

Future in Focus

Portland Multifamily

JUNE 2023



716

Units Completed in Q1 2023

2.7%

YoY Change in Inventory

1,547

Trailing 12-Month Net Absorption (Units)

1.0%

YoY Rent Growth

5.3%

Vacancy Ending Q1 2023

An expected return to healthy norms

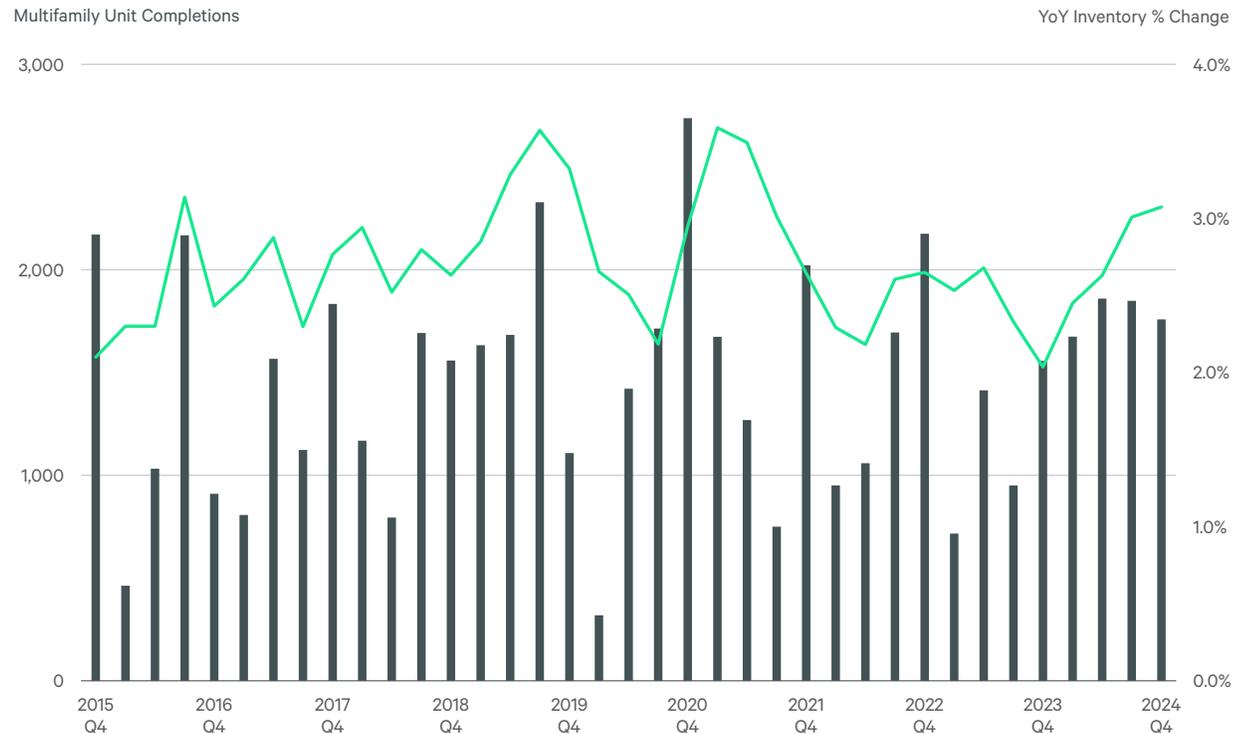
The Portland metro area is the 22nd largest apartment market in the U.S, with over 228,000 total units. It also boasts 1.25 million jobs, making it the 20th largest employment market. This quarterly report provides key stats, an overview of the development pipeline, and an outlook on future multifamily performance.

Revised data on leasing activity during the first quarter of 2023 shows that the year actually began with a slow start, following an expectedly tepid winter in 2022 that saw relatively few renter moves. Thus far in Q2, however, leasing activity has rebounded to more usual levels. Relative to other commercial real estate assets, multifamily investments remain less vulnerable to downbeat economic headlines and higher lending rates.

Vacancy remained flat in Q1 2023 at 5.3%. Contrary to quarter-over-quarter declines in average rents seen across most major metro markets in the U.S., local average rent increased 2.3% in Q1.

The failure of three mid-sized regional banks represented the biggest news in Q1 of 2023, triggering a sharp decline in bank stock prices across the globe. The local and national bank systems have thus far weathered this distress, though interest rates remain several percentage points higher than they were one year ago. Net of tech layoffs since late 2022, the Portland metro area’s base of tech employees has grown more than 10% since February 2022 to almost 29,000 currently. With respect to total employment, the Portland Metro has added 20,500 jobs since February 2020.

Growth of Multifamily Unit Inventory



Source: CBRE Research, CBRE Econometric Advisors, June 2023.

