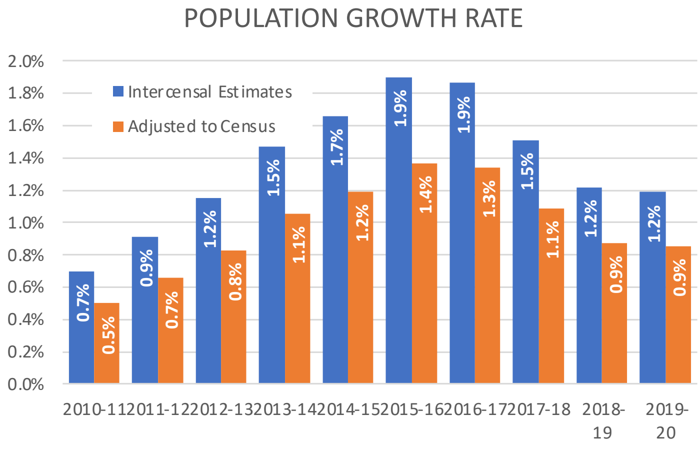


(State of Oregon Employment Department)

2020 CENSUS

The US Census Bureau recently released preliminary numbers from the 2020 Census. Every decade this release requires a recalibration of intercensal estimates, which tend to become increasingly unreliable as we get further from the census. The 2020 census indicated a population level of just over 2.51 million in the Portland metropolitan area (April 2020), roughly 40,000 below the intercensal estimate (July 2020). This would indicate that population growth in the metro area was only 88% of what was estimated in the intercensal numbers. If we assume that the shape of growth is correct in the intercensal estimates, we can adjust interim estimates to fit the curve to fit the new endpoint.





(Population Research Center and US Census Bureau)

The state of Oregon's intercensal estimates are 30,000 greater than the 2020 census numbers for 2020. It should be noted that the time period of these estimates is somewhat different, as the census reflects April number while the intercensal estimate reflects July numbers. The average annual growth rate for Oregon was 1.0% from 2010 through 2020. Reconciling the census numbers with the intercensal estimates yields higher than expected population growth in jurisdictions such as Bend and Salem, with lower-than-expected growth in Portland during this period.

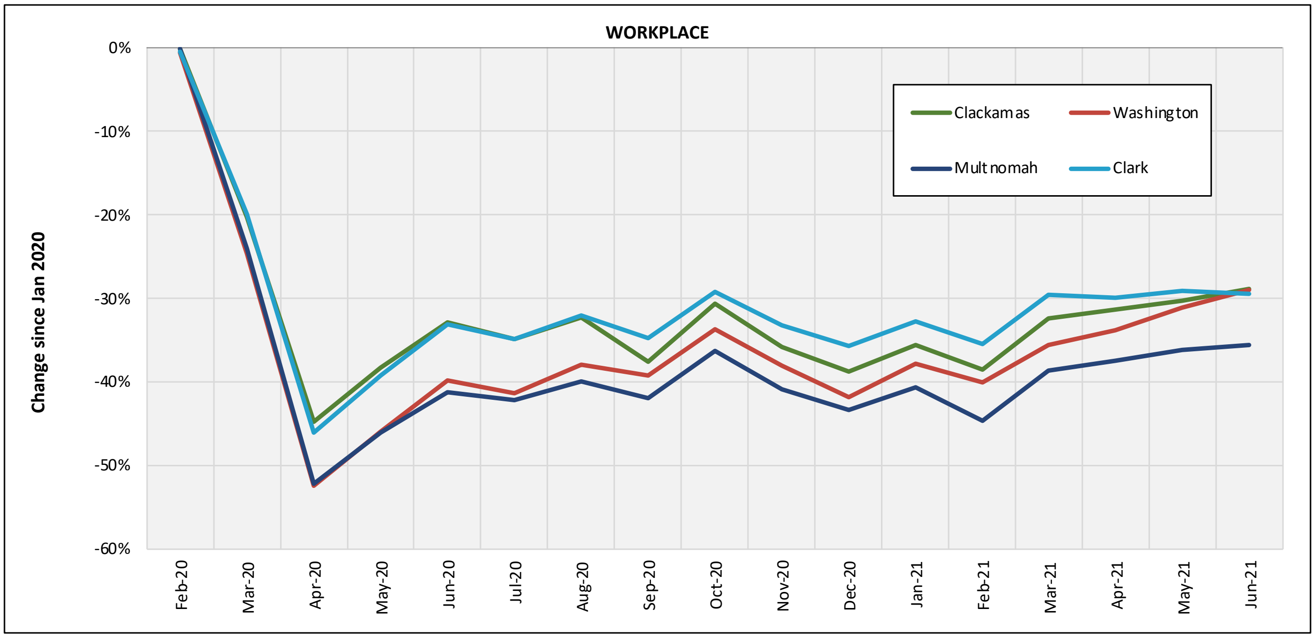
	Intercensal 1-Jul-20	Census 1-Apr-20	Avg. Rates 2010-20		
			Differential	Intercensal	Census
OREGON	4,268,055	4,237,256	-30,799	1.1%	1.0%
Bend	92,840	99,178	6,388	1.9%	2.6%
Portland	664,675	652,503	-12,172	1.3%	1.1%
Salem	168,970	175,535	6,565	0.9%	1.3%
Hillsboro	104,670	106,447	1,777	1.3%	1.5%

(Population Research Center and US Census Bureau)

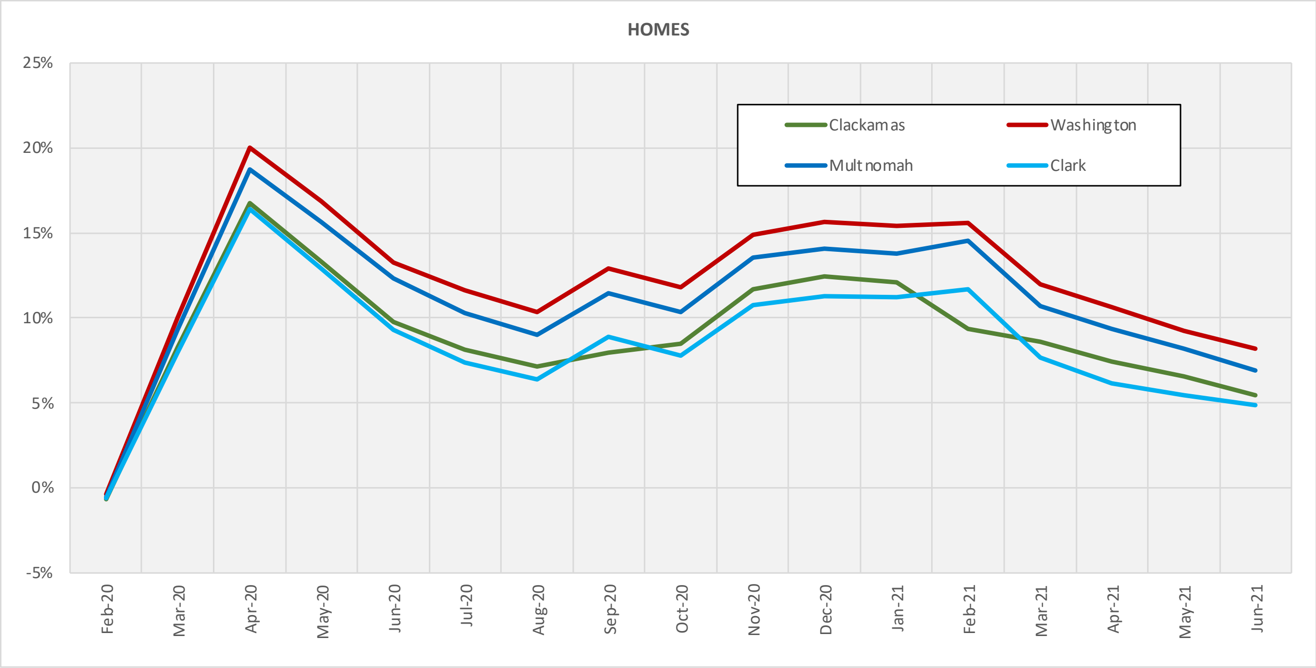
MOBILITY

Smart phone data provides revealing insights into changing mobility patterns during COVID, and gives some indications of where we are in the recovery. The data indicates areas and services that people avoid, while also indicating the activity level and vitality of urban areas. Google provides this data on the county level. The following data compares the aggregate amount of time spent in different locations to the January 2020 median (pre-pandemic condition). The data does not show year-over-year changes, and thus does not distinguish between seasonal changes.

Google's data show a steep decline in time spent at workplaces and an increase in the time spent at home in March and April last year. Multnomah County saw the biggest impact, while the suburban counties saw a lower level of impact. Most counties have seen only modest improvement over the past year. For Oregon as a whole, workplace activity remains 27% below pre-COVID levels. Part of this is due to a loss of jobs. Applying these rates to current employment indicates that 24% of those who worked at a workplace pre-COVID now work remotely.

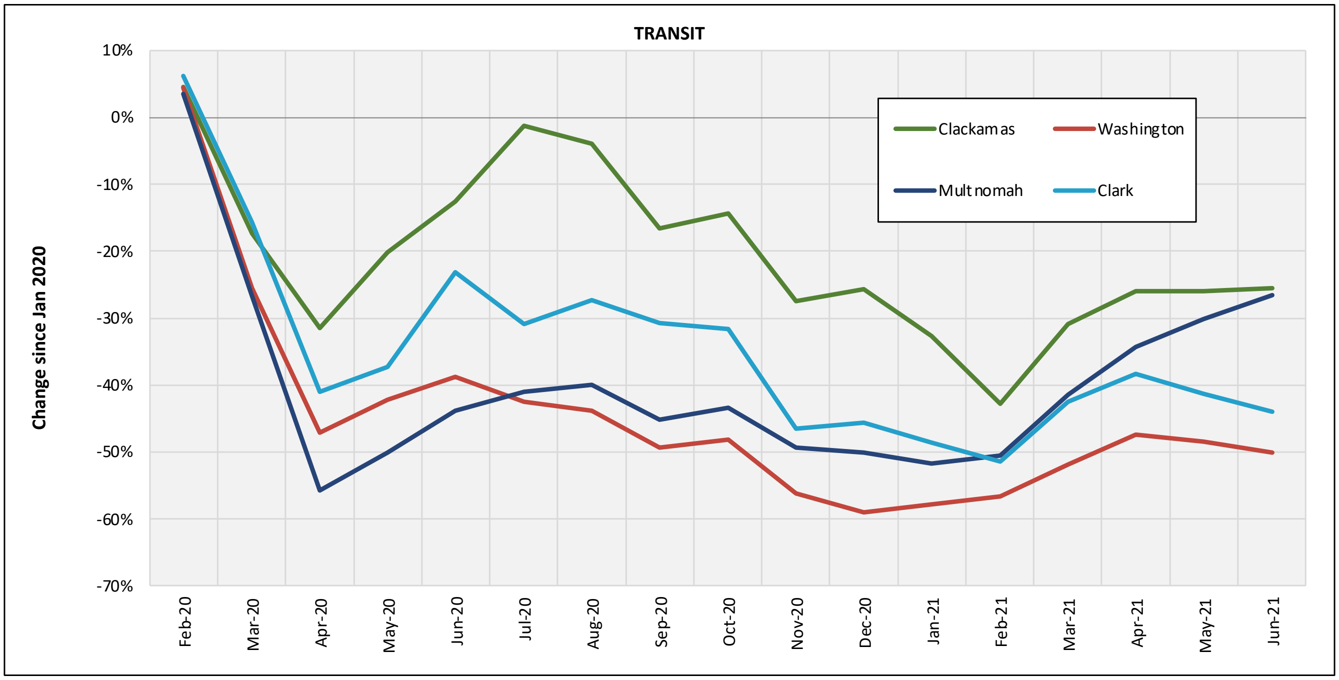


(Google)



(Google)

The use of transit reached a bottom in Multnomah County in April last year, while Washington County did not reach the bottom until December. The counties are currently 27% and 50% below the January 2020 level, while Jackson and Deschutes counties are only 2% below. Visits to parks are highly seasonal, and very limited in January. However, most counties had less visits to parks in March 2021 than in February 2020. Park visits in June this year are only slightly higher than in June last year.



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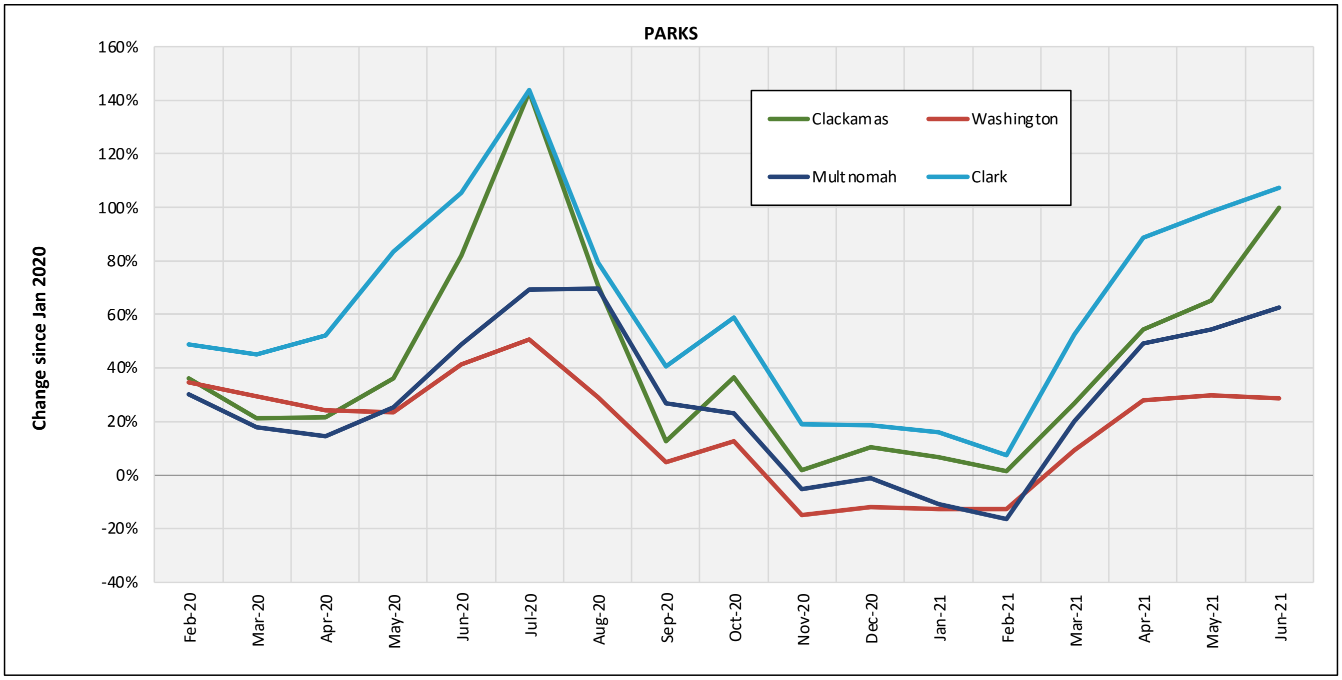
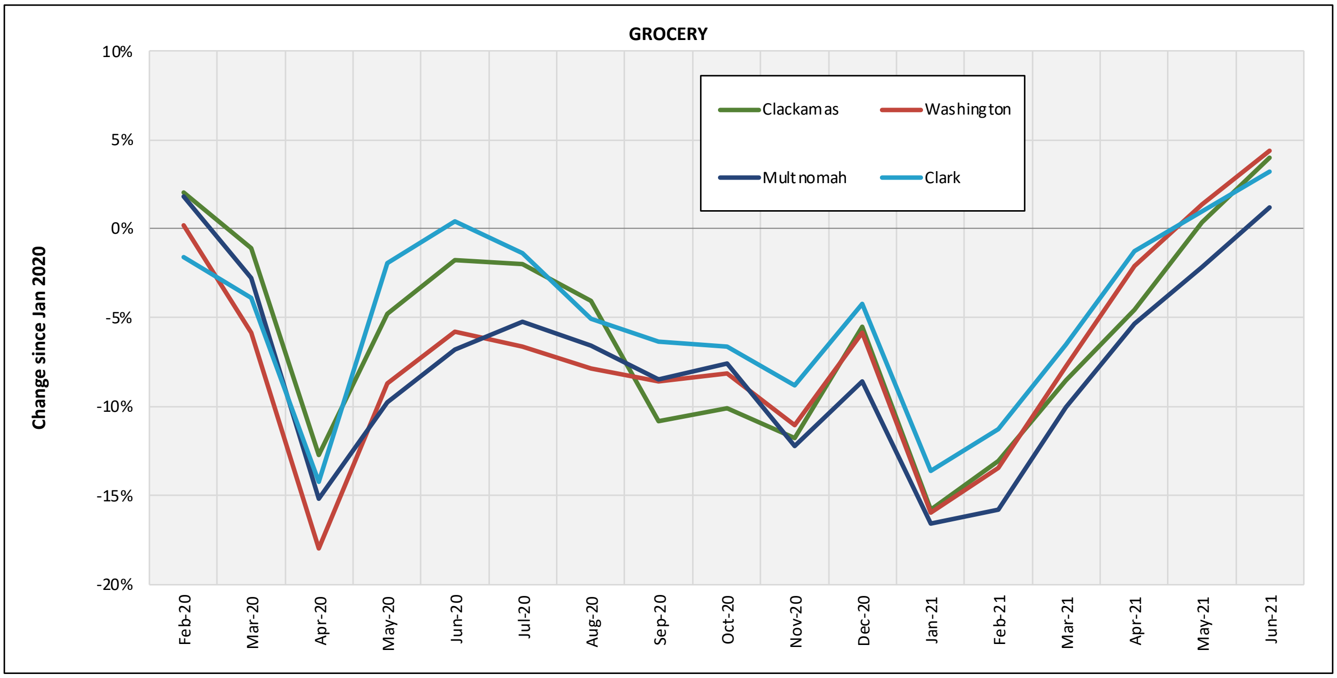


(Google)

Visits to grocery stores initially dropped 8% to 18% early in the pandemic. Store visits in June this year were higher than just before COVID. Multnomah County was the hardest hit due to a decline in lunch visits. Other forms of retail that represent fewer necessary goods saw steeper initial declines and remain below pre-COVID levels. Multnomah County has again taken the biggest hit, with current activity levels 18% below January 2020. As retail traffic would normally increase in Multnomah County during the summer, this suggests that the county, and Portland in particular, still has a way to go to recover its pre-COVID urban vitality.