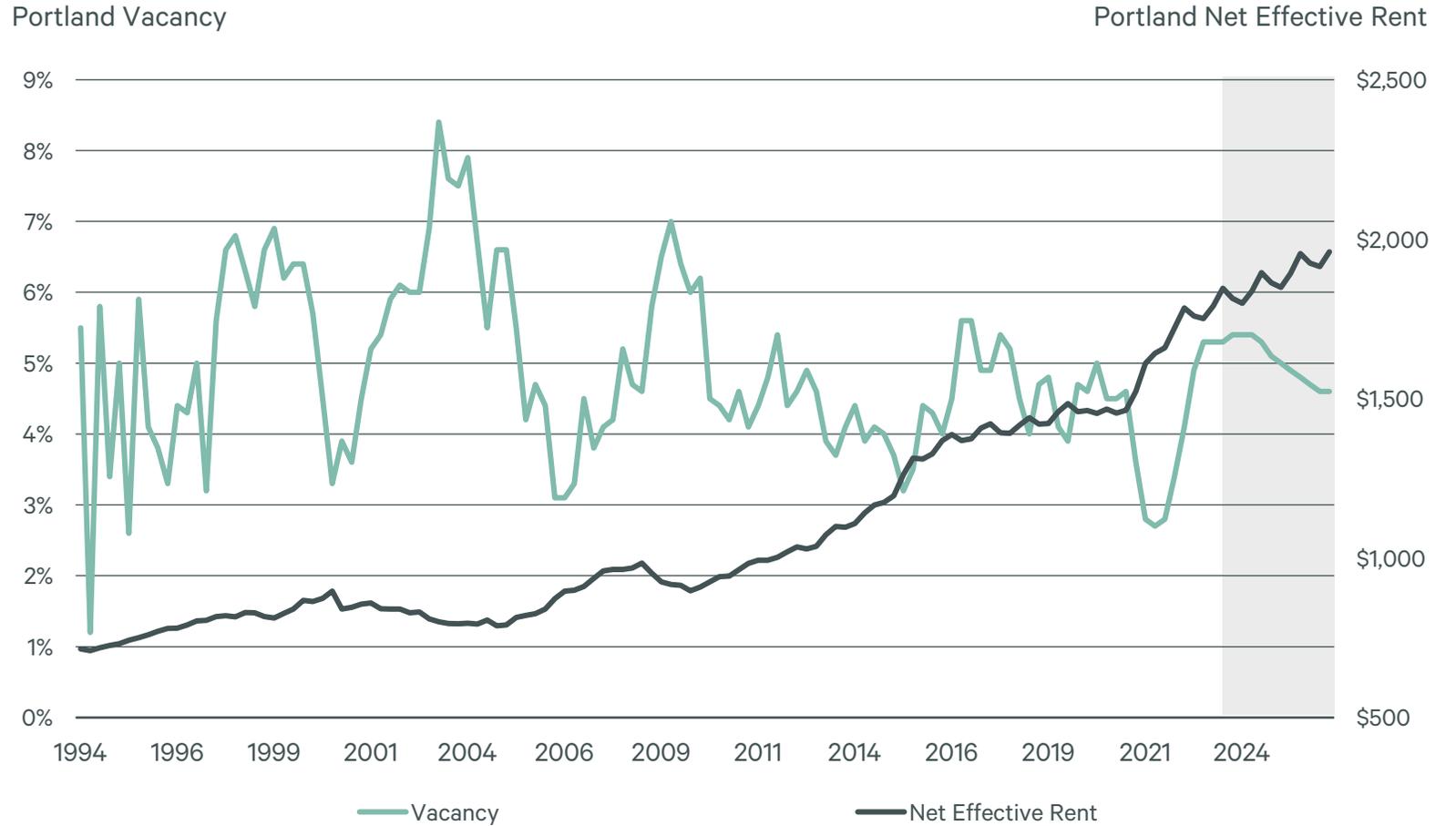
The Baseline Forecast

Continued Rent Growth And Vacancy Rates Returning to Historical Averages

Despite the seasonal slowdown of Q4 2022 and slightly negative absorption seen in Q1 2023, vacancy remains unchanged quarter-to-date at 5.3%.

Vacancy in the next three years, however, is expected to be in line with its long-run average of 5%, while still supporting healthy rent growth.

Quarter to date, net effective rents have grown 3.1% YoY in Q2 2023 and are expected to grow by an average 5.0% (CAGR) for the next three years through Q2 of 2026, despite some degree of economic uncertainty in 2023.



Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Drivers of Demand

Historical data was gathered on dozens of variables thought to be significant drivers of multifamily demand to explain variation in renter demand over time and across markets.

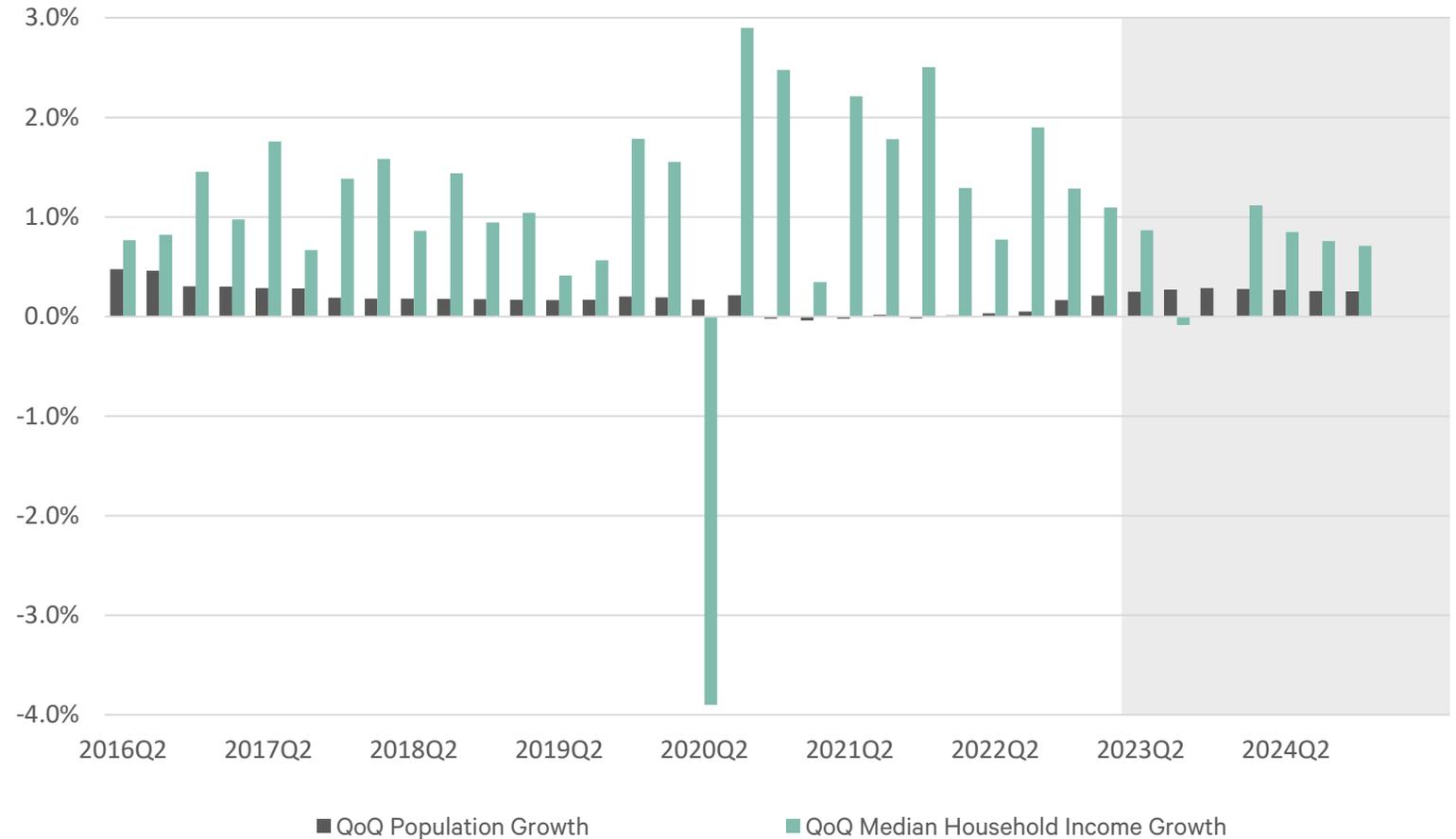
Many variables are familiar, such as household income changes, the cost of owning vs. renting, mortgage rates and homeownership. Others, such as the average age at marriage and first childbirth; urban livability metrics; population density; healthy living scores; commute rankings and public transit scores, are variables less commonly linked to renter demand, though statistically significant nonetheless.