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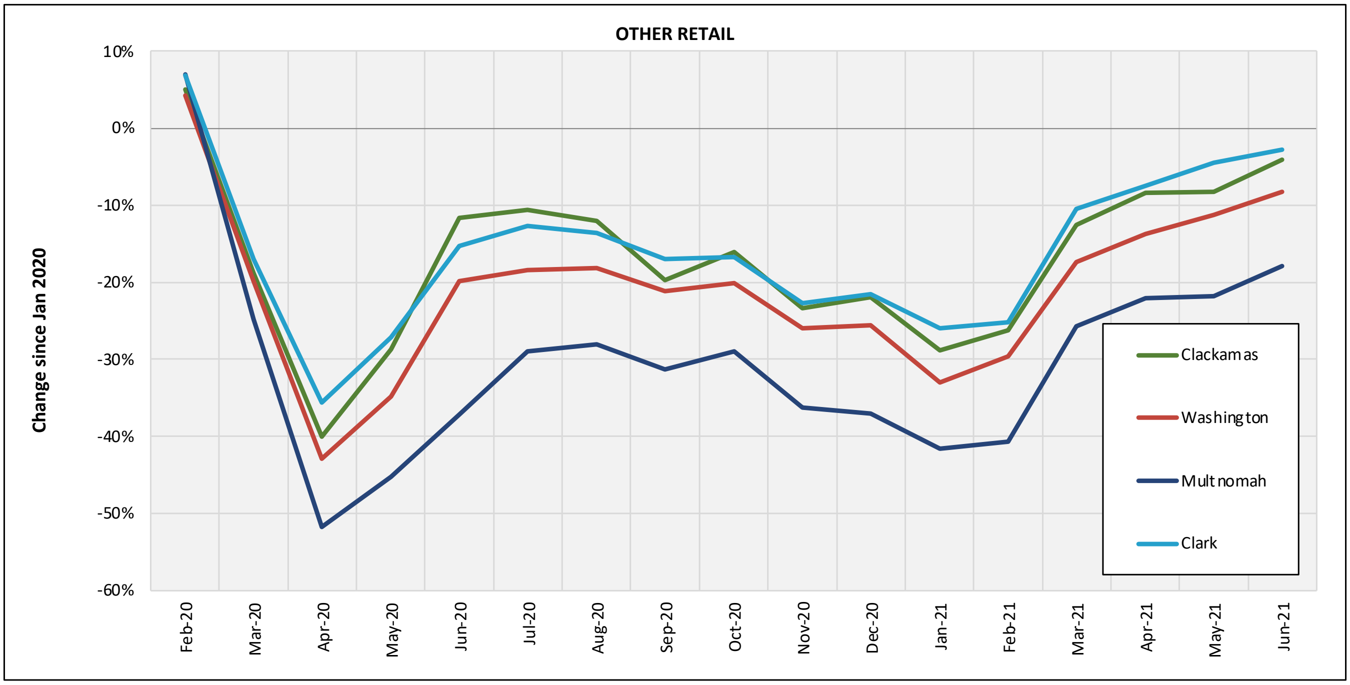
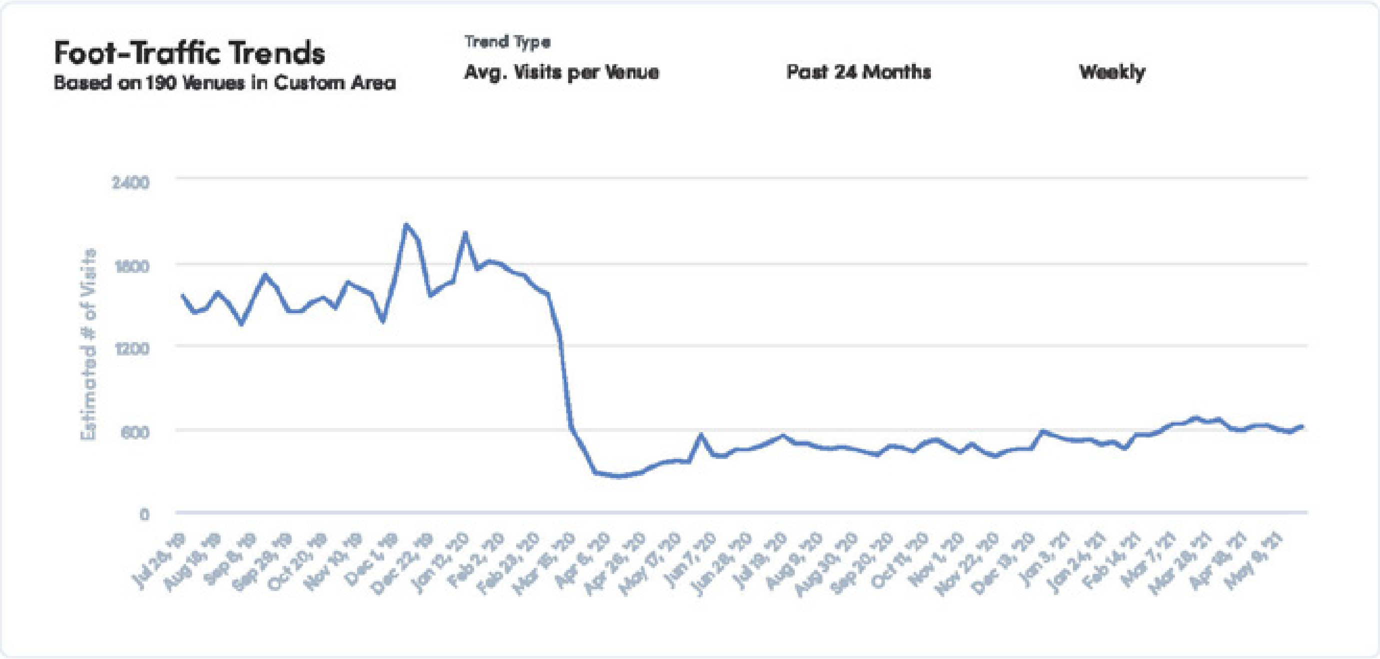


(Google)

If we look at downtown Portland (inside the I-405 loop), the shift in observed foot traffic has been significant, with little improvement since the pandemic started. Foot traffic information collected from cell phones indicate a drop in traffic of two thirds during the pandemic, with very limited growth. A combination of ongoing protest damage, increased levels of homelessness, and most importantly, the sharp reduction in daytime population as firms keep employees at home, have all contributed to an environment that is highly challenging to downtown retailers. While it was expected that major firms would start returning to their office in September, the Delta variant has put those plans on hold for now.

CHANGE IN FOOT TRAFFIC OVER TIME, PORTLAND CBD – WEST OF RIVER AND EAST OF I-405 LOOP



(Alphamap)

03

HOUSING INSIGHTS

Rent Control Policies in California and Oregon

Jeff Horwitz

Portland State University

Jeff Horwitz is a Master of Real Estate Development (MRED) student at Portland State University, as well as a Multi-Family Northwest Student Fellow.

Rent control in the United States has existed since the 1970s, most notably in New York City and California. Washington D.C. also has rent control laws for specific building types, similarly to New York City. New Jersey allows municipalities to create their own rent control laws (Reeves, 2020).

In 2018 and 2019 respectively, Oregon and California became the only states to institute rent control statewide. Oregon previously had no experience with rent control. Meanwhile, rent control in California is an entrenched system, particularly in the Bay Area. The City of San Francisco passed its first rent control ordinance in 1979, which had a major influence on the housing economics of the Bay Area, and arguably on real estate prices throughout the west coast.

The argument against rent control is straightforward. Rent control reduces the supply that developers are willing to create, which raises rent prices for everyone who doesn't receive the rent control. People who live in a rent controlled apartment – often called incumbent renters – benefit from the regulation, while all other renters are harmed.

EARLY RENT CONTROL IN CALIFORNIA

Modern rent control in California began with San Francisco's 1979 municipal ordinance that established rent control for mid- and high-rise buildings. Under this ordinance, landlords could raise rents 10% if they could show that they made equivalent capital improvements, or 7% for equivalent operating expense increases (SFTU, 2019).

"It appears rent control has actually contributed to the gentrification of San Francisco"

(Diamond et al, 2019).

Los Angeles also passed a law in 1979 that capped increases on buildings built prior to October 1978 from 3% to 8%. Various cities passed vacancy control laws, which restricts the ability to increase to market rents when a unit becomes vacant. In 1995, the California State Legislature passed the Costa Hawkins Act, which ended vacancy control and exempted single family homes, condos, and any unit built after February 1995 from rent control (Chandler & Chlland, 2020).

In response to the Costa Hawkins Act, San Francisco passed an ordinance in 1995 mandating that small multifamily properties – previously exempt from rent control – were no longer exempt. According to research done by Rebecca Diamond, Tim McQuade, and Franklin Qian, this ordinance created an incentive for landlords to convert rental units to condos or demolish and rebuild on their property, reducing San Francisco's rental supply by approximately 15 percent. This reduction in units led to an increase in the average market rent of 5.1%. Diamond, McQuade, and Qian conclude that, "it appears rent control has actually contributed to the gentrification of San Francisco," (Diamond et al, 2019).

"Getting rid of rent control would mean more than 16,000 households would find themselves in unaffordable housing overnight"

(KQED, 2018).

The people who benefit the most from rent control in San Francisco are incumbent renters, or people who were either living in, or have inherited a rent controlled apartment. These renters tend to skew older, so many younger tenants simply cannot afford to live in San Francisco. Clearly rent control has created many problems in San Francisco; however, according to Jessica Placzek of NPR member station KQED, "getting rid of rent control would mean more than 16,000 households would find themselves in unaffordable housing overnight," (KQED, 2018).

For better or worse, rent control is a major driver in the Bay Area. As entrenched as it is, it would be politically, socially, and perhaps economically infeasible to eliminate rent control in San Francisco. However, rent control in the rest of California and Oregon is not as established. This is likely because of the density and limited space in San Francisco, the tech boom in the Bay Area, among other factors. It's unlikely that the Los Angeles area will ever become as dense as the Bay Area; however, Portland's Urban Growth Boundary, along with its massive growth in the 2010s could someday make it as dense as the Bay Area. Before it becomes too late, as it has in the case of San Francisco, lawmakers must perform their due diligence of reevaluating the statewide rent control mandates passed in 2018 in Oregon and 2019 in California.

STATEWIDE RENT CONTROL IN CALIFORNIA AND OREGON

In 2018, the Oregon Legislative Assembly passed Senate Bill 608, which mandated rent control statewide for buildings that are at least 15 years old (Oregon State Legislature, 2019). In 2019, the California State Assembly passed Assembly Bill 1482, which has the same age restriction of 15 years (California Legislative Info., 2020). In Oregon, rent increases are limited to 7% plus CPI. Increases in California are limited to 5% plus CPI, or 10% of the lowest rent charged in the previous 12 months, whichever is less. Again, these are the only two states in the country that have statewide mandated rent control.

The key differences between these two pieces of legislation come in the form of vacancy control, and which buildings are subject to the regulations. In Oregon, any rental property is subject to rent control, while in California, single family homes with only one or two units are exempt from the law. Additionally, Oregon has limited vacancy control, while California has absolute vacancy control. If a tenant in Oregon vacates a unit voluntarily, their landlord can raise the rent in that vacant unit to market levels. On the other hand, even if a tenant in California vacates a unit voluntarily, landlords must still adhere to the increase restrictions of 5% or 10% of the lowest rent, whichever is less.

The statewide rent control mandates in California and Oregon are certainly more stringent, and arguably less thought out than rent control in New York City and Washington D.C. The table below shows the regulations in these jurisdictions.

REGULATIONS IN JURISDICTIONS

Location	Age restriction	Housing types included	Increase restriction	Vacancies exempted?	How often can increases happen?
CA	15 years	MF rentals	5%+ CPI or 10% of lowest rent	No	2x in 12 months
OR	15 years	All rentals	7%+ CPI	In certain circumstances	1x in 1st year of month to month
N.Y.C.	1947-1974	MF rentals	Avg. of last 5 years or 7.5%	In certain circumstances	1x in 12 months
D.C.	1975	All rentals	2%+ CPI	Can increase 10%, or to price of identical unit (< 30%)	1x in 12 months

Rent control in New York and D.C. was created as a way to preserve affordable housing built in the postwar era. In Oregon and California, any multifamily building that is over 15 years old becomes subject to rent control. This gives investors and developers a clear incentive not to build new housing because they know that by the end of their holding period, their investment will be worth substantially less on the market.

Perhaps even more troubling is that the legislation passed in California and Oregon affects the value-add market even more than the new construction market. Why would landlords improve existing housing when they can't increase rents to market rates? The value-add market is especially important for low-income and middle-income renters who don't live in a tax credit or subsidized unit.

THE COVID-19 PANDEMIC, EVICTION MORATORIUMS, AND RENT CONTROL

In April 2020, the CDC enacted a federal eviction moratorium that has survived multiple challenges in court, the most recent of which came in federal district court in May 2021 in Washington, D.C. (New York Times, 2021). Individual states soon followed with their own eviction moratoriums, including both California and Oregon.

The COVID-19 Stimulus Package, also known as the American Rescue Plan Act of 2021, provided over $40 billion in funds for housing, nearly three times the amount of the American Recovery Act (HUD, 2009, 2021). According to the Department of Housing and Urban Development's press release at the time of its passage:

"Today, 1 in 5 renters is behind on rent and just over 10 million homeowners are behind on mortgage payments. People of color face even greater hardship and are more likely to have deferred or missed payments, putting them at greater risk of eviction and foreclosure. At the same time, our nation's homelessness crisis has worsened during the pandemic, as people experiencing homelessness are highly vulnerable to COVID-19 transmission, illness, and severity," (HUD, 2021).

Clearly, the 1 in 5 renters that are behind on rent need protection from eviction. However, it's possible that the eviction moratoriums in these states, on top of their rent control laws, could be artificially inflating rents.

There hasn't been as much research on the effects of eviction moratoriums as there has been on rent control. However, it is logical that eviction moratoriums keep rent levels up in similar ways to rent control. This is because renters who would normally be evicted are not forced to find less expensive apartments (Mildner, 2021). While no one wants to see people be evicted from their homes, this burden is falling unfairly on landlords. Housing affordability is a public problem. Therefore, the government should be supporting those who are having issues paying rent, rather than penalizing those who provide housing.

The combination of the eviction moratoriums and existing rent control has been quite harmful to landlords in Oregon and California. In particular, landlords who rely on one or two properties have been hurt tremendously by these changes. Many of these people are retired and have no other income. With such major changes in housing coming from The COVID-19 Stimulus Package, the CDC eviction moratorium, and state eviction moratoriums, it is imperative that the States of California and Oregon reevaluate their recent rent control legislation.

WHAT CHANGES CAN WE MAKE

Rent control is a very specific tool that has had significant consequences. Removing it in a high cost area like San Francisco could completely destabilize the housing market in that city. However, rent levels in the rest of California, as well as Oregon, aren't at that level yet. Just because rent is particularly high in the Bay

Area doesn't mean that there should be rent control in Stockton or Bakersfield. Similarly, just because Portland experienced tremendous growth in the 2010s doesn't mean that there should be rent control in Eugene or Medford. While rent control should probably not exist at all, it most certainly shouldn't exist at the state level. Rental markets are regional, so rent legislation should be regional as well.

We must recognize that there is a housing crisis in the United States, and that it is particularly bad on the west coast. So what can we do instead of enacting rent control? Noah Smith of Bloomberg, echoing the sentiments of many opponents of rent control, argue in favor of:

"A citywide system of government social insurance for renters. Households that see their rents go up could be eligible for tax credits or welfare payments to offset rent hikes, and vouchers to help pay the cost of moving. The money for the system would come from taxes on landlords, which would effectively spread the cost among all renters and landowners instead of laying the burden on the vulnerable few," (Smith, 2018).

As Smith argues, affordable housing should not just be a burden on landlords, many of whom are retired and rely on rent from one property for their income. Rather, the burden should be spread equally among all people in a given city or region.

If removing rent control is entirely out of the question, there should be compromises made by state governments on behalf of landlords. Most notably, it would make more sense for these states to change their laws to only affect units built before a certain date, rather than a rolling date of obsolescence. So, instead of making any building that's older than 15 years rent controlled, legislators could say that any building that was built before 2006 is rent controlled.

While still not ideal, these changes would all be major improvements over the current systems of rent control in California and Oregon. We have limited time to ensure that the problems that befell renters in the San Francisco Bay Area don't happen on the rest of the west coast. This legislation has been unilateral in nature, and it's time for there to be compromise.

RESOURCES

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04

HOUSING INSIGHTS

Rental Assistance for Tenants and Landlords

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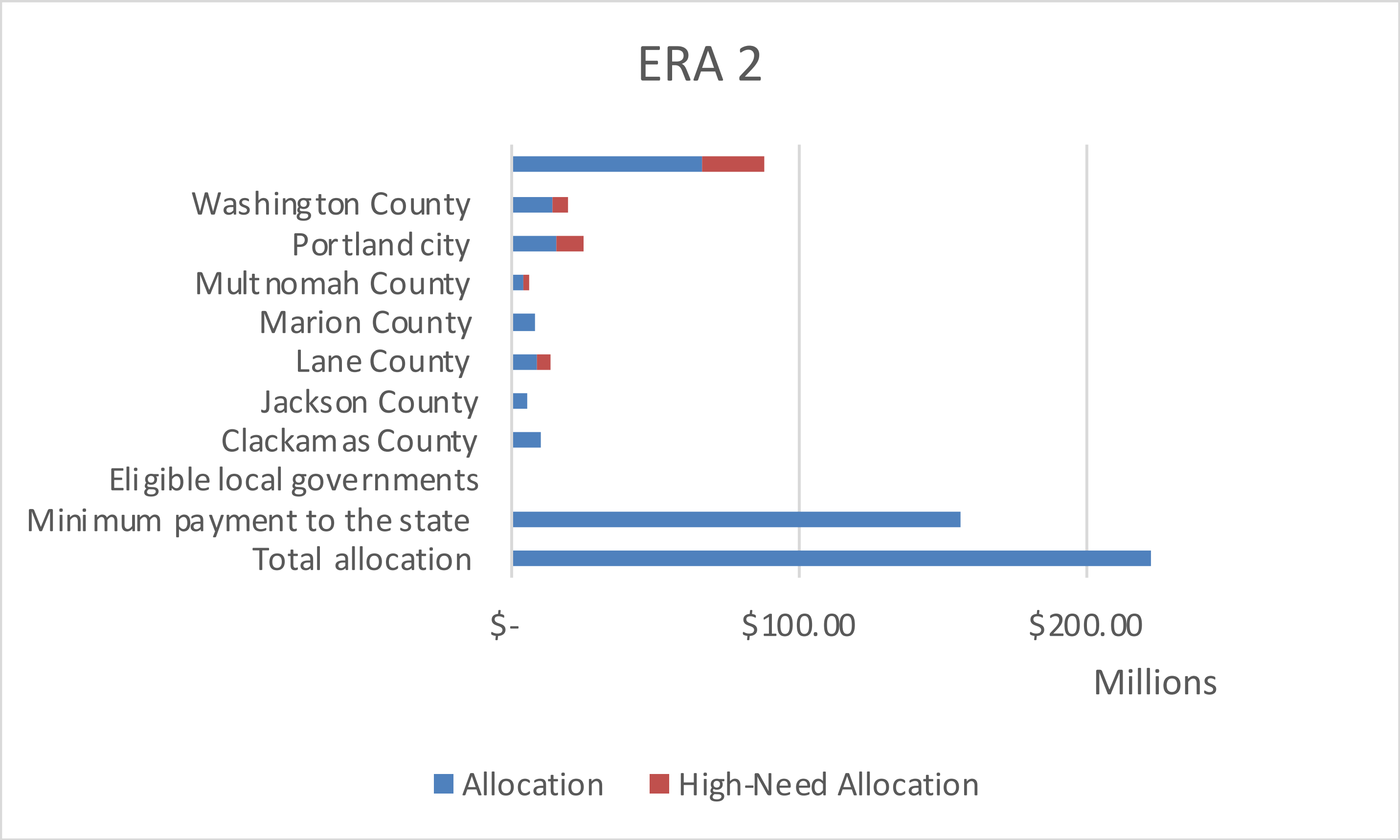
Over $2 trillion in CARES funding was allocated in March 2020 to provide economic relief in response to the COVID-19 pandemic. Since then, the U.S. Congress passed the Consolidated Appropriations Act, as well as the American Rescue Plan Act. This legislation has added over $4 trillion to support Americans during the pandemic. In this article we will look at the Federal Emergency Rental Assistance Program and Oregon's programs to keep families in their homes. With the eviction moratorium ending on June 30, 2021, rent relief is needed now more than ever.

The Emergency Rental Assistance Program provides funds so eligible households can pay rent, rental arrears, utilities and home energy costs, utility and home energy costs arrears, and other housing related expenses. It is comprised of two separate Treasury programs: ERA1, which gave up to $25 billion under the Consolidated Appropriations Act, and ERA2, which gave up to $21.55 billion under the American Rescue Plan Act. ERA1 serves households with annual incomes of 80% AMI or less, and Treasury guidance prioritizes ERA2 funds for households with incomes less than 50% AMI, and with one or more members unemployed for at least 90 days. Treasury also announced that if landlords do not accept ERA2 payments, funds must be offered directly to renters.

Income documentation generally requires a written statement and paystubs, W-2s, bank statements, and/or attestation from an employer. Grantees can use discretion and not require documented income, but they are still responsible for determining if the applicant qualifies for assistance. Full payment of arrears is limited to a maximum of 12 months; however, grantees may provide up to an additional three months if required to ensure housing stability. ERA1 funds expire on September 30, 2022 and ERA2 funds expire on September 30, 2025. Grantees may use 10% of funds for housing stability services such as housing counseling, housing related services for domestic abuse or human trafficking survivors, attorney's fees related to eviction proceedings, or services for seniors and individuals with disabilities that enables them to access or maintain housing.