The results reveal that while some of these inputs help explain renter demand at the margin, one thing is clear—growth in household income reigns supreme.

Completions are also a strong indicator of demand. Developers have their finger on the pulse of renters in cities where they build.

To an extent, completions represent the capacity for future growth. The ratio of absorption to completions informs us of how well developers can gauge whether demand is coming or sitting on the sidelines.

Quarter-Over-Quarter Changes in Two Key Drivers of Demand



Source: CBRE Research, CBRE Econometric Advisors, June 2023.

CBRE's Current Portland Employment Forecast Scenarios

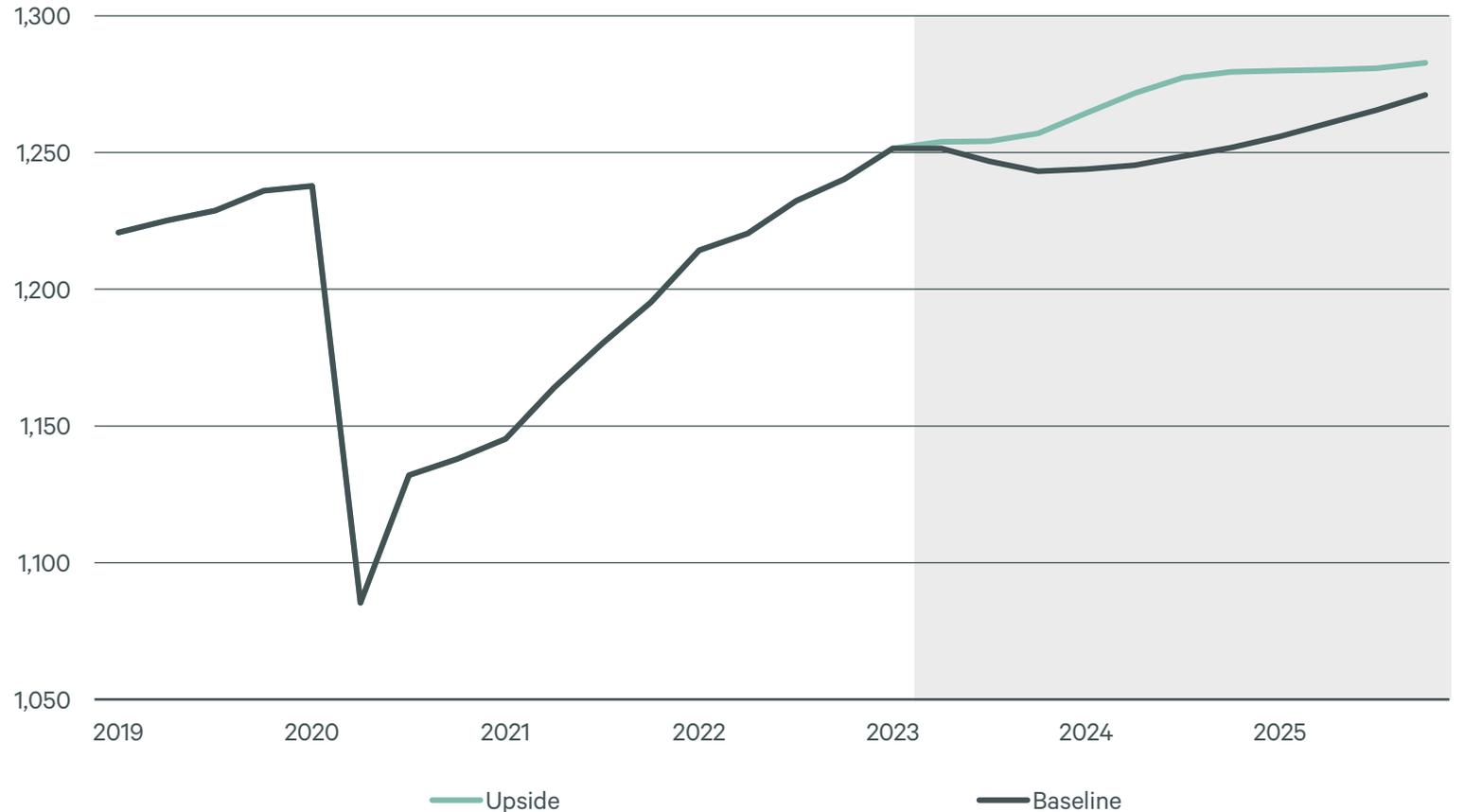
Baseline

Persistent inflation underpins the Federal Reserve's quantitative tightening strategy, causing mild job losses and a moderate dip in business investment. Portland, having exceeded pre-COVID total employment in late-2022, benefits from its strong labor market fundamentals and is forecasted to see job growth resume after 2023.

Upside

Inflation decelerates more quickly than anticipated, allowing key economic indicators to stabilize sooner. Businesses are able to bring employees back into the traditional workplace more quickly and resume business investment and growth strategies.

Portland Metro Total Nonfarm Employment (Thousands)



Source: Bureau of Labor Statistics, CBRE Research, CBRE Econometric Advisors, 2023.

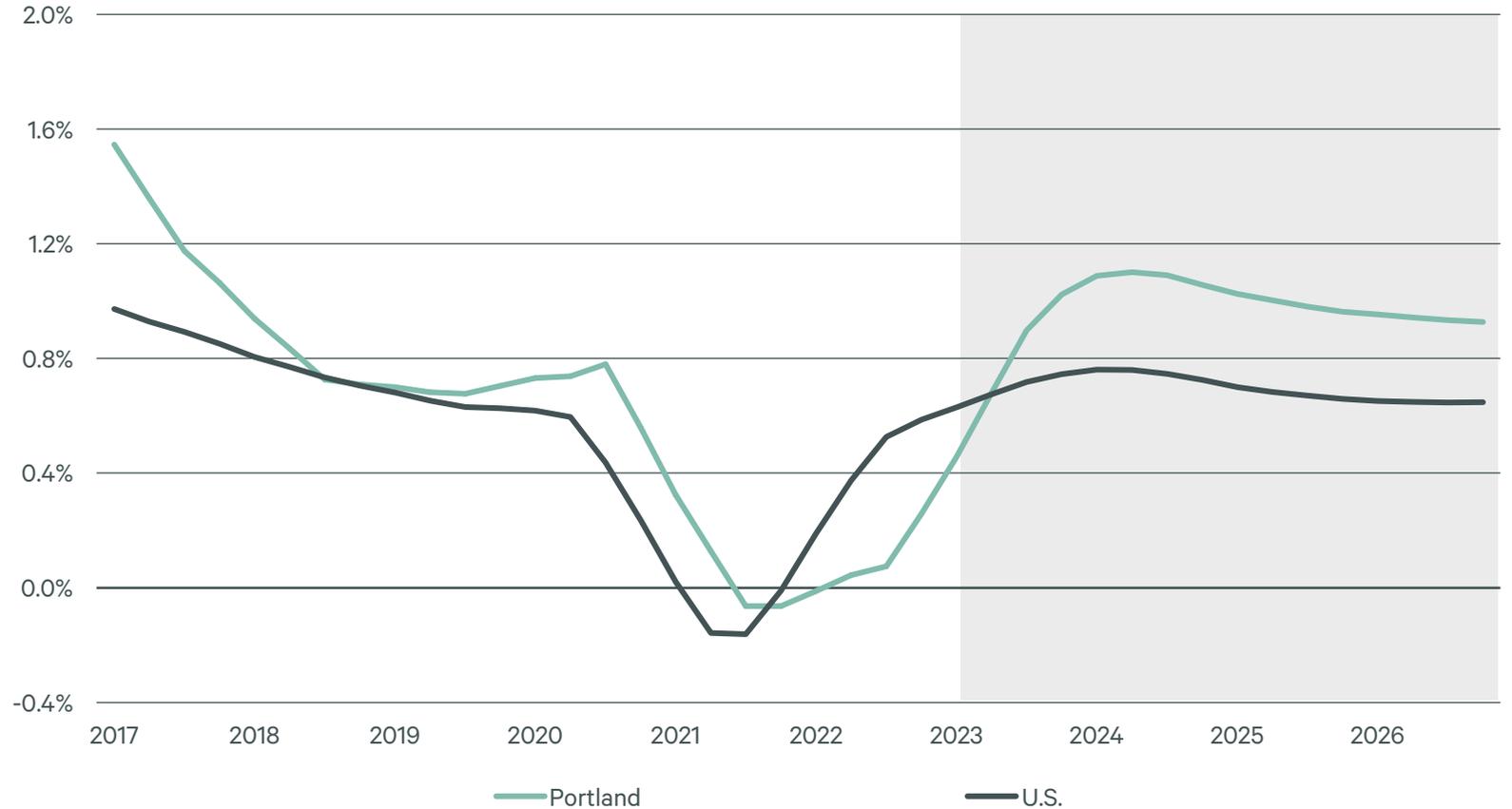
Population Growth Also Drives Multifamily Demand

Population growth and household formation drive housing demand, but they also drive job growth by pulling in new jobs from companies searching for talent in a tight U.S. labor market. Conversely, job creation can attract new residents with high-paying jobs in livable and vibrant cities like Portland.

CBRE projects 126,400 net new residents across the Portland metro over the next five years. This will support the demand for over 31,000 additional apartment units set to be delivered during this time frame.

Additionally, at current cost levels and construction loan terms, we anticipate that only a fraction of deals in the pipeline that have not started construction will move forward toward completion.

Portland Metro Population Growth (%)



Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Portland's For-Sale Market Provides Another Tailwind