Payments will be made directly to the states, US territories, counties, municipalities, towns, townships, villages, parishes, boroughs, or other general government unit with a population over 200,000. In the case of overlapping jurisdictions, if a smaller government unit provides certification for payment, the population will be deducted from the larger government unit when calculating the payment amount. No state will receive less than $200 million. Treasury used 2020 Census Bureau state population to determine the maximum state allocation. See ERA1 Maximum State Allocation data. An additional $400 million was allocated to US Territories Puerto Rico, Guam, Virgin Islands, Northern Mariana Islands and American Samoa. See ERA2 Oregon Allocation below.



OREGON EMERGENCY RENTAL ASSISTANCE PROGRAM (OERAP)

On May 19, 2021 Oregon Housing and Community Services will start accepting applications for the Oregon Emergency Rental Assistance Program which will provide $204 million to qualified renters not exceeding 80% AMI. Oregon further prioritizes high-need households by analyzing four factors in addition to the federal requirements of 50% AMI and 90 days of unemployment. OHCS will also look at household size, months behind rent, 2020 wildfire impact, and if the household lives within a census tract with a high number of low-income renters at risk of homelessness and housing instability. The additional factors will emphasize an equitable approach and include groups who in the past have been excluded from housing and economic opportunities. The rental assistance application will include data for five of the six prioritization factors. The sixth factor will be the Emergency Rental Assistance Priority Index, which is a tool developed by the Urban Institute that estimates the level of need in a census tract.

OREGON SUPPORTING TENANTS ACCESSING RENTAL RELIEF (STARR)

The Supporting Tenants Accessing Rental Relief program is funded by Oregon Housing and Community Services and managed by Community Action Agencies. Funds can be used to pay rent arrears, housing fees, and rehousing costs associated with coming out of homelessness. This program is OHCS's response to the pandemic, and the intent is that by providing financial assistance evictions, the risk of spreading COVID-19 can be prevented. Proof of documentation status is not required.

OREGON LANDLORD COMPENSATION FUND

The Oregon Legislature created the Landlord Compensation Fund during the Third Special Session of 2020 under HB 4401 to provide financial assistance to landlords who have not collected rent from qualified tenants since the eviction moratorium began on April 1, 2020. House Bill 4401 effective December 23, 2020 was enacted in response to the declaration of a state of emergency issued by the Governor on March 8, 2020 for the COVID-19 pandemic and the state of emergency issued by the Governor on September 8, 2020 for the wildfires. Under HB 4401 landlords cannot evict tenants for non-payment of rent until July 1, 2021.

The $150 million Landlord Compensation Fund will pay 80% of the unpaid rent owed from qualified tenants if landlords forgive the remaining 20% past due. Funds will be distributed in multiple rounds. According to the OHCS Round One will provide over $40 million in relief to more than 1900 landlords, forgiving back rent for over 12,000 tenants. Applications for Round Two's $70 million distribution are being accepted until May 17th at 5pm. Qualified tenants will complete and sign the Declaration of Financial Hardship for Eviction Protection that is included in the landlord's application. Landlords must apply through the OHCS LCF Application portal online and provide rental information for all tenants from April 1, 2020 to date of application, a signed housing assistance payment agreement, and W-9 for landlord's property portfolio in addition to the tenant's signed declaration.

SB 330 INCOME TAX CREDIT FOR UNPAID RENT FORGIVEN

Senate Bill 330 was introduced in January by Sponsor Senator Johnson and proposes an income tax credit over five consecutive years for unpaid rent forgiven by the landlord and certified by OHCS. If a tax credit is not used in a particular year, it can be carried over to the next succeeding tax year. Unused tax credits may not be carried over to the sixth year. The recommendation on April 9, 2021 was to pass with amendments and be referred to Tax

Expenditures by prior reference.

OREGON RENT RELIEF SPENDING

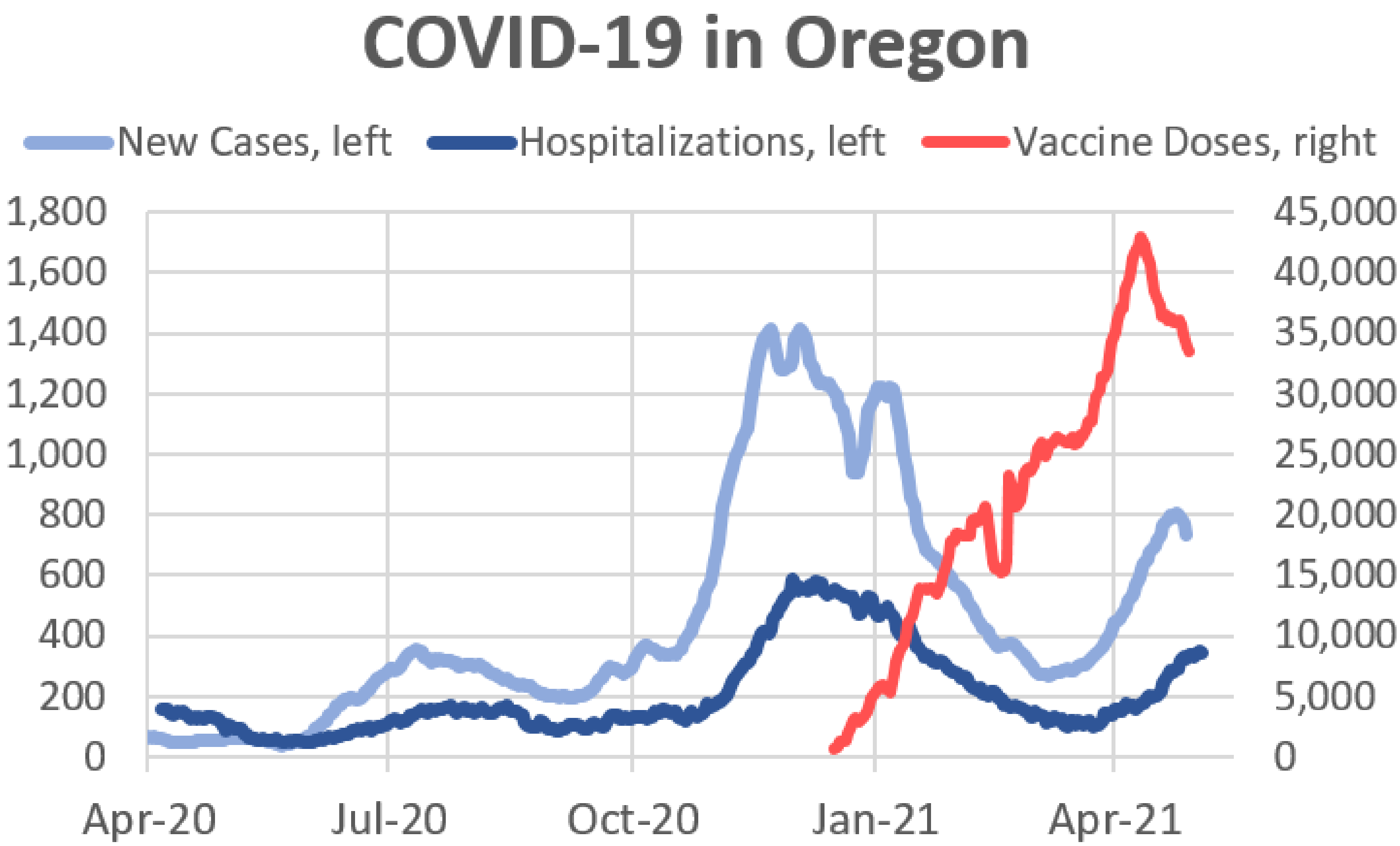
In December Oregon lawmakers allocated $50 million for rental assistance, and by February OHCS had distributed $40 million to community action agencies. However, according to Jamie Goldberg's April 27th Oregonian article on pandemic rent aid, by April 15 just over 50% of the allocated funds had been distributed or committed to renters. State lawmakers require the $50 million be committed to renters by June 30. Linn, Deschutes, Yamhill, and Wasco Counties had committed a majority of their funds; Marion and Polk counties had distributed or committed 16% of their allocated funds; and Multnomah County was the slowest with less than 12% of their $8 million allocated.

A spokesperson for the Oregon Housing Alliance explained she believes it is important that agencies focus on getting assistance to renters who are most in danger of facing eviction, even if it takes more time. The article also mentioned that last year, over $1.5 million in assistance had to be recouped and reallocated from three community action agencies who weren't on track to distribute funds by the deadline.

Data from Multi-Family Northwest's April 2021 Monthly Rent Survey Results report Oregon's percentage of occupied units unable to pay increased to 14.1% in April from 10.8% in March. The survey also found that statewide 16.7% of renters living in tax credit units (with income limits) could not pay rent in April compared to 13.7% in March. Additionally, 38 landlords with a combined inventory of 12,938 units have reported 426 moveouts since the beginning of the pandemic leaving over $1.1 million in rent unpaid.

May, however, has been one of the best months for rent collection during the pandemic, Cara Smith-Tenta from CoStar News reports. "With more and more vaccines being administered, job creation on the rise and tens of billions in rental assistance being distributed to residents and housing providers in need, the outlook for the industry is a positive one," Doug Bibby, president of the National Multifamily Housing Council, said in a statement (Smith-Tenta). See OHA/Oregon Office of Economics Analysis COVID-19 graph on the next page.

The infusion of additional support through the Emergency Rental Assistance program and Oregon's various state programs is essential for America's recovery. Importantly, provisions are being made for landlords so they can continue to pay their housing expenses even if rental income isn't coming in.



Source: Oregon Health Authority, Oregon Office of Economic Analysis

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05

INCLUSIONARY HOUSING

Outcomes of Portland's Inclusionary Housing and Seattle's Mandatory Housing Initiatives

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ABSTRACT

In my previous article, I compared the regulatory characteristics of Portland's inclusionary housing (IH) program with Seattle's equivalent mandatory housing (MHA) program. This article will focus on the outcomes of each program. I will compare these outcomes and draw conclusions based on the data collected from each program to see how they affect affordable housing and overall development in each city.

EXECUTIVE SUMMARY

By examining data from both inclusionary zoning programs, my findings are as follows:

Portland's IH program may be contributing to less overall development growth in the city compared to MHA, which has no evidence to suggest it is impacting development growth in Seattle. From the data provided by the Portland Bureau of Housing's State of Housing Annual Report 2020, the high rates of inclusionary housing payment may be one of many factors negatively impacting growth in the central city. However, further investigation is necessary to accurately show that the IH mandate causes decreasing development activity in the central city.

Portland's IH program focuses primarily on development participation, rather than affordable unit development through the payment option. This has led to greater private development participation compared to MHA. Overall, more development in Portland under the Inclusionary Housing mandate, opted to perform, or include affordable units within their developments, compared to Seattle's MHA program. One way Portland's IH program accomplishes this is by mandating higher fees per square foot of development compared to MHA and only mandating residential developments to participate.

Seattle's MHA program generates more revenue compared to Portland's IH initiative; revenue is used to fund affordable housing units throughout the city. Further research is needed to identify exactly how much revenue was made through Portland's fee-in-lieu option, but from the sources used in this article, it can be stated that Seattle's generated revenue from MHA payment is significantly greater than Portland's fee-in-lieu revenue both overall and averaged annually. Additionally, MHA uses the revenue generated from the payment option to directly create affordable housing units in other locations across the city, while Portland's IH payment revenue is placed in the Inclusionary Housing Fund along with CET revenue. From there, this revenue is disbursed to different affordable housing incentives across the city, not necessarily in the development of inclusionary units.

BACKGROUND

The sources used for this analysis are a combination of reports by municipal bodies, including Portland's Housing Bureau, Bureau of Revenue and Financial Services-Accounting Division, as well as the Seattle Office of Housing and the Seattle Planning Commission. The data reflects housing's growth in both cities focusing on affordable housing development as it relates to Seattle's Mandatory Housing Affordability Initiative and Portland's Inclusionary Housing program from 2015 to current.

TABLE 1 | HOUSING & DEMOGRAPHICS SUMMARY CHART

Data in this chart retrieved from (Evolving Seattle's Growth Strategy, 2020), (State of Housing, 2020).

	PORTLAND	SEATTLE
SCALE OF CITY	Portland ranks as the 26th most populous city in the United States and the sixth largest city on the West Coast. From 2013-2018, Portland added nearly 44,700 new residents, at an annual rate of 1.5 percent.	Seattle is the 18th most populous city in the US. As of 2019. Seattle added 22,000 new residents since 2010
AFFORDABLE UNITS ADDED	878 new affordable units in 2019 and 654 in 2020. Funding sources include Portland's Housing Bond and Urban Renewal Funds, as well as the Inclusionary Housing fund.	1,125 new affordable units in 2020 funded by: city development agreement (15), city (728) and city multifamily tax exemption (382).
POPULATION	639,387 as of December 2020.	747,300 as of April 2019.
MULTIFAMILY HOUSING STOCK	139,885 units.	367,806 total housing units in Seattle, 174,429 (+/- 2,393) apartments (or 53.9 percent of total housing stock in the city.

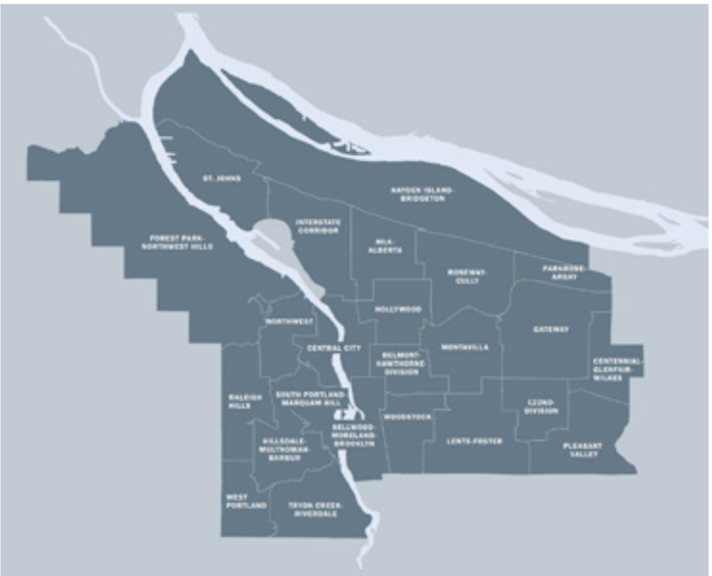

Figure 1 | Portland Districts
Figure retrieved from State of Housing, 2020. In Portland, most of the population growth is concentrated in two districts: the interstate corridor and central city districts, shown in Figure 1 State of Housing, 2020. However, data shows that development in the central city district has decreased significantly in recent years State of Housing, 2020.

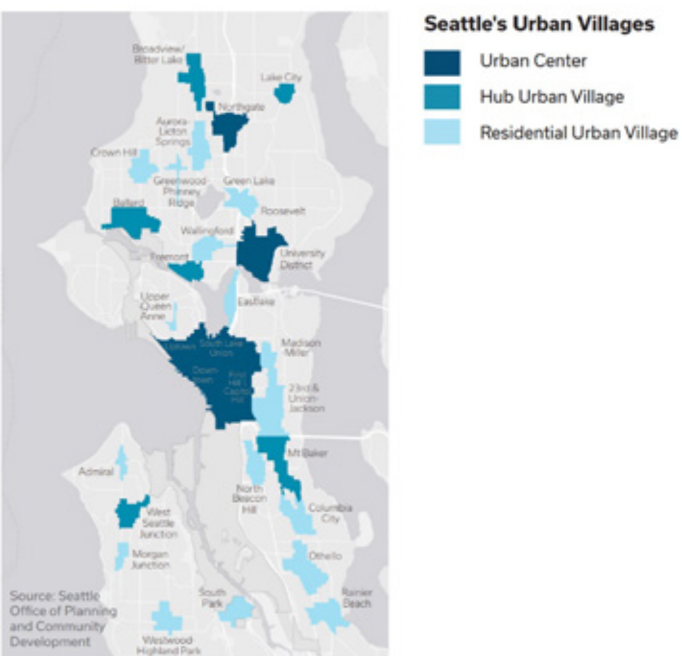

Figure 2 | Seattle's Urban Villages
Figure retrieved from Evolving Seattle's Growth Strategy, 2020.

THE STATE OF HOUSING

In 2017, Portland and Seattle enacted programs for the targeted purpose of tackling population growth, income disparity and a shortage of housing in each respective city. Portland ranks 26th in the nation in terms of population with a growth of 1.5 % annually. Seattle, 18th in the nation, is slightly larger with a total population of 747,300 residents in April of 2019 (Seattle.gov). Out of the 367,806 residential units in Seattle, 174,429 are apartment dwellings, which make up over 50% of the total residences in the city (Evolving Seattle's Growth Strategy, 2020). This number of units is slightly larger than Portland's 139,885 units with a total variance of 34,544 units compared to a population variance of 107,913 (State of Housing, 2020) (Evolving Seattle's Growth Strategy, 2020).

In 2017, Seattle saw less development of housing units (5,000+) compared to Portland's 8,000+ development units. However, since 2017 Portland's development growth returned to pre-2017 levels while Seattle's growth remained steady over the next 3 years – see Figure 3 & 4. Figure 3 highlights Portland's shift from more projects being produced to more projects being permitted. This may allude to a larger issue as less development completion could mean less projects are able to pencil. The total residential development in Seattle has increased by 19% since 2019, not enough to respond to the 22% of population growth in Seattle (Seattle.gov). Programs to incentivize development in Portland and Seattle were enacted to manage each city's rapid growth. To manage affordable dwelling disparity, both cities opted to develop inclusionary zoning initiatives that would seek private development participation and funding for the purpose of adding more affordable housing units within each city's urban core.

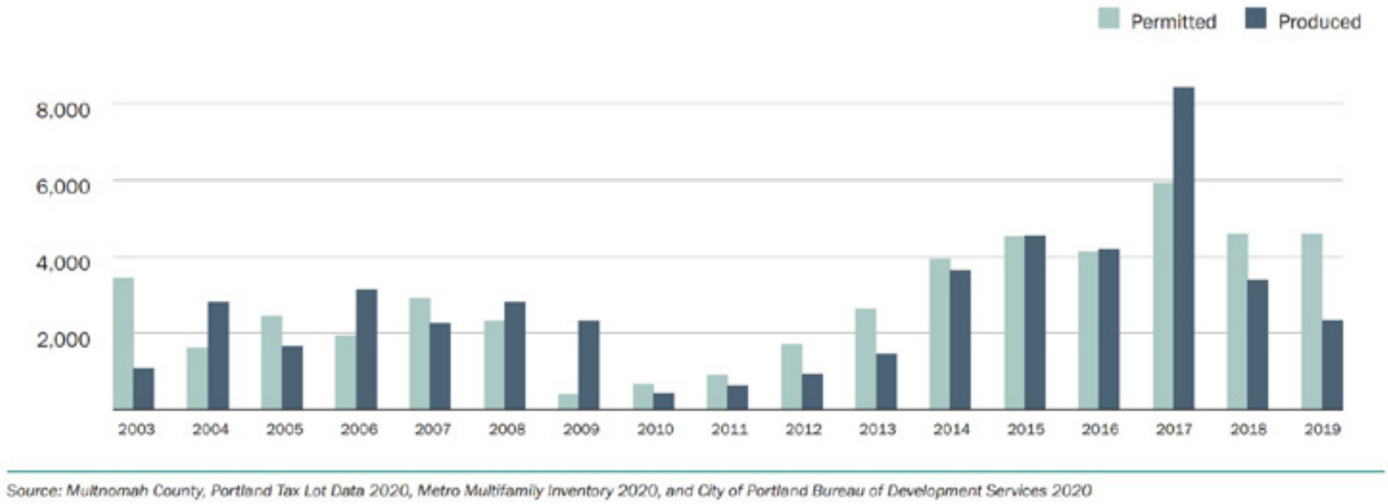

Figure 3 | Portland Unit Permits and Production
Figure retrieved from State of Housing, 2020. In 2017, Portland saw its peak development, with over 8,000 developments produced and close to 6,000 permits approved by the city – see Figure 3 (State of Housing, 2020). For the next two years, the city saw a decrease back to 2016 permitting levels but saw an overall steady decline of development produced with only 2,000+ new developments in 2019 (State of Housing, 2020).