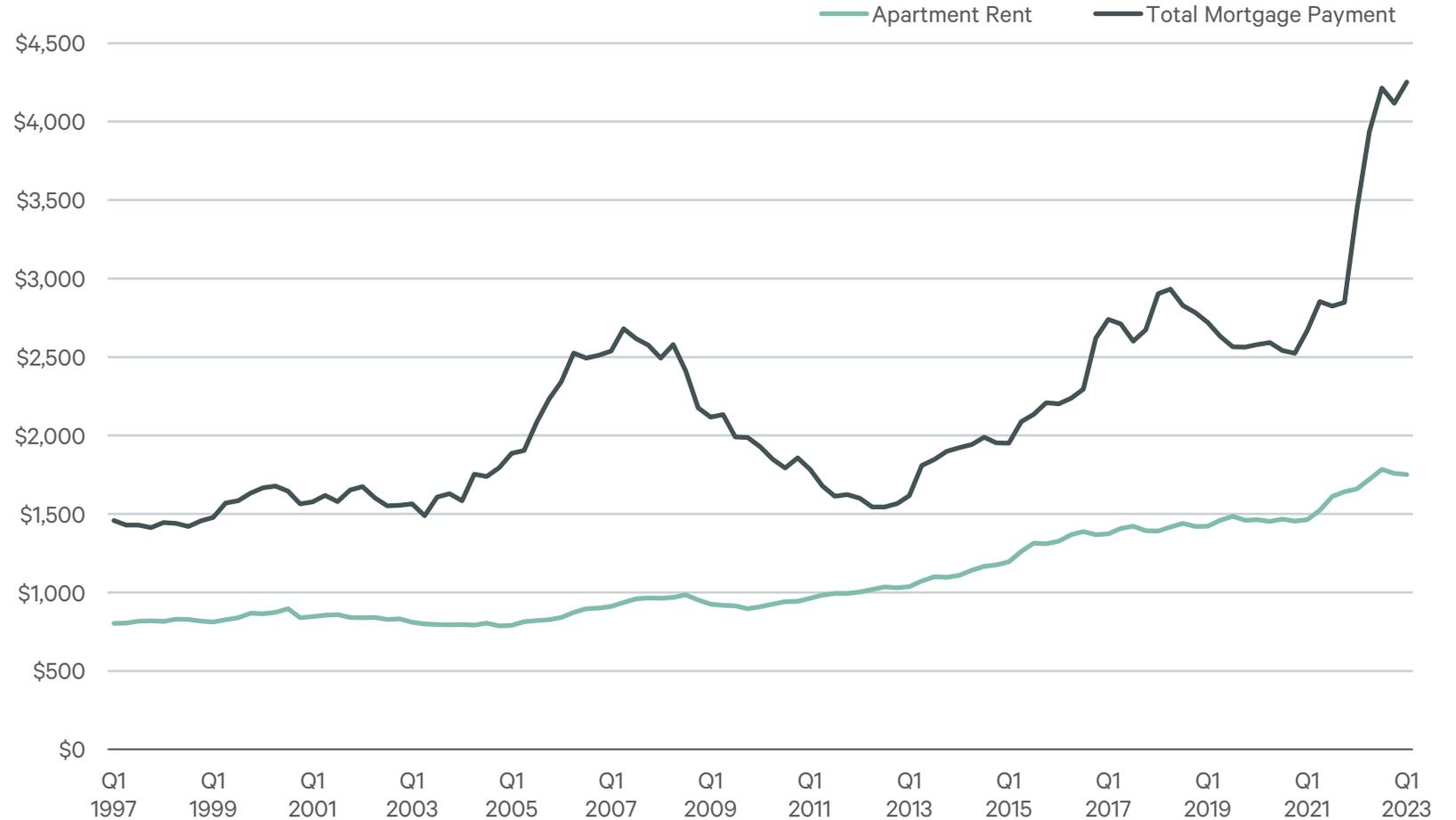
The combined effect of dramatic home price appreciation and rapid increases in mortgage lending rates have made owning more expensive than ever.

This is especially true in the West Region, where the cost of owning has always been higher than renting.

The average monthly mortgage payment is now 2.4 times the average rent in Portland.

It would take 70 months' (almost six years) worth of apartment rent in savings to have sufficient funds for a 20% down payment towards purchasing a median single-family home, and thereby qualify for a standard conventional loan.

The Monthly Mortgage Payment vs. Rent



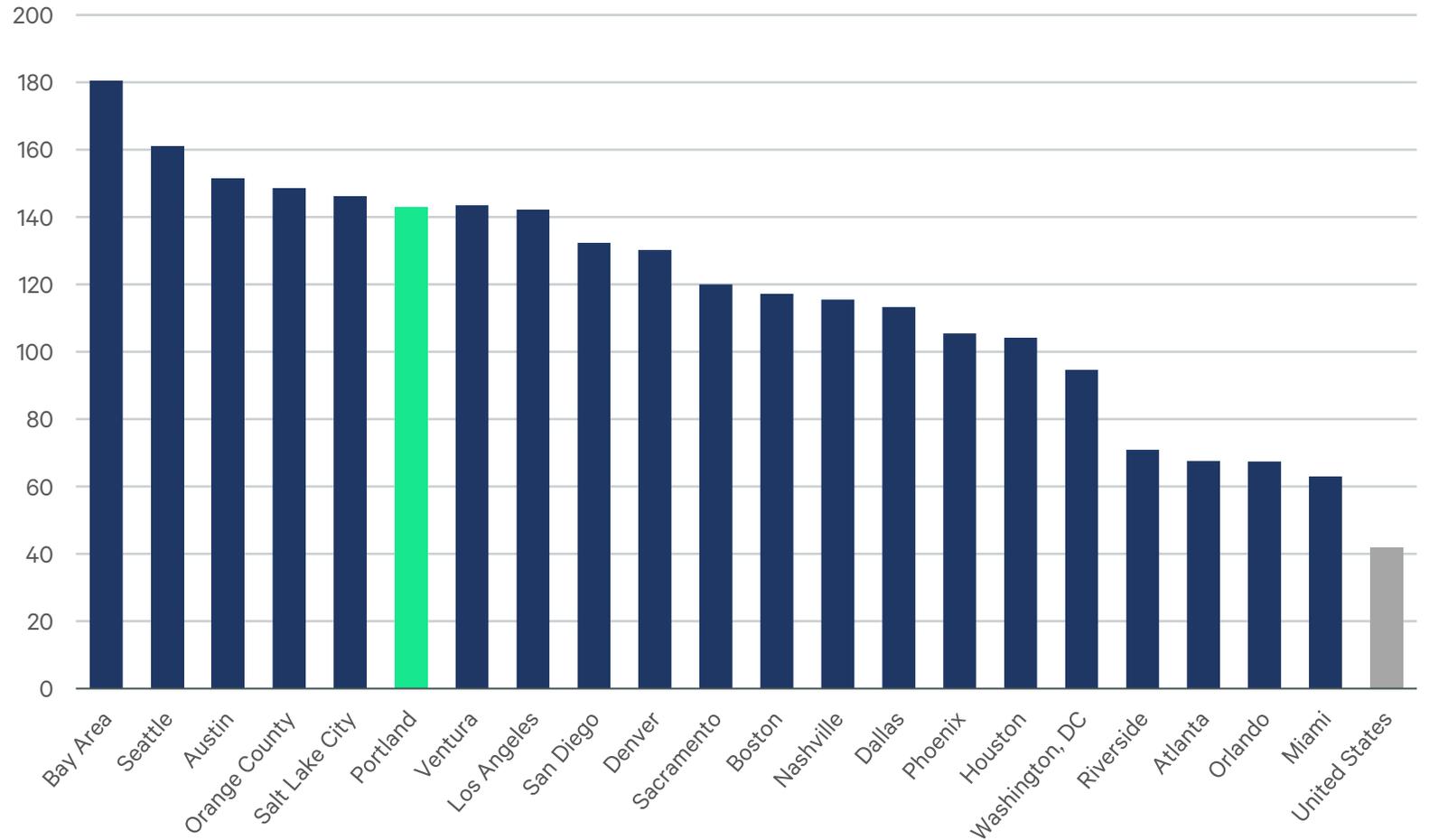
Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Portland Ranks As An Expensive For-Sale Market

Notwithstanding the need to come up with a down payment—a challenge for many Americans today—buying a home in Portland would now cost 143% more each month than the average rent.