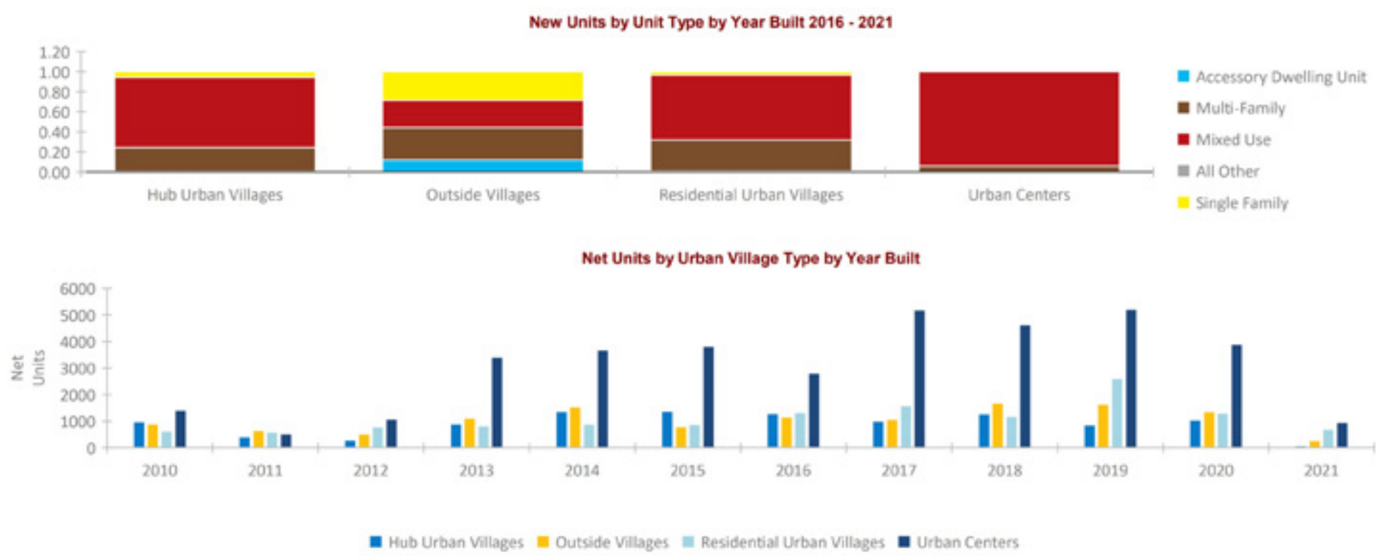

Figure 4 | Seattle Housing Stock - By Unit Growth 2016 to Present
Data retrieved from Urban Center/Village Housing Unit Growth Report Through 1st Quarter 2021.

AFFORDABLE HOUSING STOCK

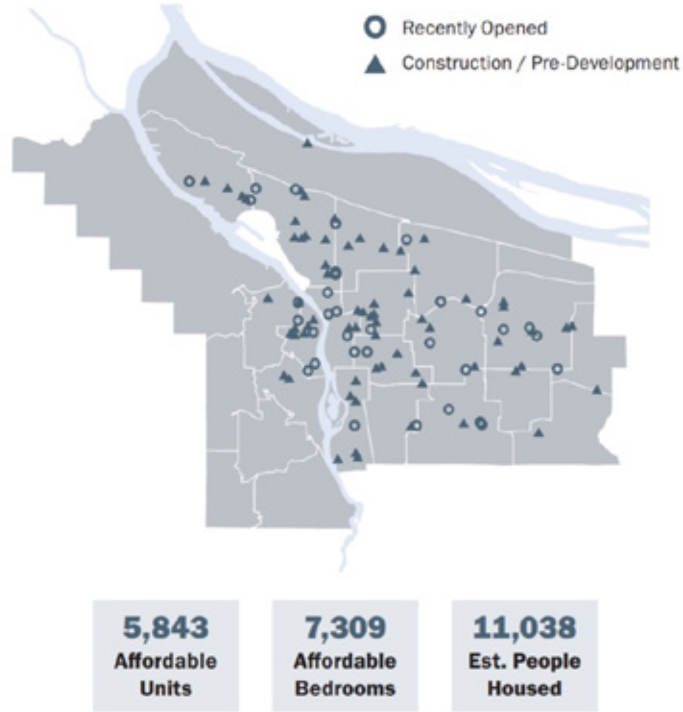

Figure 5 | Portland Affordable Housing Production 2015
Data retrieved from State of Housing, 2020.

Both Seattle and Portland have adopted comprehensive initiatives to tackle the developing need for affordable housing. Figure 5 represents Portland's growth of affordable housing stock over the last 5 years as a product/combination of all of Portland's comprehensive initiatives. Since 2015, Portland has added or is in the process of adding 5,483 new affordable units across the city. Out of these 5,483 units, 1,454 units (503 completed and 951 in the pipeline) are a result of the MULTE tax exemption program and the inclusionary housing initiative (State of Housing, 2020).

In comparison, Figure 6 represents the total affordable housing stock existing and under development in Seattle as a combination of all comprehensive initiatives. Seattle expects 105 new developments from 2020 to 2023, adding 5,553 new affordable units into Seattle's existing affordable units – see Figure 7 (Seattle.gov,2021). In 2020, Seattle had 24,723 existing affordable housing units, regulated by the city and the Seattle Housing Authority, and 1,125 units in development.

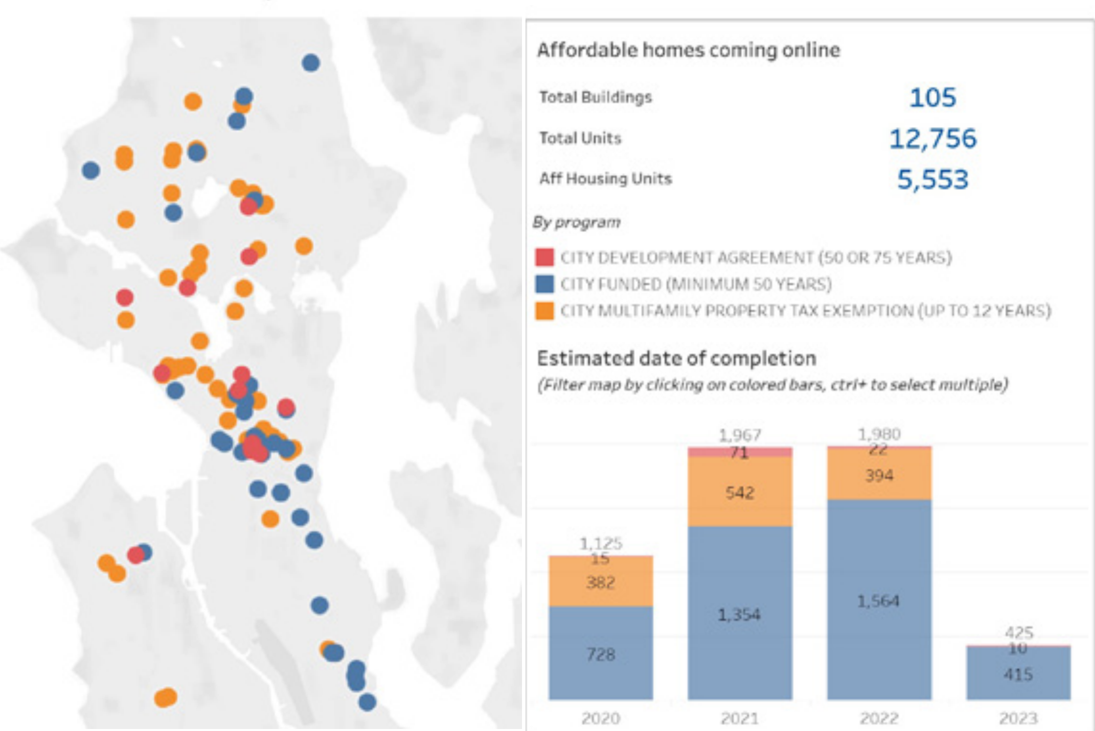

Figure 6 | Seattle Affordable Housing Pipeline 2021
Data retrieved from Seattle.gov.

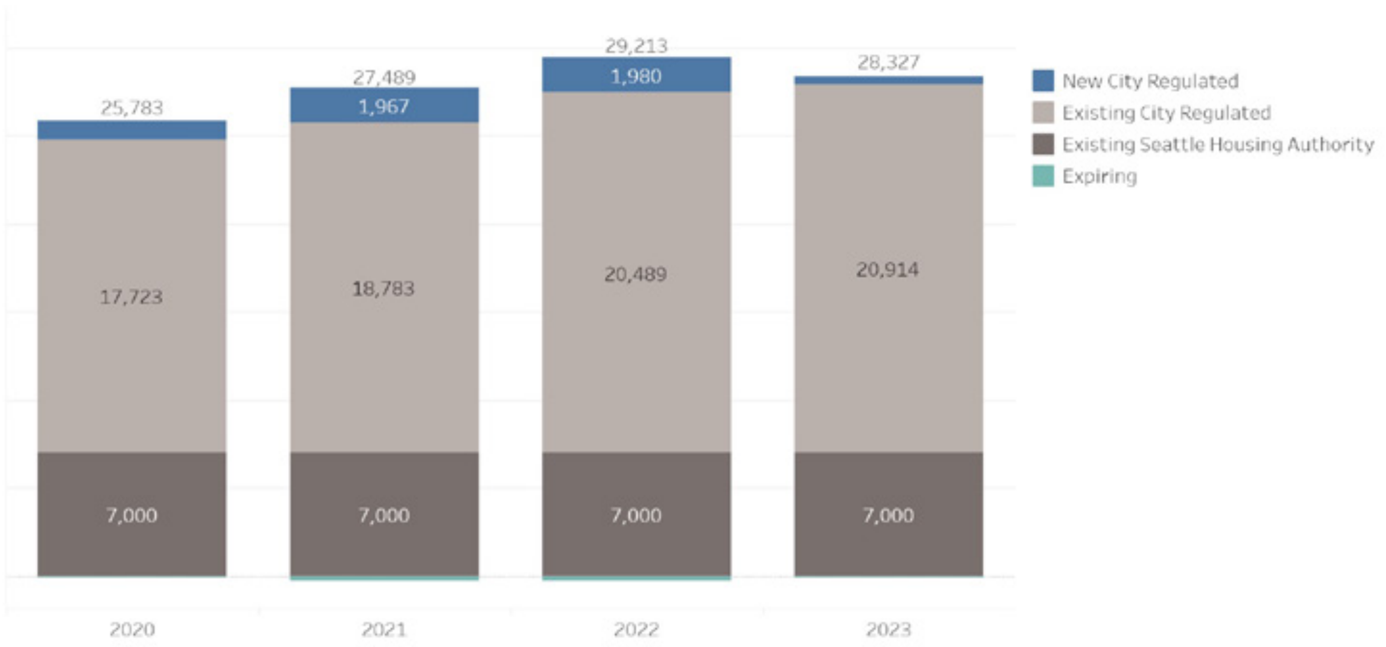

Figure 7| Seattle Affordable Housing Stock
Figures displayed are provided by Seattle.gov.

The development and growth of MHA and IH in both Seattle and Portland have enacted inclusionary zoning initiatives to target private developer participation and payment. To summarize the differences between the two cities' initiatives, Seattle Mandatory Housing Affordability targets performance and payment from all new commercial and residential developments in the city, while Portland's Inclusionary Housing program only targets new residential development 20 units or larger with higher rates of payment compared to Seattle's MHA.

Portland's IH program was implemented alongside Comprehensive plan alterations in 2017 with increasing fee-in-lieu payment rates, the latest in January of 2021. Seattle chose to slowly integrate MHA into their comprehensive plan district by district, resulting from less than instantaneous quantifiable data in earlier years of implementation. The city completed full implementation of MHA in 2019, grandfathering ongoing developments and increasing development contributions from projects initiated after the implementation date. This had a dramatic impact on MHA project growth. For instance, there were 224 ongoing development projects contributing to affordable housing through MHA in 2020 compared to only 35 projects in 2019 (Mandatory Housing Affordability and Incentive Zoning 2020 Report, 2021).

Prior to the full implementation of MHA, developments contributed to affordable housing through Seattle's Incentive Zoning program, or IZ. In other words, MHA is the successor to Seattle's IZ program. Unlike MHA, IZ is only mandatory when a property owner wishes to increase their allowable floor area ratio (Mandatory Housing Affordability and Incentive Zoning 2020 Report, 2021). Additionally, Seattle has not announced an increase in payment rates which are already significantly lower than Portland's fee-in-lieu rates. It is important to note that the rise in IH rates may also have a backlash on development in Portland's withering central city plan district, which is already struggling to gauge development incentive.

IH UNIT COUNT COMPARISON FROM PARTICIPATION/PERFORMANCE

To briefly summarize the process of development: Projects are permitted once the building permit is attained. Projects are considered complete, for the purpose of this analysis, once the certificate of occupancy is attained. This does not necessarily mean the project is open.

The success of MHA and IH vary based on each programs intended incentivization target. From the data presented as well as the regulatory options outlined in each program, it can be suggested that IH targets a greater development participation and MHA targets a greater development payment. The data represented in this article outlines the resulting outcome variance, which hint at each program's intended target. The performance option of both IH and MHA follow similar regulations, requiring a certain percentage of affordable housing units with 30-80% AMI.

As I previously stated, the MULTE/IH program in Portland has produced 503 total affordable units since 2015 (State of Housing, 2020). The IH program was instituted in 2017. The MULTE program has been in effect since 1975 and in 2017 was linked to the IH program to incentivize private development participation. The total affordable units developed or permitted are 314, leaving out developments that have not received a building permit – See Table 2 (February 2021-Units Restricted Under Inclusionary Housing, 2021). The performance option for MHA considers a development to be participating once said development has signed an MHA commitment as a condition of

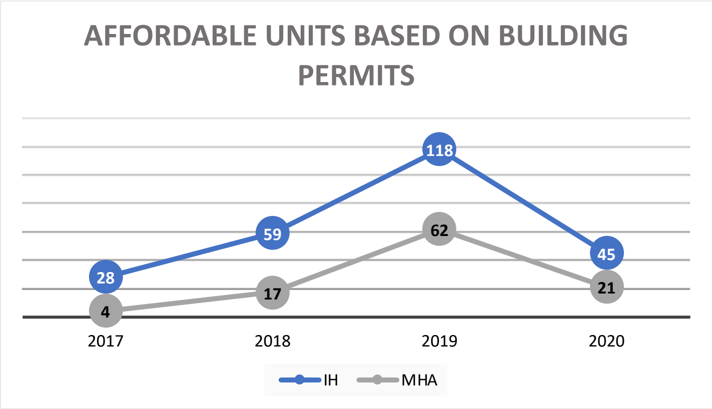

Figure 8 | Comparison of IH and MHA Unit Growth
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021; February 2021-Units Restricted Under Inclusionary Housing, 2021.

issuance of a building permit (Mandatory Housing Affordability and Incentive Zoning 2020 Report). Figure 8 shows a comparison of IH and MHA unit growth for the last 4 years. Trends for MHA and IH are almost parallel, with IH producing more overall participation, compared to MHA.

In 2019, both programs saw the largest uptick in participation, with IH permitting more than half of the total units permitted by Seattle's MHA. Both programs trended down due to the pandemic, but the IH program took a greater hit, closing the gap between IH and MHA performance. Even so, IH still permitted more than half the total MHA permitted. Taking this data into account, IH averages approximately nine affordable units per development, two units more than MHA. Therefore, IH has a higher participation yield compared to MHA participation – see Figure 9 for more detail.

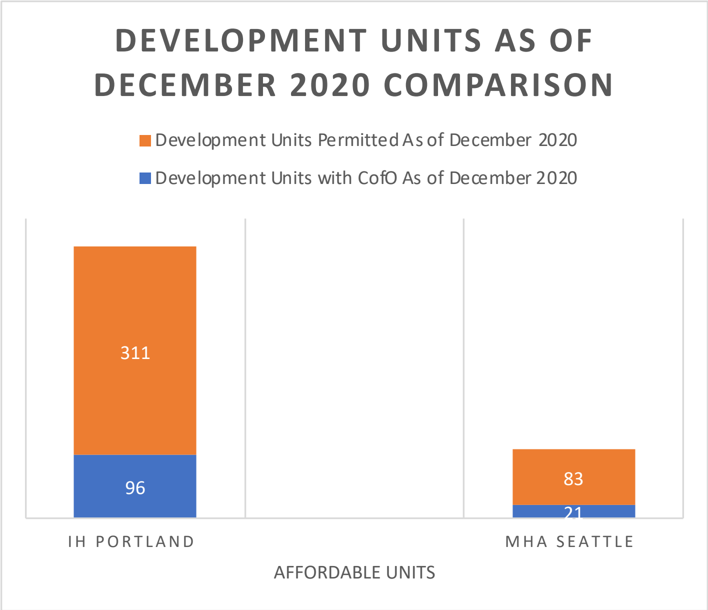

Figure 9 | MHA and IH Unit Count
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021; February 2021-Units Restricted Under Inclusionary Housing, 2021.

IH UNIT COUNT COMPARISON FROM PAYMENT

Seattle's MHA program puts a greater emphasis on development payment compared to participation. I spoke to Robin Murphy of Jackson and Main architecture who backed up this assertion. When asked about development payment versus participation he stated, "It is the norm for developers to pay in lieu, as opposed to building the housing on site. Part of this decision is based on a cost metric, and part is based on the strategic drive of the developer. When affordable housing is built on site, the underlying entitlement vetting process is onerous and expensive."

The program's emphasis on payment versus performance is also shown in the data expressed in this article. The revenue generated from MHA goes directly toward funding affordable units across the city, while Portland's revenue is placed into the Inclusionary Housing Fund used indirectly toward affordable housing aid. In other words, the Inclusionary Housing Fund does not directly add affordable units, nor does it make enough revenue to do so. Instead, the fund is a combination of the revenue from fee-in-lieu payments as well as revenue from the City's Construction Excise Tax, or CET (Portland Housing Bureau Requested Budget, 2021).

The CET was implemented in 2016 and is levied on development valued higher than $100,000, based on 1% of permit valuations (Slowey, 2016). The tax is estimated

Affordable Units & Developments	IH Portland	MHA Seattle	Variance
Developments with CofO As of December 2020	17	5	12
Development Units with CofO As of December 2020	96	21	75
Developments with Building Permits As of December 2020	26	9	18
Development Units Permitted As of December 2020	311	83	228

Table 2 | Unit & Development Count
Data Retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021; February 2021-Units Restricted Under Inclusionary Housing, 2021.

Figure 10 | IH Performance Option Project: Koz on Killingsworth
Koz on Killingsworth has a total of 88 apartments, 13 of which are dedicated to affordable housing under Portland's Inclusionary Housing mandate. Out of the 13 IH units, 12 are studio apartment and one is a two-bedroom apartment. The project was permitted in 10/21/2019 and put in service in early 2021.

to add an average of $8,000,000 to the Inclusionary Housing Fund annually, as shown in Table 3. Figure 11 illustrates the percentage of CET revenue compared to IH payments, showing a 96% majority of total funds generated stemming from CET. In comparison, Seattle's affordable housing city funds include MHA payments along with other capital sources – see Figure 13 (Seattle.gov, 2021).

Before MHA was fully integrated into Seattle's comprehensive plan, the revenue generated from the payment option only made up approximately 20% of the total funds allocated to creating affordable housing units. However, once MHA was fully initiated into Seattle's zoning code in 2019, revenue generated from payment skyrocketed to 91% of the city's total affordable housing funds designated to create affordable housing units and 45% of the total fund – See Table 4 & Figure 12. Revenue generated from these payments are forecasted to be approximately $50 million annually, a stark comparison to Portland's IH revenues- see Figure14. In summary, Seattle's MHA generates a higher revenue stream compared to IH, and the profits are then used to fund affordable housing developments across the city.

This funding, combined with MHA performance units makes up a larger housing stock when compared to units attributed to IH participation. Fremont Eclipse is a 153-unit development with 87 units dedicated to affordable rents up to 50-60% AMI- see Figure 15 (Annual Housing Investments 2020 Report, 2020).

This project is an example of an affordable housing project fully funded by MHA payments. To date, there has not been an affordable housing development funded by a majority of development payments from the IH initiative in Portland. When compared, affordable housing units supported by MHA total 816 units in service or in some state of permitting in Seattle, while Portland's IH initiative make up less than half of MHA contribution at 407 total units – see Figure 16. In other words, once the unit count from outside development is accounted, Seattle's MHA program is more successful both in affordable unit creation and private development funding.

Revenue	CET	Developer Fee-in-Lieu
2017-2018	$9,036,976	$1,488
2018-2019	$7,619,000	$297,326
2019-2020	$6,989,877	$794,548

Table 3 | Inclusionary Housing Fund
Data retrieved from Bureau of Revenue and Financial Services-Accounting Division, 2020.

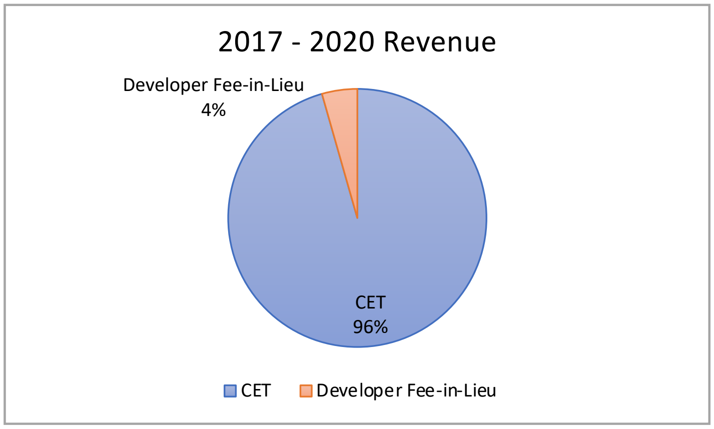

Figure 11 | Inclusionary Housing Fund Revenue 2017 - 2020
Data retrieved from Bureau of Revenue and Financial Services-Accounting Division, 2020.

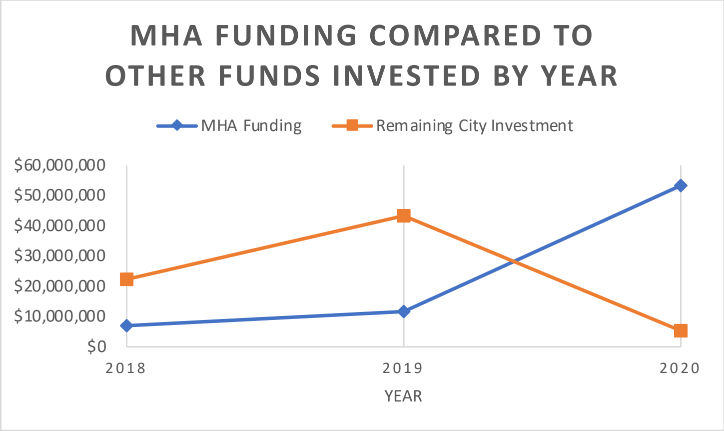

Figure 12 | MHA Funding from Payment Growth
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021.

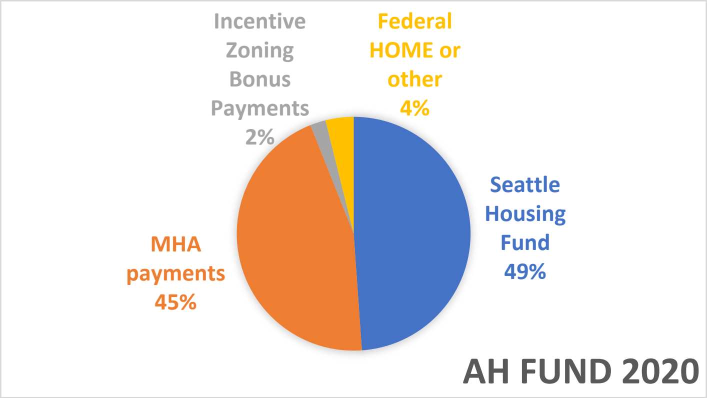

Figure 13 | Seattle Housing Funds
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021; Bureau of Revenue and Financial Services-Accounting Division, 2021.

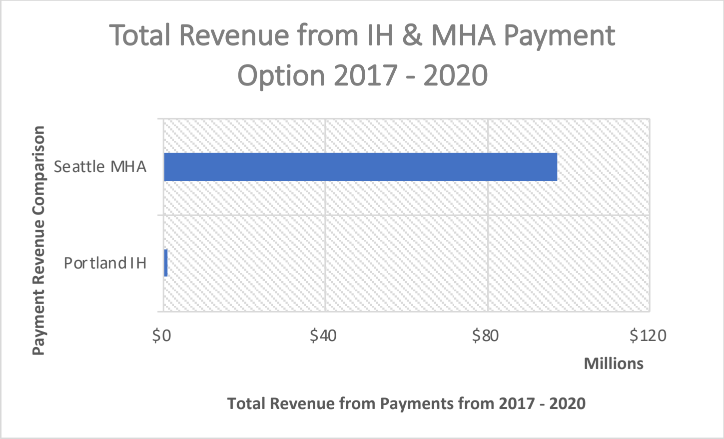

Figure 14 | Payment Option Revenue Comparison
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2020.

Year	Payments Received	Revenue Committed	(*)	Total MHA Units		MHA % Of Funding
2018	$13,262,041	$6,887,913		552	(**)	24%
2019	$15,613,712	$11,741,196		844		21%
2020	$68,300,000	$50,700,000		712		91%
		Annual Average		703		

(*) Revenue committed for the development of new affordable units
(**) Number of units funded by both MHA and other City Funding

Figure Table 4 | Seattle Affordable Housing Development - Percentage Funded by MHA
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2021.

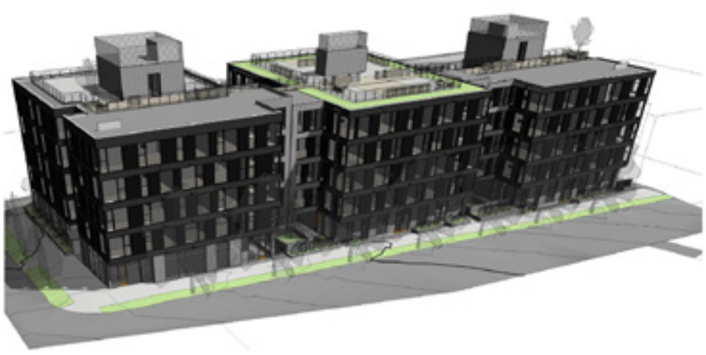

Figure 15 | Seattle Affordable Housing Development Entirely Funding By MHA Payments
Data retrieved from Sierra Construction Company Inc. (n.d.). https://www.sierraind.com/new-project-eclipse-fremont/.

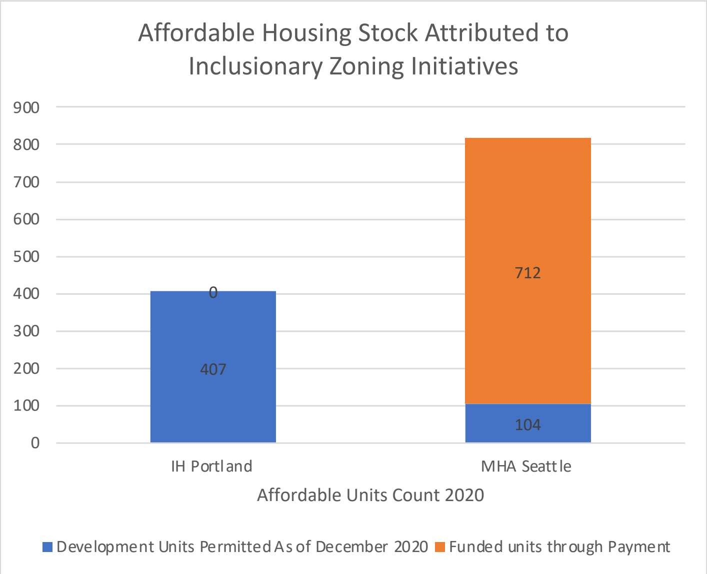

Figure 16 | MHA and IH Affordable Housing Stock to Date
Data retrieved from Incentive Zoning and Mandatory Housing Affordability, 2019; Incentive Zoning and Mandatory Housing Affordability 2019 Report, 2020; Annual Housing Investments 2020 Report, 2020.

SUMMARY OF FINDINGS

Seattle's Mandatory Housing Affordability initiative and Portland's Inclusionary Housing initiative set forth a targeted goal of increasing each city's affordable housing stock by mandating private development contribution. Perspectives from within the industry vary, but the consensus of the Seattle initiative seem to be more positive regarding MHA implementation and regulations. Robin Murphy expresses his and his clients' views on the program, stating: "I think we all recognize that there is a greater and greater need, for a greater inventory of affordable housing in affluent cities. Most of our clients accept this as part of the bar to development and they feel good about helping to be part of the solution."

Unlike Portland, Seattle has not seen any substantial aversions to development growth potentially contributed to MHA; in fact, development in Seattle saw an uptick in permitting and production in recent years, discounting the impacts of COVID-19 in 2020 (Urban Center / Village Housing Unit Growth Report Through 1st Quarter 2021, 2021). From the data analyzed in this article, the Seattle Mandatory Housing Affordability program encourages affordable housing growth without infringing on private development freedoms. For this reason, it is expected to see greater prosperity compared to Portland's Inclusionary Housing initiative. My recommendation would be that Portland reevaluate Inclusionary Housing targets and incentives and create new regulations that do not disenfranchise private development in the city.

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06

COMMERCIAL MARKET

Industrial Market Analysis

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Moving into the first quarter of 2021, industrial product is continuing to provide excellent returns for developers and investors alike. Vacancy and rent growth levels continue to outperform the other commercial real estate classes, presenting preferable risk attributes and a favorable long-term outlook. Behind these strong-performing metrics is the familiar story of the ascendency of E-commerce and the consequent flood of demand for logistics space.

For instance, in Q3 2020, the Chief Financial Officer of Prologis stated that e-commerce facilities represented 37% of new leasing activity for Prologis, compared to the historical average of 21% (Supply Chain Dive). As a result, the composition of the industrial landscape is being fundamentally altered, shifting the tenancy trends of industrial land from usages such as contract warehousing and manufacturing to that of logistics space. There are broader economic ramifications of this shift in usage, and it is worth assessing how the change will impact the levels of employment in Oregon and the United States. To make such an appraisal, it is first necessary to reflect on employment density trends and the impact of automation on manufacturing, contract warehousing and logistics establishments.

Manufacturing has long been a cornerstone of the economy and the employment landscape of Oregon, being home to 6,396 manufacturing establishments and representing 10.2% of the total payroll employment of the state (2019) (Cunningham). Yet, clear trends have been emerging in the sector and across America, where production per manufacturing establishment has increased, whilst employment density has decreased (Figure 1).

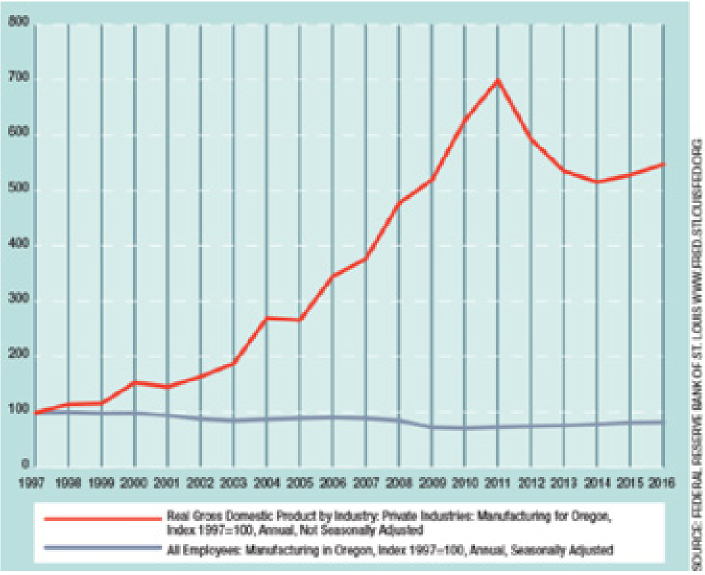


Figure 1; Oregon Manufacturing Output Versus Number of Employed in Sector (Source: https://www.oregonbusiness.com/article/manufacturing/item/18075-brave-new-world)

Despite the persistent political rhetoric about trade deficits and China tariffs, the real culprit is automation; 90% of job losses in manufacturing can be attributed to the increases in productivity and technological advances. Whilst only 10% of job losses are caused by the trade deficit with other countries (Urban Institute). This trend is accelerating in 2021, as we are in the early stages of what is heralded as the Industrial Revolution 4.0 , a new exponential trajectory of automation caused by the convergence of Artificial Intelligence, Robotization and machine learning (Oxford Economics).

With capital substituting for labor on an expanding level in manufacturing plants, the employment density of manufacturing establishments is decreasing in Oregon and across the United States. Manufacturers have little choice. Oregon is competing nationally and internationally to provide the highest quality goods at the best price, and the only way to remain competitive with other international markets where labor is cheaper is to automate. (Oxford Economics). As the Executive Vice President of Primary Mills and Major Products of Cascades manufacturing plant in Scappoose Oregon recently affirmed "the purpose of automation is to increase productivity to stay in business. It is not to eliminate jobs. It is to keep jobs" (Moore). In other words, less jobs are better than no jobs.

Industry	2019 Employment	Projected Employment Change	Percent Change
Manufacturing	197,700	9,900	5%
Machinery	14,100	1,400	10%
Transportation equipment	12,600	1,000	8%
Primary metals	9,200	700	8%
Food manufacturing	29,900	2,200	7%
Fabricated metal products	16,700	800	5%
Computer and electronic products	38,600	1,500	4%
Wood products	23,200	-600	-3%
Paper and paper products	4,000	-200	-5%

Source: Oregon Employment Department

Figure 2; Project Change in Employment from 2019 to 2029 in Oregon. Source: Qualityinfo.org

Part of the manufacturing success story in Oregon has been the diversification away from lower skilled jobs into medium and high skilled jobs. These higher skilled manufacturing positions include semiconductor and electronic components, electronic instruments, aerospace products and parts, and ship and boat building (Cunningham). Yet, these higher skilled sectors represent less than one third of manufacturing jobs, with most positions existing in low to medium-skilled production jobs such as food manufacturing, primary metals, and machinery (Figure 2).

Additionally, as per Figure 2, lower skilled jobs are expected to grow at a more rapid pace over the next ten years. The implications of these trends is that a high percentage of these growing positions in lower skilled work are automatable; 76% of hours worked in food production is automatable, 69% for beverages, and 72% for basic materials. And concerningly, high technology manufacturing is not immune from this trend, with high skill employment such as aerospace deemed to have 52% of workable hours as automatable, along with advanced electronics at 50%, and high technology at 49% (McKinsey).

To give some further context on the uniquely complex challenge facing Oregon, Oxford economics alarmingly pointed out that "Oregon is the most vulnerable state in the US to a future acceleration in robot installations. The state has had success in transitioning out of traditional sectors into the production of high-tech components. But high dependence on manufacturing, particularly in and around Portland, and the state's exposure to globally competitive sectors, mean its workers are vulnerable to rapid technological progress." (Oxford Economics)

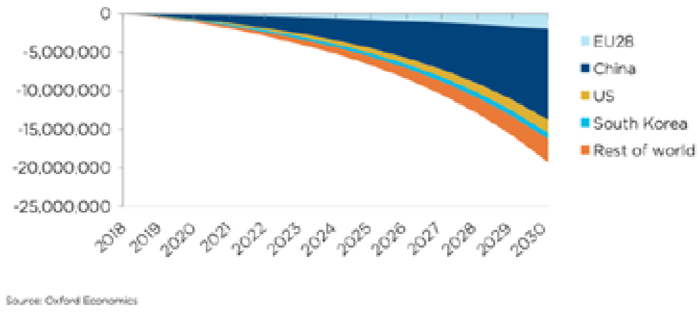


Figure 3: Project Cumulative Job Losses by automation, up to 2030

Warehousing and distribution is also facing automation but at a lesser projected rate; 58% of total activities in manufacturing are automatable compared to 39% in transportation and warehousing (McKinsey). The average E-commerce facility also happens to have high employment density. Compared to traditional contract warehousing, E-commerce has three times the number of employees per square foot (NAIOP). An E-commerce facility requires a host of logisticians, purchasing managers, purchasing agents, customer representatives, material mover and hand laborers to operate the facility.

The variation of tasks, and the unique combinations of goods that are required involves high-touchpoint, piece-picking work. As a consequence, a higher number of employees. NAIOP cites that the average employment density for an e-commerce facility is 700 feet per worker (NAIOP). Most new Amazon facilities have one employee per 600 to 650 square feet, often employing a massive 2,000 to 3,000 workers per establishment. For some context, this contrasts the Cascades Tissue converting manufacturing facility in Scappoose Oregon (Cascades) which has 1 employee per 4,000 square feet, or Wilsonart Wood Finishing Manufacturing plant in Klamath Falls (Wilsonart) which has 1,900 square feet per employee.

The job openings created by the increased employment density of E-commerce facilities is further compounded by the massive growth of the sector. The share of total retail sales from E-commerce grew rapidly during 2010-2018 from 4.5% to 9.9%. Yet during COVID, it took less than a year to achieve the same growth, jumping from 11% of total retail sales in Q42019 to 16% in Q22020. This growth trajectory is expected to be ongoing for the foreseeable future with E-Commerce expected to reach 20% of total retail sales by 2025.

In turn, demand for warehouse facilities has jumped significantly (Colliers). Further, 1% of additional E-commerce growth equates to $54.7 billion of retail sales and will command 37 million square feet of additional warehouse space. This implies a growth in demand from the fourth quarter of 2019 to the second quarter of 2020 of close to 200 million square feet across the United States. Amazon is leading the demand for space, going from an average of 25-30 million square feet of new warehouse space in 2019, to 100 million square feet in 2020, with plans of moving into an additional 60 million square feet in 2021 (Colliers).

The growth of E-commerce and the increased demand for logistics facilities presents a fantastic short to mid-term employment opportunity in Oregon and beyond. However, lingering questions remain as to when the balance between labor and capital will shift towards automation in logistics, and how will big employers like Amazon approach this politically sensitive topic when it does. One trait distinguishing logistics or last mile distribution from manufacturing is that it is locally and regionally competitive rather than globally competitive.

The implication is that minimum wage standards create some uniformity amongst the competition and may slow down the need for automation. The one looming certainty that does exist is that there will be significant job losses in manufacturing over the next decade at the hands of automation. Additionally, the obvious employment alternatives for displaced workers such as construction and lower skilled administration jobs are earmarked for rapid automation.

Compounding the challenge even further is the fact that the highest educational attainment is a high school diploma or less for 60.4% of Oregon's manufacturing labor pool, (or over 120,000 employees) (2019) (OMEP). These aligning factors present a compelling case to governments and businesses to work together in upskilling and retraining parts of the manufacturing workforce in preparation for the changes that will occur over the next decade.

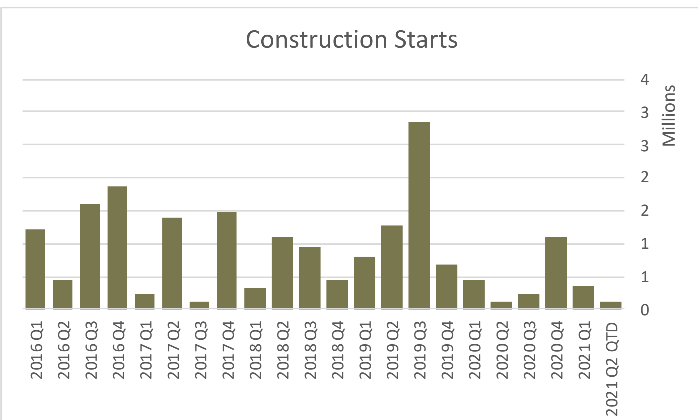
SUPPLY

Portland's industrial market has seen several years of significant speculative development due to the favorable market fundamentals of increasing rental rates, tight vacancy, and cap rate compression. The first quarter of 2021 broke from this speculative trend, with most new development being either preleased, or destined to be owner-occupied. According to the CBRE's MarketView, there was 441,959 square feet of new deliveries in the first quarter of 2021 (CBRE). This included an eighty percent pre-leased space that was delivered by Prologis as part of their Prologis Meadows development, adding 148,060 square feet of inventory to the industrial market (CBRE).