The average ratio of owning versus renting has not declined in the most expensive cities in the U.S. thus far in 2023 and a very wide cost gap persists, by historical standards, at 42%. The significant gap between monthly mortgage payments and rent will continue to drive renter demand and elevated occupancy rates.

Monthly Payment Premium of Owning Over Renting (%)

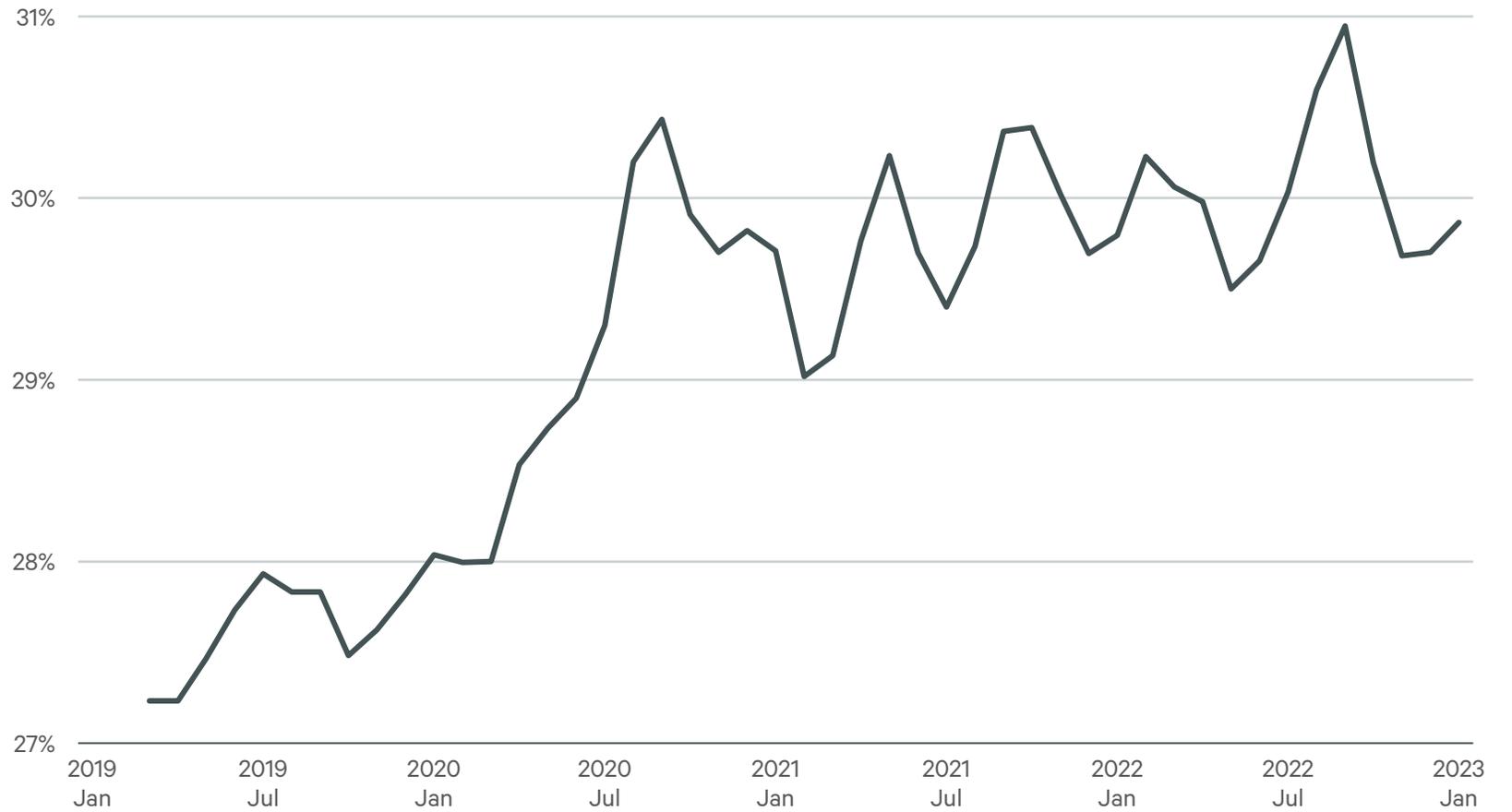


Source: CBRE Research, Yardi Matrix, June 2023.

Upward Trend in Proportion of Income Spent on Rent

Notably, Portland's rent-to-income ratio is close to the national urban average of 29% and remains significantly lower than ratios seen in the coastal markets of California, where residents also face a state income tax and typically must set aside over 40% of their income (net of state income taxes) for rent. Thus, Portland remains an affordable option on the West Coast.