Another prominent delivery included Panattoni Development Company's Big River Logistics (CBRE), a 192,260 square foot warehouse in Vancouver,

Picture source; https://www.macadamforbes.com/listings/NW-32nd-Avenue-and-Lower-River-Road-Big-River-Logistics-Industrial-Sale.html

FIGURE 4



Washington. It has 32' clear heights and 28 dock high doors, 6" reinforced floors. Reflecting on the last twelve months, East Columbia Corridor has received the most deliveries with 990,000 square feet of new inventory. Other submarkets with significant growth include; Airport Way, Clark County Outlying, CBD/West Vancouver, SE Outlying, Sherwood and Rivergate.

BIG RIVER LOGISTICS

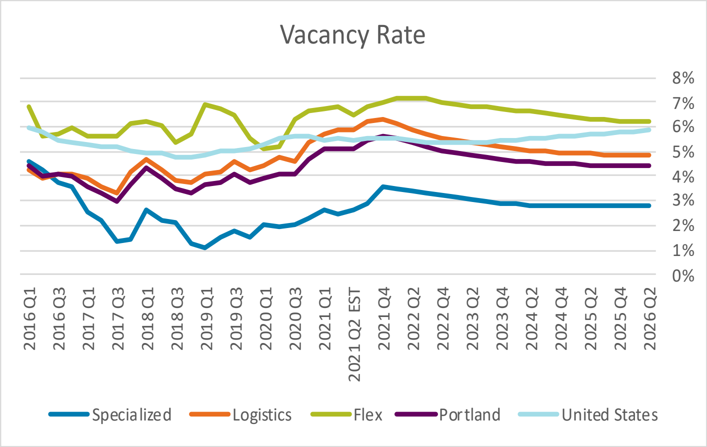
Construction starts were quieter in the first quarter, with 89,040 square feet of new developments breaking ground (CoStar)(Figure 4). This is the lowest figure since 2013 and is certainly not due to a lack of demand or investor capital. It is likely to be indicative of the challenges that developers are facing when trying to locate new and appropriate sites for development. These problems can include wetlands, topographic challenges, brownfield contamination, size issues, a lack of infrastructure, or the political atmosphere at the time. Additionally, costs have been increasing with high land acquisition costs, construction costs increasing, building permit fees and SDC fees increasing. Land use and permitting timelines can also be problematic.

The Sunset Corridor / Hillsboro submarket is leading in terms of space under construction, courtesy of the largest industrial development of the decade, the Intel Expansion Project. This massive development is expected to deliver 1.5 million square feet of space in the second quarter of 2021. The new Flexential data center is expected to deliver 358,000 square feet of space in fourth quarter of 2021 in Hillsboro. Lastly for Hillsboro, Trammel Crow will be adding 195,550 square feet of space to Hillsboro's industrial inventory in the third quarter of 2021 (Kidder Mathews). In Canby, a new 531,000 square foot facility for Columbia Distribution is expected to be delivered shortly (CBRE).. Other submarkets with space under construction - albeit less sizable than Canby and Hillsboro - include I-5 Outlying, East Columbia Corridor, St Johns / Central Vancouver (CoStar).

DEMAND

With new speculative deliveries coming online over recent quarters, an absorption delay has seen vacancy rates drifting upwards from the fourth quarter of 2019 and this trend is expected to continue until the third quarter of 2021. In the first quarter, vacancy rates

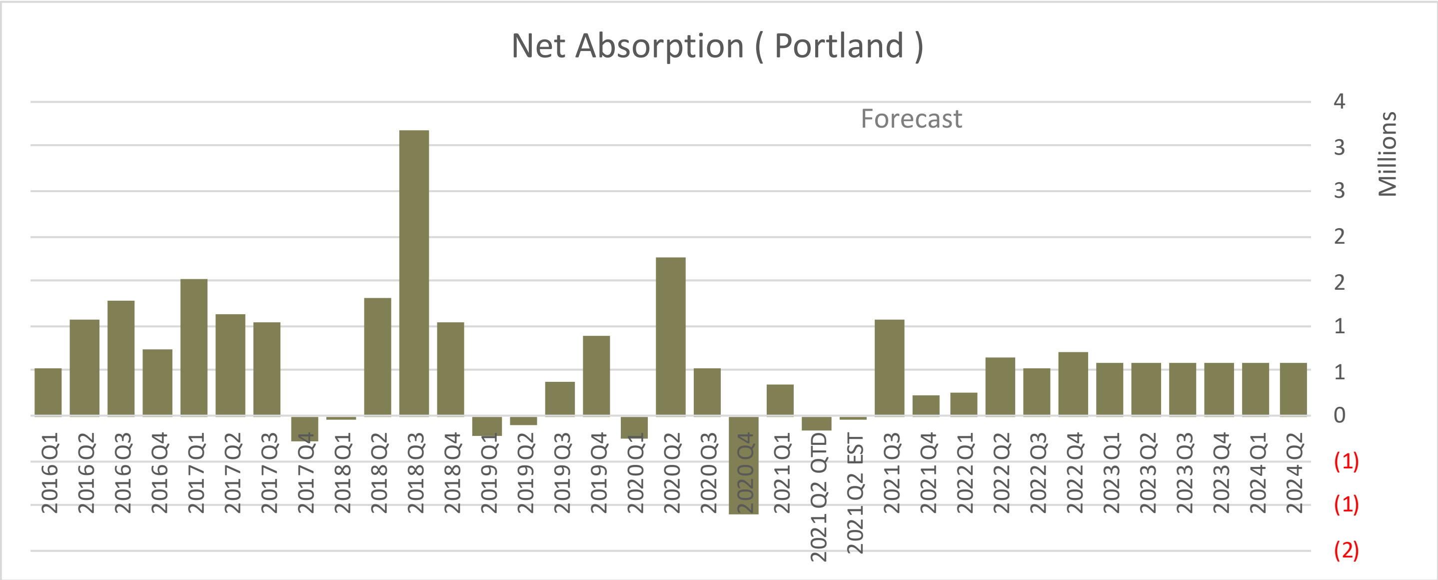
FIGURE 5



increased 40 bps to 5.1%, the highest rate since 2015. This trend is destined to be short lived however, with vacancies set to trend downwards from 2022 onwards, with scarce supply, and increasing demand driving vacancy rates down to around 4% (CoStar) (Figure 5). CBRE and Kidder Matthews first quarter 2021 brokerage reports both disaggregate business park data from their vacancy figures and reported a lower-level vacancy rate for non-business park assets; CBRE with 4.3% and Kidder Matthews with 4.5%. Business parks have struggled due to their office component, and the prevailing impact of the Coronavirus on the demand for office space. In terms of submarkets with the tightest vacancy, I-5 outlying is reporting a 1.3% vacancy rate, Tualatin is 2.9%, Sunset Corridor / Hillsboro is 3.2%. Whereas SE Close-in is reporting a higher vacancy of 6%, along with Rivergate at 7.2% and East Columbia Corridor at 7.7% (CoStar). Availability rates decreased slightly during the first quarter of 2021 to 6.1%, with subleasing opportunities few and far between.

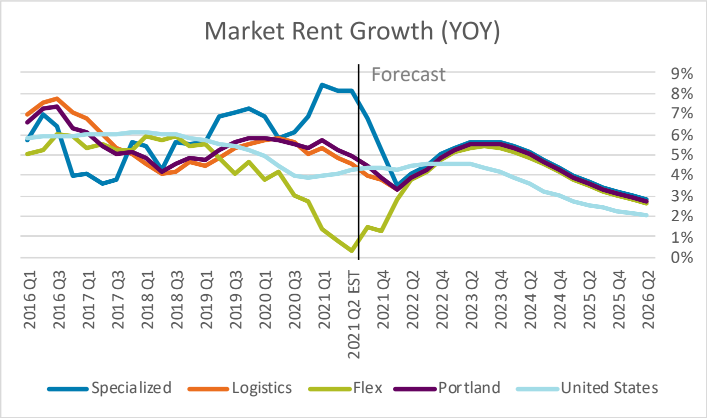
The first quarter of 2021 saw positive absorption of 345,695 square feet (CoStar). This contrasts with the fourth quarter of 2020 which saw over 1 million square feet of negative absorption due to two quarters of sizable deliveries, including a significant amount of speculative space (Figure 6).

FIGURE 6



Additionally, Unified Grocers vacated a one million square foot food processing and distribution space in Milwaukie in November 2020 which contributed to the fourth quarter's high figure. Submarkets with the most pickup in absorption included the Southeast with 353,107 square feet, Westside with 45,204 square feet, I-5 Corridor with 59,427 square feet, and Clark County with 67,240 square feet. The Northeast submarket registered the biggest negative absorption, contracting 416,162 square feet. In terms of 12-month absorption metrics according in different submarkets, Clark County Outlying, Airport Way, East Columbia Corridor and SE Outlying all recorded over 400,000 square feet of absorption (CoStar). Demand for medium-sized warehouse space increased in Q1 2021, with the average lease size over 31,000 square feet (CoStar).

FIGURE 7



RATES / COSTS

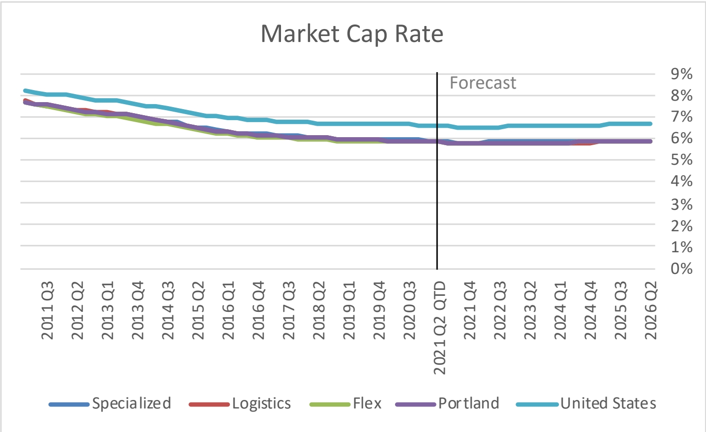
Rental rates for industrial are largely inelastic and have not been impacted by the economic pressures brought on by coronavirus. Rent growth across the Portland metro continued to display strong results, with 6.3% YOY rent growth reported in the first quarter of 2021. Part of the increases in lease rates can be attributable to the increased construction costs being experienced by developers and in turn passed on to tenants. Specialized industrial's rent growth spiked to 9.2% in the first quarter, up from 7.3% in the fourth quarter of last year. Logistics increased rent growth by 40 basis points reaching 6%. Flex contrasted these positive trends dipping 150 basis points to 1.1%, the lowest growth rate since the start of this real estate cycle. The cause of this is likely due to the office component of flex space and the corresponding depression in current demand for office space. Rent growth is forecasted to trend down across all industrial products over the coming year, before picking up in the first quarter of 2022 and rising into the foreseeable future (Figure 7).

This will continue to drive investment and entice developers to tackle increasingly difficult parcels with the promise of strong returns and contained risk. Specialized industrial is destined to cross the $10 per square foot threshold in 2022. Logistics is also on the verge of breaking the $10 per square foot threshold, sitting at $9.66 in the first quarter. The highest rent growth is happening around logistics nodes surrounding the Columbia River; including Columbia County, I-5

Corridor Outlying, Rivergate, Hayden Island / Swan Island, East Columbia Corridor, and Guilds Lake.

Construction costs increased during the first quarter of 2021 by a massive 3.8%, which is the largest single quarter cost increase since the inception of the Mortensen Cost Index. Supply chain disruptions have driven the increase, with shortages in raw materials, issues with manufacturing widespread. These cost increases are expected to moderate as we progress through 2021 (Mortenson).

FIGURE 8



SALES/LEASING ACTIVITY

Cap rates across all product types remained stable in the first quarter of 2021, continuing to gravitate around the 6.10% mark as it has since the fourth quarter of 2019 (Figure 8). This demonstrates the resilience and excellent fundamentals of the Portland industrial market, with investors looking past any possible issues caused by the Coronavirus and focusing on the strong performance of the logistics and 'last mile' phenomenon. The stability in cap rates is expected to continue for the coming years.

Private buyers, along with institutional capital have been more active in the last year compared to the last 3 years. On the other hand, REITs and private equity have been less active. On the seller front, institutional capital has been actively disposing of real estate over the last year, representing 31% of seller activity (CoStar). LBA Realty and Washington Capital Management Inc. have both sold over 80 million dollars-worth of industrial over the last year. Clayco Inc, Shorenstein Properties LLC, Panattoni Development Company Inc., and Colony Capital have all been active sellers. On the buyer front, PCCP LLC, Clarion Partners, Kolberg Kravis Roberts & Co. L.P have all led on the acquisition front over the last 12 months (CoStar).

Despite not reaching the levels of late 2019 and early 2020, sales volume was up in the first quarter of 2021 from the previous quarter posting $276 million in sales. Over the last 12 months, East Columbia Corridor, Rivergate Wilsonville, Airport Way have seen sizable sales volume. This contrasts other significant submarkets which have not had any sales activity over the last 12 months such as Tigard, Hayden Island/Swan Island, Guilds Lake, SE Close-In. Perhaps in a correlated sense, two of the biggest submarkets with the highest price per square foot are the SE-Close In Submarket and Tigard.

Some of the top sale transactions in the first quarter of 2021 include the Bybee Lake Logistics Center I & II in the Rivergate submarket. Priced at $82,500,000 or $113 per square foot, PCCP LLC bought the 719,175 square foot logistics facility. Phase I has 83 loading dock doors , and Phase II has 56 loading dock doors. Both buildings have 32' high clear heights. Other significant sales include 192,960 square foot facility in the CBD/West Vancouver submarket, and a 100,611 square foot facility in Wilsonville.

It is worth noting that there are very few large buildings available for sale. In fact, there are no buildings in the metro area over 500,000 square feet that are available. The only building over 200,000 square feet that is available is east of Vancouver in Camus. Originally built in 1998 for manufacturing use, the building was 35,000 square feet of stacked office space, thirteen dock loading doors. In 2013, the building was updated with fresh exterior paint, and a new roof. The building is also fully available for lease at 55 cents per square foot and at a surcharge of 85 cents per square foot for the office component.

In terms of 2021 leasing activity, Northeast Portland has displayed strong results with 543,013 square feet leased. Southeast has also performed well with 244,372 square feet (Kidder Mathews). Prologis have successfully leased two of their new buildings at Prologis Meadows to an undisclosed tenant in January, constituting 900,000 square feet across the two buildings (Kidder Mathews). Two other significant leases included JCB packaging, who picked up a 123,120 square foot space in Wilsonville in March, gaining excellent access to the Port and Terminal 6. And Owen Corning, the world's largest fiberglass composite manufacturing company acquired 146,000 square feet of space in the first quarter of 2021. The property is located in Glisan Corporate Park, on the Eastside in Gresham (CoStar).

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07

COMMERCIAL MARKET

Retail Market Analysis

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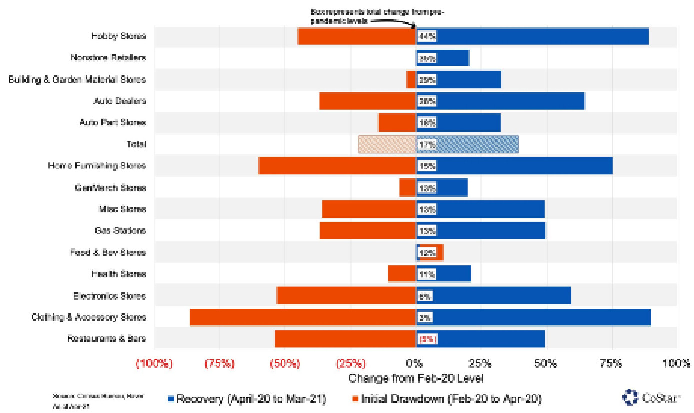
FIGURE 1: CHANGES IN UNITED STATES SALES FIGURES BY RETAIL TYPE



Lockdowns, a constantly shifting set of in-person shopping requirements, the growth of E-commerce, and the volatility of demand for specific retail goods has taken retail on a rollercoaster ride throughout 2020. Comparing sales figures from the initial impact period (February 2020 - April 2020) to the recovery period (April 2020-March 2021), reveals the extent of the extreme fluctuation in sales, and which retailers have fared better or worse.

Hobby stores sales contracted almost 50 percent during the impact period before rebounding over 90 percent during the recovery period. Building & garden material stores felt little impact from the pandemic with a 5% contraction during the impact period, before sales grew over 30% during the recovery period. This likely reflects people's desire to improve their homes and remain productive during the lockdown.

Clothing and accessory stores have experienced enormous turbulence, with sales seizing up during the initial impact period by over 50% before growing over 90% in the recovery period as seen in Figure 1. This revival for apparel perhaps represents some pent-up consumer demand, coupled with newly acquired disposable income courtesy of the government's stimulus checks.

Food and beverage stores saw no contraction at all, with people left little option during lockdowns but to wine and dine at home. And in a correlated sense, the only retail type whose sales have not rebounded past pre-pandemic levels is restaurants and bars. With the vaccine coming into focus in the second quarter of 2021, there is hope that summertime will revive the struggling hospitality industries, and the essential jobs that they provide (CoStar).

This variation in sales performance is also heavily informed by geography in Portland. In the first quarter of 2021, Downtown Portland is still coming to grips with issues of homelessness and riots. Businesses who had deboarded their windows believing that the worst of the civil unrest was behind them, are now being forced to reboard their windows or run the risk of further damage. One such store, John Helmer Haberdasher, who runs a clothing shop in Downtown Portland, had been draping fabric across his windows to avoid being the target of looting and vandalism. Seeing an uptick in foot traffic and less unrest in the first quarter, John had decided that those preventative measures were no longer required. But a recent riot ended with significant damage to John's Haberdashery. John remarked in an interview with OregonLive that, "I'm frustrated and upset… these aren't protests. It's pure vandalism" (Goldberg).

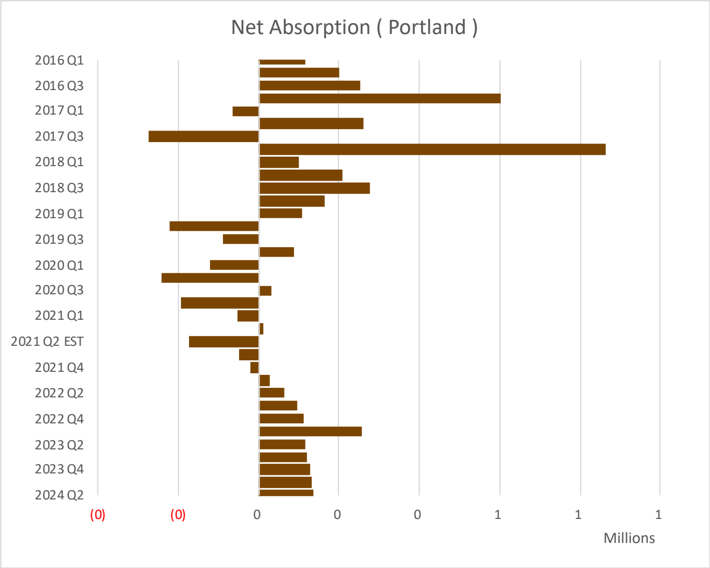
This sheds some light on the extent of the challenges some retailers are facing; pandemic lowered foot traffic, riots damaged their inventory and capacity to operate, and homelessness is a prevailing issue. Such businesses may struggle to survive. The new higher business taxes may also complicate the recovery process. Contrasting this is suburban areas, where an increasingly vaccinated public are leaving their homes, enjoying more spread-out surrounds and returning to shops. These challenges and opportunities facing retail are being reflected in rent growth, deliveries and vacancy metrics discussed below.

SUPPLY

The sizable headwinds of E-commerce, combined with the evolving landscape of the pandemic has been eroding in-person shopping levels. This stymied demand and increased risk profile has dented developer enthusiasm to break ground in the Portland metro. One broker remarked that it is difficult to get tenants to sign on to a new space with higher rent when a newly vacated, class B asset is available nearby with much cheaper rents. This type of dynamic is unlikely to induce developers to take on the risk of delivering new space into a slowly recovering market. Yet, deliveries had been waning prior to the pandemic; since mid 2016 there has been less than 500,000 square feet of new supply built each year. This reticence is expected to continue for the near future, with a modest 760,000 square feet under construction, or 0.6% of the total retail inventory.

The development that is occurring is reflecting the current demand trends of outmigration from urban nodes, and is occurring in suburban and outlying communities. North Beaverton, Clark County Outlying, Kruse Way, and SE Outlying are the four submarkets representing most of the new construction. Milltowner I in North Beaverton is the biggest project under construction, with the 63,000 square foot site replacing a demolished center from the 1960s. The center will be anchored by CVS Pharmacy who will take on 13,000 square feet of space, and Sunset Athletic Club with 23,000 square feet. In terms of deliveries over the last 12

FIGURE 2: NET ABSORPTION (PORTLAND)



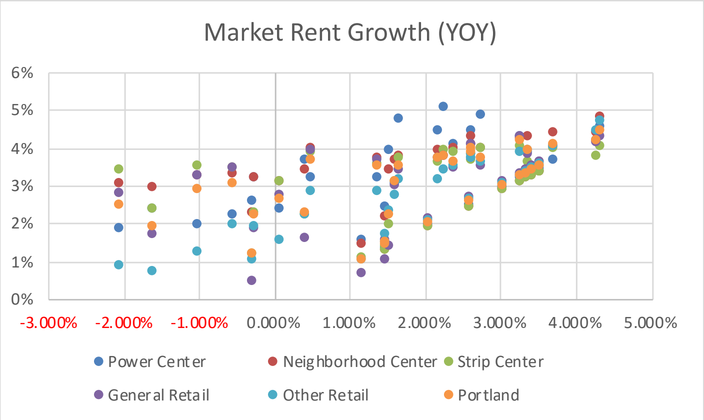
months, North Beaverton has represented the majority of new space with 306,000 square feet. The Orchards submarket and Clark County Outlying both registered over 30,000 square feet of space over the last 12 months (CoStar).

DEMAND

A growing economy and population combined with low levels of new supply has caused vacancy rates to compress over the last decade, reaching a low point of 2.9% in the fourth quarter of 2018. After reaching this inversion point, retail demand began to distinctly contract in the lead up to the pandemic, with the momentum of this downward trend perhaps exacerbating the impact when the shutdown occurred. Demand for rest of 2021 is expected to be somewhat slow, with the vacancy rate hovering just above 4%, yet the continued low supply will assist in mitigating upward pressure on vacancy rates and help rates within the retail sector remain stable through to when life resumes some form of normalcy. Power centers, who had generally fared well during the pandemic due to home improvement anchor tenants, are experiencing a spike in vacancy rates. In the first quarter of 2020, the vacancy rate for power centers were sitting at around 2%, and one year later are at 4.75%. This growth in vacancies is expected to smooth out around mid to late 2022 before compressing into the foreseeable future. Similar vacancy trends of a mild growth in vacancies before moderating in 2022 are expected to be seen in neighborhood centers, strip centers and general retail. Availability rates have been slowly increasing over the pandemic from 4% in the first quarter of 2020 to 5% in the first quarter of 2021 (CoStar).

Absorption rates are particularly telling in the absence of new supply. And in Portland's case, despite little new supply, there has been largely negative absorption in the Portland metro since the second quarter of 2019. The first quarter of 2021 saw a negative absorption of 91,583 according to the Kidder Mathews brokerage report (Kidder Mathews). This continues on from the fourth quarter of 2020's negative absorption of 131,693 square feet of space. Negative absorption is expected to continue throughout 2021 demonstrating the continued effects of the pandemic, and businesses being forced to vacate space. However, there is positivity on the horizon tied to the vaccine rollout, with CoStar forecasting an expected recovery in 2022, at which point absorption rates will trend positive for the foreseeable future.

FIGURE 3: MARKET RENT GROWTH (YOY)



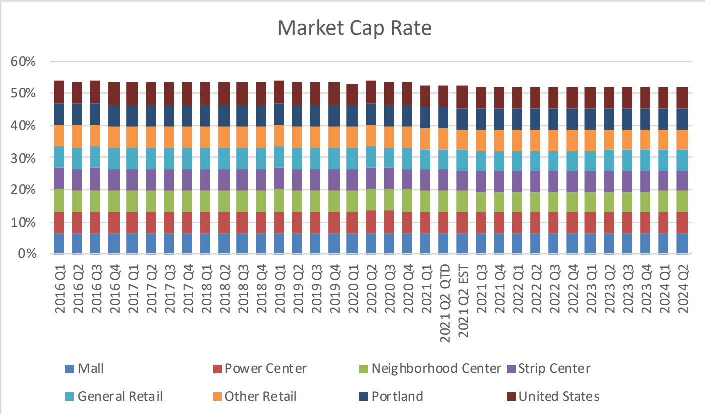
RATES / COSTS

With the recent years of low new supply keeping vacancy rates at near structural levels, rental growth during this real estate cycle has been increasing. The pandemic brought an abrupt halt to this period of strong rent growth, but unlike the major rent losses that have occurred elsewhere in the United States, Portland's rent growth has managed to stay in the black. This also contrasts the fallout from the Great Financial Crisis of 2008, which resulted in 4 years of negative rent growth in Portland. Since the lowest point after the Great Financial Crisis, average rents have increased from $18 to just over $22.50 by the first quarter of 2021. In general, Portland rents have been sitting above the national average by around $1. Neighborhood centers and power centers continue to see the highest rent growth. In turn, power centers continued to outperform other retail reaching over $27 per square foot. Mall rates have been experiencing rental growth compression over recent years and are gravitating around 2018 levels of $22.95 in the first quarter of 2021. Rent growth will remain volatile for the remainder of 2021 before stabilizing and increasing throughout 2022 (CoStar).

SALES / LEASING

Retail leasing demonstrated strong gains in the first quarter and is trending towards pre-pandemic levels. On a monthly basis, there was 220,000 square feet inked during March, which is the most active month since 2019. Ongoing demand for discounted clothing, as well as outdoor and recreational goods is driving demand for space, and is evident in the leasing activity in the first quarter of 2021. As indoor entertainment opportunities continue to be limited, it will entice people towards outdoor recreational pursuits. Old Navy was the only national retailer acquiring space in the first quarter, picking up a 20,388 square foot lease at a storefront space at Cascade Station in the Airport Way submarket. Cascade Station is a power center anchored by IKEA and Target, and Old Navy will be acquiring the space from the previous tenants Staples in June this year. In other leasing news, the Portland Winterhawks hockey team renewed their tenancy of a 30,976 square foot skate center in Valley Plaza in Beaverton. Blue Dog RV acquired a 20,800 square foot space from Bickmore Auto Sales and will be repurposing the space to suit the needs of a growing RV sales and service business.

FIGURE 4: MARKET CAP RATE



Even though rental rates continue to show positive gains, investor sentiment is reserved and appearing to be waiting to see how the pandemic unfolds before taking on any additional risk. Prior to the pandemic, an annual volume of over $500 million in trades had been occurring this retail cycle. Sales did pick up in the fourth quarter of 2020, and the first quarter of 2021 has outperformed mid 2020 levels.

Top sales transactions in the first quarter included a 24,972 square feet space in Tigard, purchased and sold by private buyers at $254 per square foot. Also, two properties were sold in the Lake Oswego/West Linn Submarket; a 47,451 square foot Class B space located just off the 205 freeway and a 35,065 square foot space in South Lake Oswego (Kidder Mathews). The cap rate compression that has been occurring this real estate cycle experienced a minor glitch in the second and third quarters of 2020. However, the compression resumed in late 2020, and is destined to draw cap rates back down to rates closer to 6.5% for the foreseeable future. Noticeably, on the buyer and seller front, private equity, REITs, and institutional money have been largely absent, with most of the sales transacting between private sellers and users. Top buyers over the last year include Holman Enterprises, Matthews Real Estate Holdings LLC, and Benderson Development Company Inc (CoStar).

RESOURCES

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2. Goldberg, Jamie. Oregon Live. 2021. <https://www.oregonlive.com/business/2021/04/downtown-portland-businesses-reeling-again-after-latest-spate-of-vandalism.html>.

3. Kidder Mathews. “Portland Q1 2021 Brokerage Report.” 2021.

08

HOUSING PRODUCTION REPORT

Oregon's Covid-19 Low-Density Single-Family 'Vote-with-your-feet' Paradigm: Exodus from the City to the Burbs

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In Oregon, the Covid-19 year-long pandemic era continues to cause a spatial lifestyle preference shift from high density urban apartments to low-density suburban single-family homes. Since March 2020, when the novel corona virus entered our collective lexicon, shelter-in-place homebound living marked the beginning of a dramatically altered existence.

Where we live, work, learn, and play continues to be quarantine-like as we follow the CDC guidelines to mask-up in public and live siloed in our human pods. Over 500,000 people have succumbed to the virus in the U.S., including over 2,250 Oregonians. This 3rd article, in a 4-part series examining the effects of the Covid-19 economy on housing production, reveals a continued trend in the fourth quarter – single-family housing production, away from the urban center, is up. And, in Oregon, it's way, way up.

At issue, Covid-19 has caused a cascading chain of responsive events and socioeconomic casualties: schools, hotels, and restaurants have closed; entertainment venues have gone silent; ten million people forced out of work; historic unemployment rates inducing national eviction/mortgage foreclosure moratoriums to keep people housed. For those deemed non-essential workers and still employed, office closures have tethered its employees to home computers, working/schooling remotely, eliminating the need to commute.

With no city amenities available coupled with social distance mandates, the non-commute accelerated a 'vote-with-your-feet' type of exodus from city living to the burbs. Defying high-density smart-growth sustainable urban planning paradigms, the low-density suburban pandemic Zoomtown has emerged as the ennui remedy – the social isolation remote-living pandemic pod. It may just be a temporary hollowing-out of the urban core, or this could be a permanent trend that urban planners just didn't anticipate.

COVID-19 SPURS NEW EMERGING HOUSING PRODUCTION TRENDS

"Employment levels in the residential construction sector are back to pre-pandemic levels, while nonresidential construction has only recouped *60% of the jobs lost* from February to April of 2020, according to the Associated General Contractors of America."

"Employment levels in the residential construction sector are back to pre-pandemic levels, while nonresidential construction has only recouped 60% of the jobs lost from February to April of 2020, according to the Associated General Contractors of America."

FIGURE 1.1

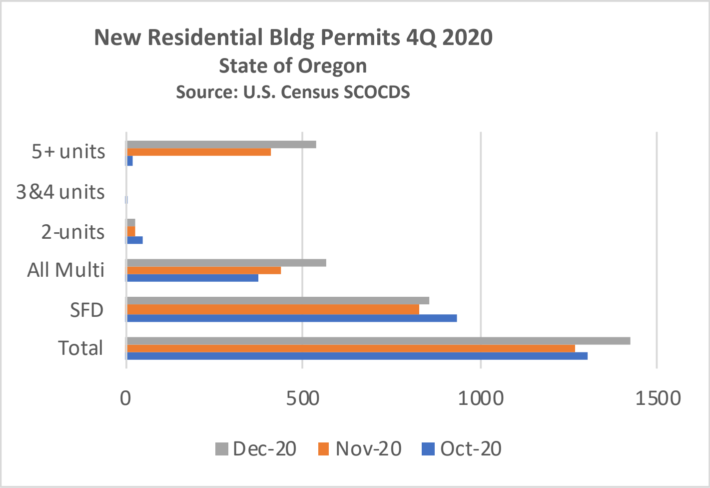
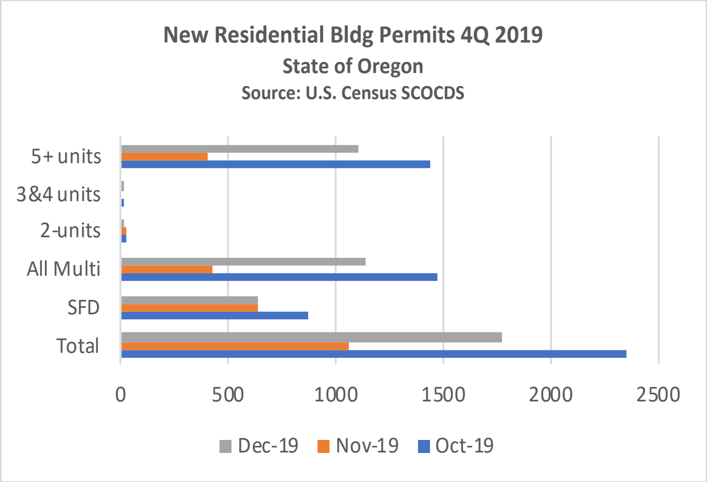


FIGURE 1.2



EMERGING MARKET OPPORTUNITIES.

While suburban single-family residential development is booming, multifamily and commercial construction is not. As a result, two pandemic-related market trends have emerged:

1) Commercial builders are pivoting to single-family residential construction;

And

2) Single-family built-to-rent construction (SFBTR) is on the rise.

Reviewing fourth quarter data tells the story.

FOURTH QUARTER NATIONAL AND REGIONAL RESIDENTIAL NEW CONSTRUCTION BUILDING PERMITS

Compared to 2019, single-family dwelling (SFD) new residential construction permits were up in the fourth quarter in every region except the Northeast. In the West region, new building permits were up from 349.8 to 357.8. However, multifamily dwellings (MFDs) were down from 481.4 to 427.6

Likewise, as shown in Figure 1.1 and 1.2, since the Oregon construction industry remained in essential workers category, statewide SFD residential sectors finished strong in the fourth quarter, making up for the slow period during the March 2020 initial pandemic onslaught and the related 3-month economic shutdown.

Reviewing fourth quarter 2020 U.S. Census new building permit data, from November through December, single-family dwelling (SFD) suburban construction consistently trended upward nationally, in Oregon statewide, and locally in the Portland Metropolitan Statistical Area (MSA). Conversely, multifamily dwelling (MFD) new building permit data remained flat or declined during the same time period.

When looking at overall permitting trends, there has been a clear shift away from new multifamily residential product. While single family residential permits have generally maintained their rate of production through the pandemic, we have seen the number of multifamily

FIGURE 2.1

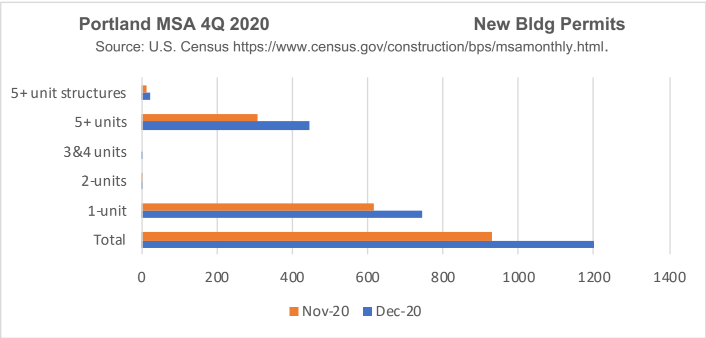
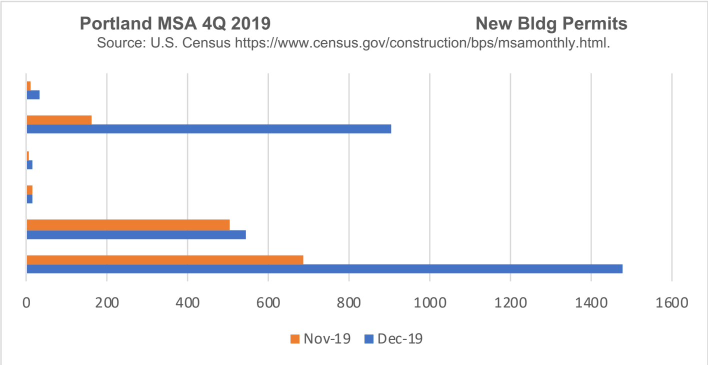
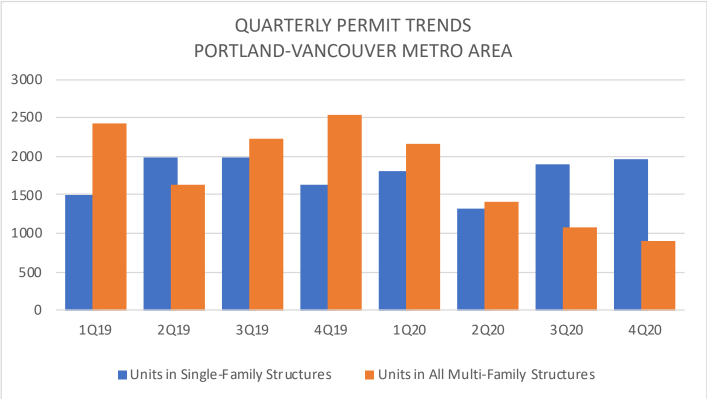


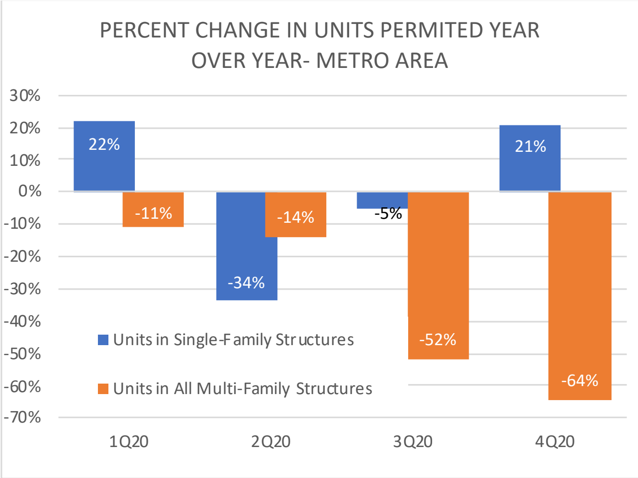
FIGURE 2.2





residential units drop precipitously. This is likely attributable to softening market conditions, a shift in preference away from higher density product, and an increased level of uncertainty in the market. Recent policy actions such as eviction moratoriums have likely marginally decreased investor appetite for rental residential product.

However, the local suburban Portland metro area jurisdictions show a geographic suburban divide in construction type. While the numbers are not exactly linear, a spatial pattern emerges regarding increased SFD building permits in largely suburban Clark and Clackamas counties versus the more densely urban Multnomah and Washington counties. In fact, as shown in Figures 3.1 and 3.2, where there is MFD development, it is also higher in the suburban rather than urban jurisdictions. The pattern: The further away from Portland the higher numbers of new residential building permits.



THE SUBURBAN DIVIDE

The PSU CRE Quarterly analyzes housing production data in the Portland MSA which includes four counties, Multnomah, Washington, Clackamas, and Clark as shown in *Map Figure 1*.
Note: Although the City of Portland is shown separately on this map, it is part of Multnomah County.

Specifically, Multnomah and Washington counties saw a decline in housing permits of 32% and 14%, respectively, while the suburban Clackamas and Clark counties experienced an increase in new building

FIGURE 3.1

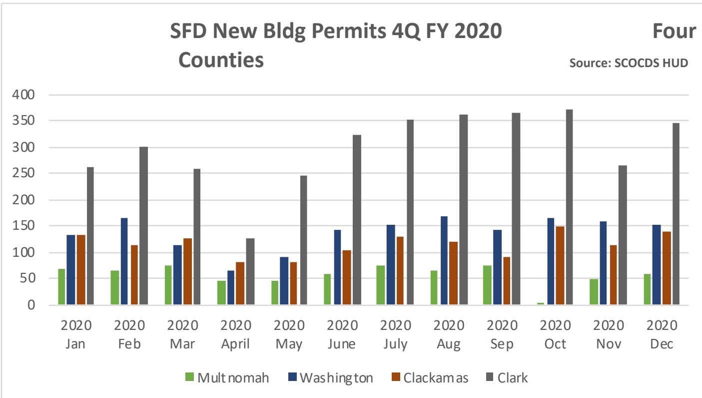
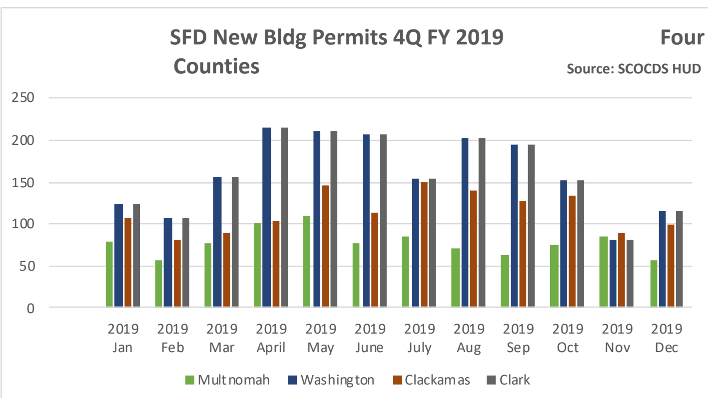


FIGURE 3.2



permits of .01% and 35%. Both counties border the City of Portland. Clark County experienced exceptional increases showing only a one-month April dip in production and a 79% increase in the fourth quarter of 2020 compared to 2019. Without exception, the further away from the urban city core, the greater increase in housing production.