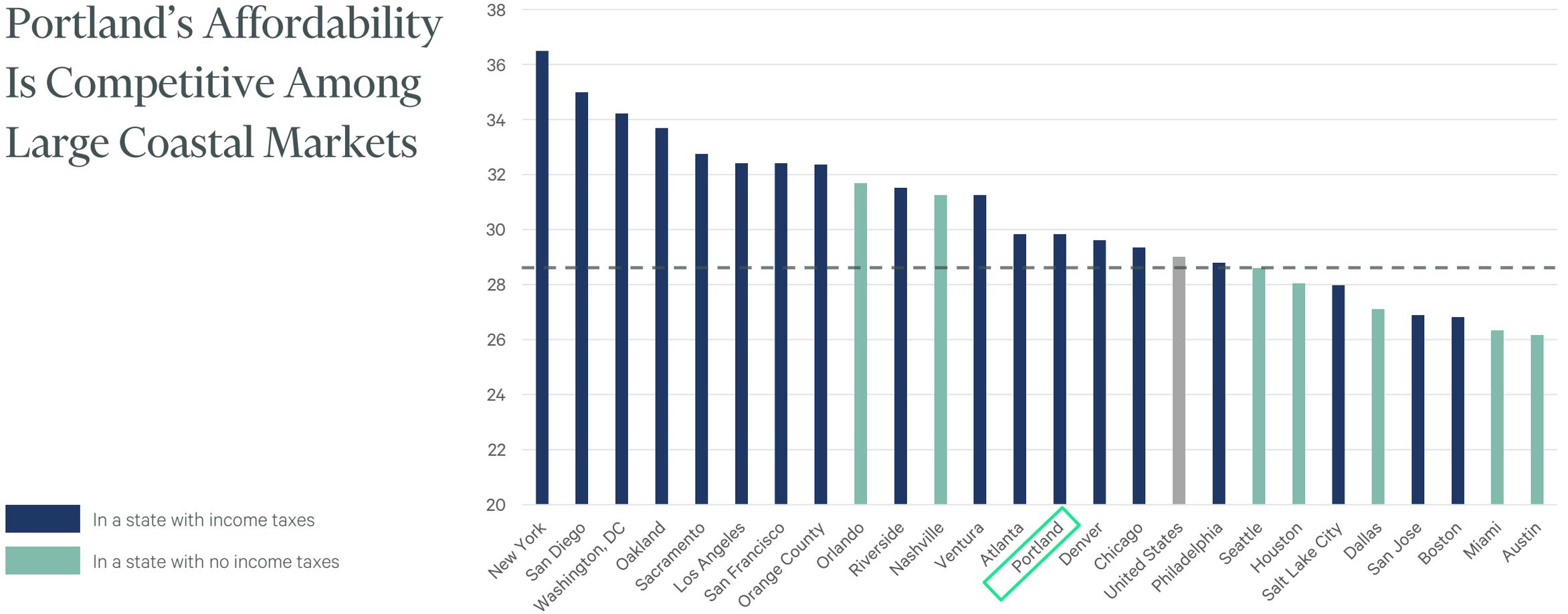
Average Portland Rent-to-Income Ratio (3-month average, %)



Source: CBRE Research, Yardi Matrix, June 2023.

Portland's Affordability Is Competitive Among Large Coastal Markets

Rent-to-Income Ratio (%)



Source: CBRE Research, Yardi Matrix, May 2023.

Now Vs. Then: Comparing the Outlook With Past Cycles

- Economic headwinds and job losses will weigh on multifamily performance, but are also accelerating workers’ return to office.
- Rent growth will decelerate, but return to past performance trends.
- Vacancy will drift up toward its long-run average, but remain below trend.
- The supply pipeline will not completely meet Portland’s solid renter demand.
- Investment volumes were still setting records through the final quarter of 2021. Higher borrowing costs slowed investment in the first three quarters of 2022 and again in Q1 of 2023, with Q4 2022 being an exceptional quarter, with \$747 million in placed investments.
- Cap rates remain low from a historical perspective, as the global investment community recognizes Portland as a desirable investment market.

Performance Metric	Next 3 Years	Previous 3 Years	Pre-Pandemic 10 Years (2010-2019)
Cumulative Rent Change	9.5%	19.7%	62.7%
Compounded Annual Rent Growth	3.1%	6.2%	5.0%
Average Vacancy Rate	5.1%	4.1%	4.5%
Total Completions	19,294	16,763	32,310
Average Annual Completions	6,431	5,588	3,231
Average Annual Investment Volume	N/A	\$2.6 billion	\$1.5 billion

Source: CBRE Econometric Advisors, CBRE Research, June 2023.

Development vs. Future Demand

Forecasts for future supply are based on property-level construction pipeline data.

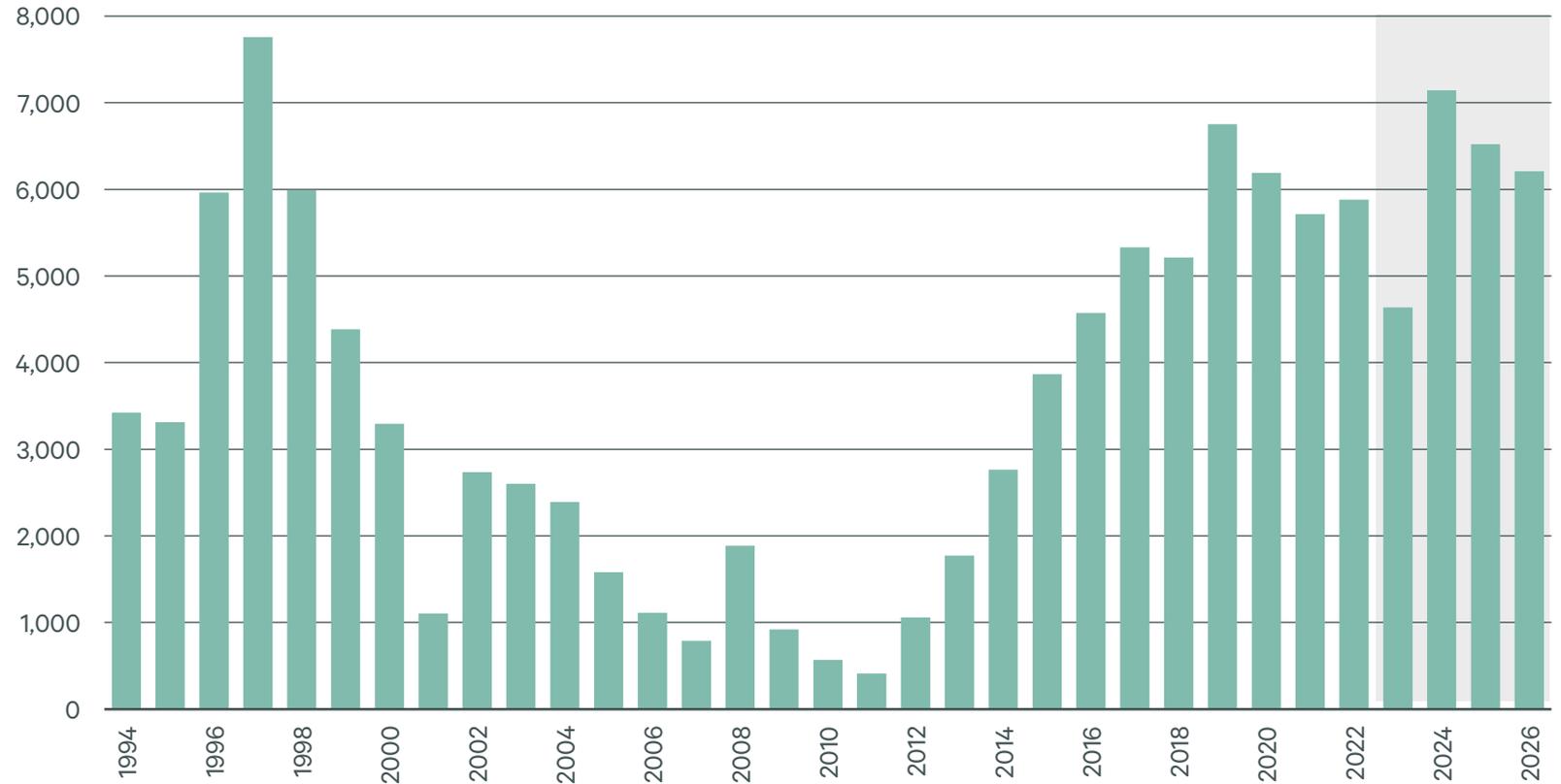
Based on new apartment units that are either currently under construction or expected to be delivered over the next two years, Portland’s inventory will grow by over 11,500 units.