Map Figure 1: Source SETAC – Wiley

CLARK COUNTY, WASHINGTON EXPERIENCES HIGHEST LEVEL OF NEW BUILDING PERMITS

(See Map Figure 1)

Immediately north of the City of Portland, Clark County has nine jurisdictions that experienced increased building permits with the majority SFDs in Camas (337), La Center (136), Ridgefield (674), and Washougal (58). Unincorporated Clark County, Battleground, and Vancouver experienced increases in both SFDs and MFDs as shown in Figures 4.1 and 4.2.

FIGURE 4.1

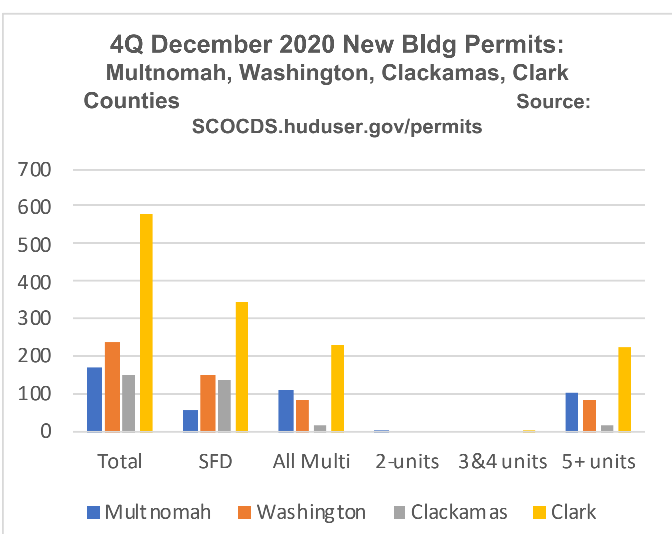


FIGURE 4.2

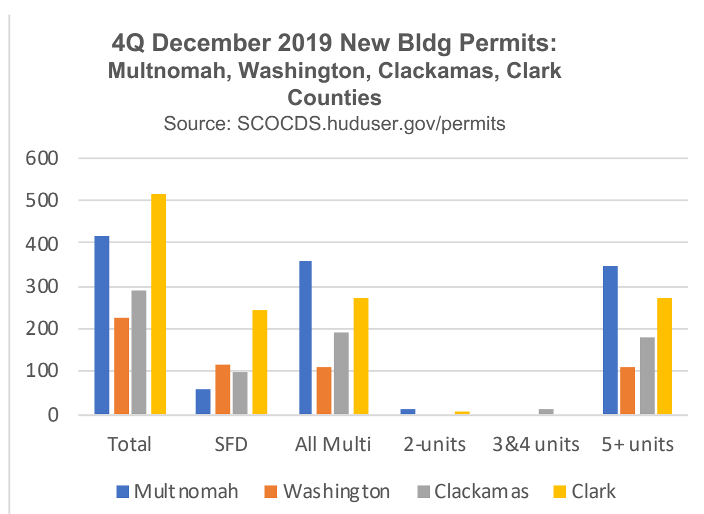


FIGURE 4.3

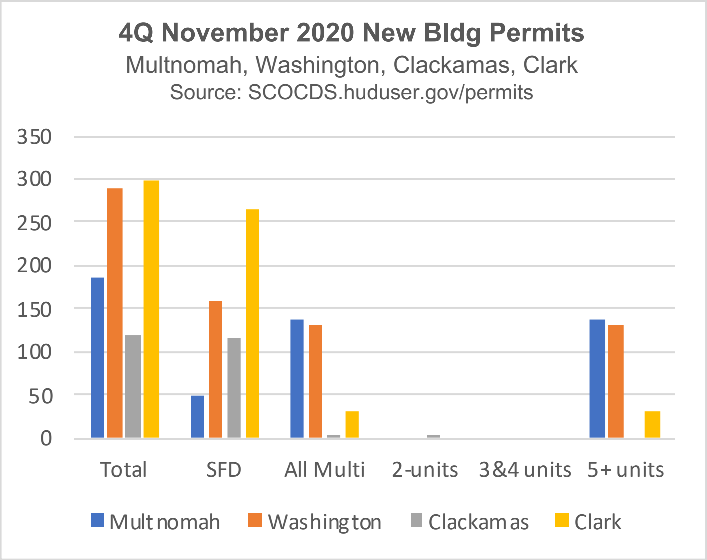
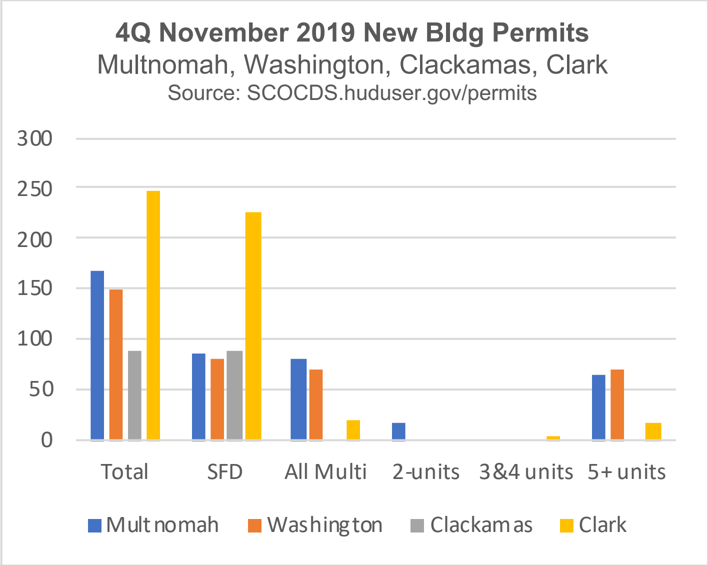


FIGURE 4.4



However, not everything is rosy in construction land. Even as the residential construction sector was booming in the fourth quarter, the commercial sector was not. During the final quarter of 2020, while the U.S. economy grew at an annualized 4% rate, investments in commercial construction grew at a 3% annualized rate. (Associated Builders: January 2020).

"More [commercial] contractors reported postponed or canceled projects than new starts. Three quarters of contractors surveyed, or 75%, said they'd had projects pushed out or nixed completely, up from 60% in August and 32% in June, while only 23% reported working on new or expanded jobs."

(Construction Dive, October 2020)

"Private nonresidential construction spending tumbled 10 percent from December 2019 to December 2020 and public work has been slowing since last March, according to recent Census Bureau data."

The construction professional organizations echo each other expressing their concerns about low demand for commercial construction during this pandemic. According to the Associated General Contractors of America, an increase in project cancellations and postponements is forcing nonresidential contractors to lay off workers as they complete projects started before the pandemic and firms exhaust their Payment Protection Program loans. Emphasizing the disproportionate residential construction boom, its chief economist stated that construction industry employment is expected to shrink in more states without federal assistance. Ken Simonson.

"More [commercial] contractors reported postponed or canceled projects than new starts. Three quarters of contractors surveyed, or 75%, said they'd had projects

"[Nationally], construction employment fell in 191, or 53 percent, of 358 metro areas in 2020. Construction employment was stagnant in 33 additional metro areas, while only 134 metro areas—37 percent—added construction jobs between December 2019 and December 2020 (AGC The Construction Organization). In fact, as a direct result of reduced Covid-19 economic commercial activity, the City of Portland's Bureau of Development Services (BDS) announced layoffs effective in March 2021. Moreover, BDS also anticipates a lagging recovery - projecting reduced revenue over the next two to three years"

(Ken Ray/Perry)

pushed out or nixed completely, up from 60% in August and 32% in June, while only 23% reported working on new or expanded jobs." AGC chief economist Ken Simonson." (Construction Dive, October 2020)

The related data reveals the uneven nonresidential construction trend.

"[Nationally], construction employment fell in 191, or 53 percent, of 358 metro areas in 2020. Construction employment was stagnant in 33 additional metro areas, while only 134 metro areas—37 percent—added construction jobs between December 2019 and December 2020 (AGC The Construction Organization). In fact, as a direct result of reduced Covid-19 economic commercial activity, the City of Portland's Bureau of Development Services (BDS) announced layoffs effective in March 2021. Moreover, BDS also anticipates a lagging recovery - projecting reduced revenue over the next two to three years" (Ken Ray/Perry).

"In the midst of a pandemic, demand for big commercial projects like office buildings or hotels, which are capable of generating sizable permit fees, has plummeted." (Oregon Public Broadcasting, January 28, 2021)

REMEDY FOR COMMERCIAL BUILDERS: PIVOT TO RESIDENTIAL

Since the commercial building sector lacks project demand, some nimble developers are adapting to the pandemic-induced market change by switching to meet the enormous residential construction demand. "The demand has been significant," said Meltzer. "We've been receiving calls asking us to do it, as opposed to us chasing clients, which is the normal way business works. We decided, let's redouble our efforts and focus on it." Brad Weltzer, Plaza Construction (Construction Dive: 2021).

Some commercial builders are even turning to affordable housing construction. Since both the affordable housing and construction industry are deemed essential businesses, this emerging sub-market, in a down commercial market, makes sense.

“If 2020 was indeed the year of leaving the city for more space in the suburbs and exurbs, it shouldn’t be a surprise that single-family rent growth surged.”

“U.S. single-family rent growth increased 3.8% year-over-year - an improvement over the 1.4% reported in June and 2.9%.”

UPTICK FOR SINGLE-FAMILY-BUILT-TO-RENT SUBMARKET

Continuing with the same Covid-induced suburban SFD purchase trend, contractors are finding a newer sub-market niche with a more affordable detached residential model: single-family build-to-rent. For those who find Covid apartment living not adequately socially distanced or spacious enough for home/office use, renting a brand-new house may meet the need and fit the bill. Families who need Covid elbow room but lack financial resources to fork-out a large down-payment, and/or want to maintain mobility options without being anchored to a 30-year mortgage, now have this alternative housing type from which to choose. People like options in their Zoomtown.

However, renter beware, even as the port of entry into this SFD may be more affordable than purchasing, the monthly rents may not be cheap.

“If 2020 was indeed the year of leaving the city for more space in the suburbs and exurbs, it shouldn’t be a surprise that single-family rent growth surged.”

At the same time, the single-family rent surge is good for builders. It demonstrates the market-niche demand for contractors looking to profit from building this housing type. In fact, one only need to observe which entities are investing in SF-Build-to-Rent that evidences the high demand: Blackstone equity investors, one of largest portfolio equity investors in the U.S. In fact, Blackstone has invested in SFBTR.

“U.S. single-family rent growth increased 3.8% year-over-year - an improvement over the 1.4% reported in June and 2.9%.”

By the way, custom homebuilding ended the fourth quarter flat which makes sense during a recession. The more affordable SFBTR therefore becomes the must-watch new construction single-family housing sub-market.

CONCLUSION

As we enter year two of the pandemic, Covid-19 is still driving the economy. It is creating ever increasing demand for low-density suburban/exurban detached housing, and challenging urban planners' high-density CBD smart-city sustainability paradigms. Covid-induced migration is a thing. People are speaking with their feet by moving to homebound (with a yard), remote working/learning, socially distanced, single-family housing pods in the burbs. Whether this is a permanent paradigm shift remains uncertain. Even with vaccines on the way for the general population, the only thing that remains certain during this pandemic is uncertainty.

09

COMMERCIAL MARKET

Office Market Analysis

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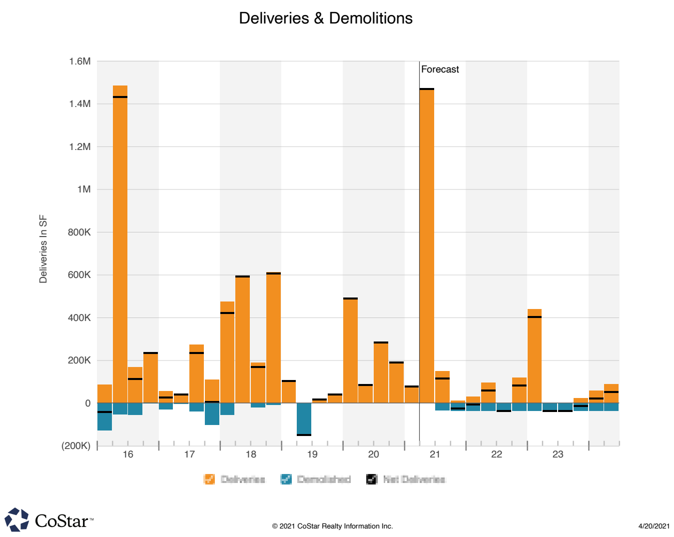
808 on Alder Building
Source: Summit Development Group

INTRO

It has now been a full year since Governor Kate Brown's stay-at-home order was put into action in March 2020, and the landscape of Portland's office market has transformed in many ways to adapt to the new status quo. Now that COVID-19 vaccines are currently available to everyone over the age of 16 and over 35% of the population already having received vaccinations[1], we're now starting to see the light at the end of the tunnel. Additionally, many residents have become actively opposed to the damage and vandalism that has been part of the ongoing civil unrest focused primarily in the City's Central Business District. While many of the trends we've seen throughout the pandemic are expected to continue throughout 2021, many projects in active development indicate that Portland is regaining its place as a viable and growing commercial real estate market in 2022.

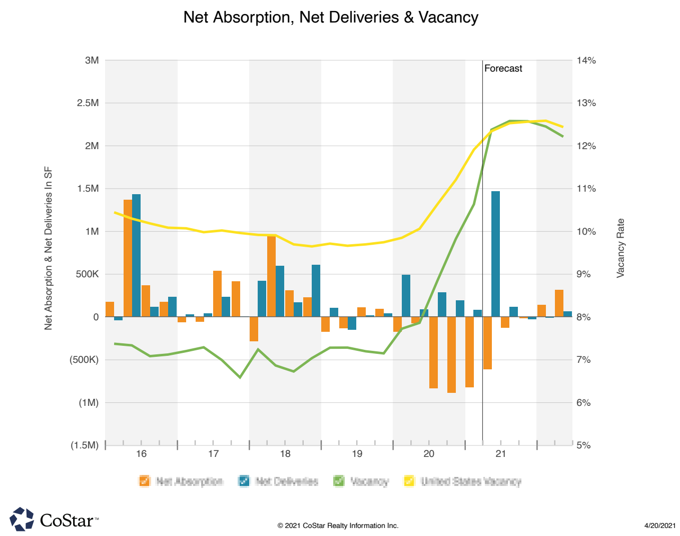
DELIVERIES



Due to a sharp decrease in construction starts during the pandemic and a minimal speculative development pipeline, the first quarter of 2021 only saw 77,000 square-feet of new office space delivered, the lowest amount in over a year. The most noteworthy delivery is the 808 on Alder building in the Central Eastside. Developed by Summit Development Group, 808 on Alder offers approximately 35,000 SF of Class A creative office space with wet lab capabilities to serve the growing bioscience industry in Portland. This building is designed to serve the growing needs of small to medium-sized bioscience companies emerging from business incubator programs at OHSU[2]. In the chart to the left, you can see a huge spike in deliveries expected in the second quarter of 2021, however this is almost exclusively attributed to build-to-suit projects associated with the Nike and Adidas Headquarters expansions that have been underway for years now. The relatively low amount of new construction in the pipeline will help stabilize the increasing vacancy rates and decreasing rental rates we have been seeing since the start of the pandemic.

ABSORPTION

Even with the end of social distancing guidelines in sight,



Portland's office market experienced another drastic period of negative absorption, with a net absorption of -823,000 SF[3]. This number is mostly influenced by the high number of office renters in the Central Business District favoring lower density accommodations in surrounding suburban areas where public safety hasn't been as much of an issue.

Another incentive to giving up central business district office space is the shift of residential demand away from the city center. While there was already a growing interest in suburban living, "the coronavirus amplified the desire for more size, comfort, and livability.[4]" By moving their operations to suburban areas around the Portland Metropolitan area, companies are following this workforce shift and taking advantage of this new access to potential employees.

Overall, the main speculation by office real estate professionals is whether or not employers will continue relying on tele-working that has been a staple in the post-pandemic world, or if they will reclaim their traditional office spaces once social distancing guidelines are no longer necessary. While some have stated that they value in-person exchanges of ideas, and using office space as a 'destination' for socializing, many companies are able to operate at pre-pandemic productivity without exposing themselves to the overhead costs associated with leasing premium office space. While this negative absorption is expected to rebound over the next year, it remains unknown how long it will take to return to pre-pandemic occupancy levels.

Source: entrepreneur.com

VACANCY

The first quarter of 2021 shows no change to the steadily increasing vacancy rates we've observed over the past year. Portland's overall office vacancy is currently around 14.7%, representing an increase of 410 basepoints over the past year[5]. Furthermore, the vacancy in the Central Business District is approximately 19.4% compared to only 12.3% in suburban areas[6]. This comparison shows the clear challenge faced by downtown property owners and managers to attract tenants back to the city center, and activating all the vacant space in what has historically been the economic hub of the region.

Once a sufficient number of vaccines have been distributed and faith in public safety has been restored to the downtown district, investors and potential renters will begin to repopulate the area. Unfortunately, current projections show vacancy rates continuing to increase throughout 2021. In addition, the sublease market has grown substantially, with roughly 1.2 million square feet of space currently available in the central city.

LEASING

One cause of the record setting negative absorption discussed previously is the reluctance most office tenants have towards spending money on physical office space that they can't fully utilize. Tele-working was forced upon employers when COVID-19 was first introduced, but many workers have opted to continue working from remote locations and abandoning the traditional office space even after restrictions have declined. This has led to many tenants not renewing leases that are expiring, or turning to subleasing as a means to recovering a portion of their expenses.

The amount of sublease space on the Portland market is currently 1.2 million square feet, double the amount recorded at the beginning of 2020. This huge surge has led to a great supply surplus, and is consequently bringing sublease rental rates down. The last time we saw a divergence between direct rents and sublease rents in Portland was in 2017. Additionally, lessors are having to offer more and more concessions in order to stand out among the large number of available spaces on the market. The substantial inventory of discounted sublease space is expected to reduce pricing power for directly leased space.

One of the largest leases executed in the first quarter of 2021 was an extension for a 90,000 square-foot Class A office space in the central business district by CH2M Hill Inc at the Jacobs Center[7]. While many companies are reluctant to lease space in the downtown district, this shows that companies in the engineering and construction operations industries are still interested in maintaining a central presence in the Portland market. Similarly, SERA Architects has signed a direct lease for a 43,000 square-foot space at The Galleria in the western Central Business District. This property has been under renovation for almost a year.

SALES

Capital investments in the Portland office market have been largely stagnant over the past year. The largest sale in the first quarter of 2021 was the 8700 Building at Creekside Corporate Park in Beaverton, Oregon that sold for $132 per square foot, or $4 million. This transaction highlights the shift of capital interest from the traditional urban core to the suburban submarkets.

Aside from this outlier, investors are continuing to show little interest in heavy investments in the Portland market. This is due to the uncertainty of when the economy will bounce back, what the future of office space will look like, and furthermore, the desire to wait to buy until property prices are at their absolute low. Prior to COVID-19, office rates were at their historic high. This shows the potential for future value going forward, but only after issues associated with the pandemic and public safety have been addressed.

CONCLUSION

Although the first quarter of 2021 looks very similar to preceding periods throughout the pandemic, the introduction of the COVID-19 vaccine has put things in motion to get the economy and commercial real estate industries back on track. It will take time to see the effects in the market, but we're at a point where we can see the light at the end of the tunnel. The next nine months will be a very interesting time to see who starts making moves first, taking advantage of elevated capitalization rates, plentiful supply, and low property values brought on by the current pandemic-induced recession. It's important to remember that no market has been immune to the effects of COVID-19, and that Portland still stands out from other cities in the Western United States due to its relatively low property values and growing workforce.

RESOURCES

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