However, today’s building environment continues to pose challenges to developers, as lending costs are near 20-year highs, construction delays have become common and capital market activity levels remain muted.

A significant number of planned projects have now been delayed. This could create a supply shortage in certain markets beginning in 2025.

Further supporting what is being experienced on the ground by developers, 2023 is expected to see fewer than 4,700 completions. This would be the lowest annual completions since 2016.

Completions (units)

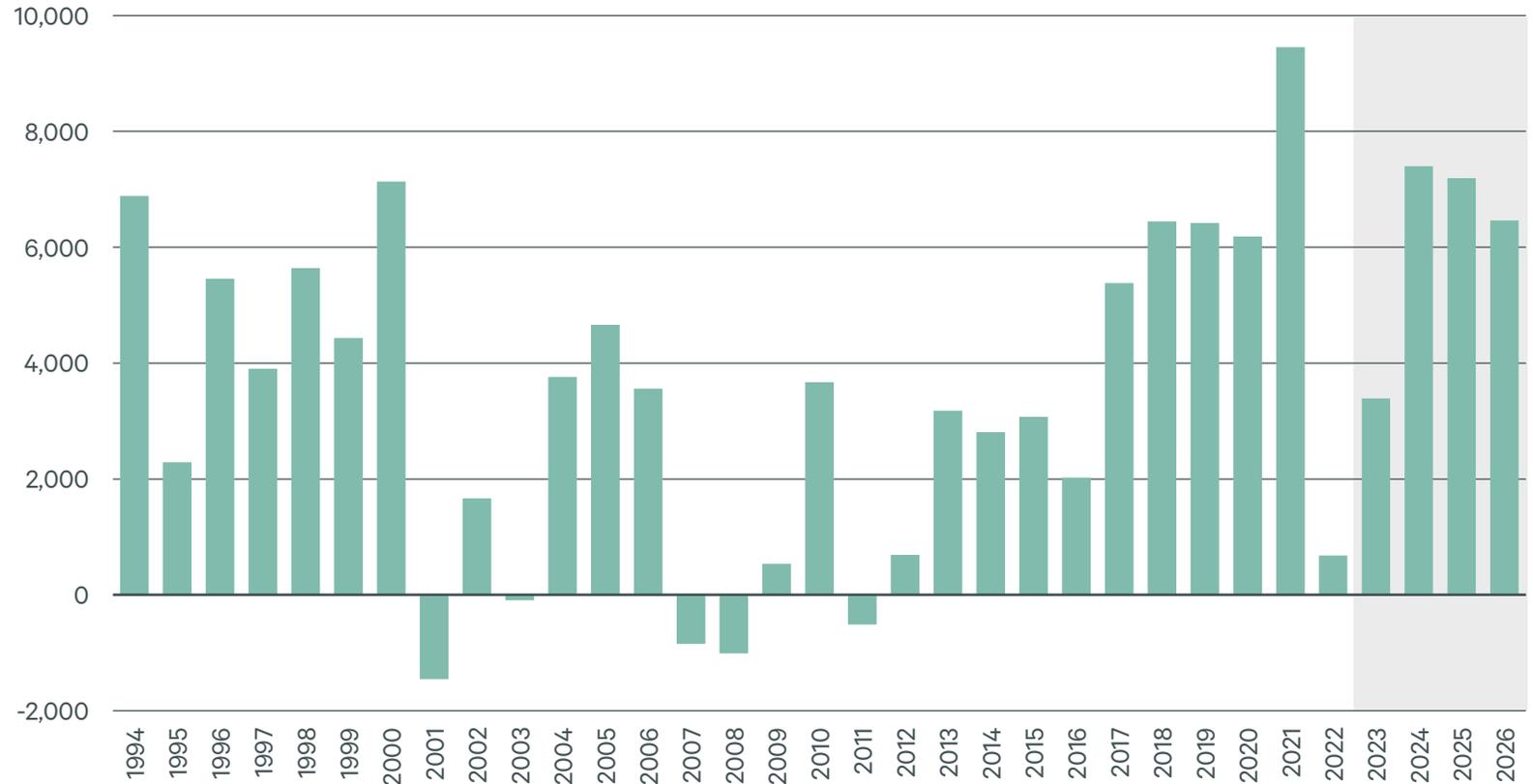


Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Return to Brisk Leasing Post-2023

Following a slow year of leasing activity in 2022, 2023 is expected to show much improved net absorption activity despite an unseasonably slow start in Q1 of 2023. Despite a recovery in year-over-year leasing activity, 2023 is still expected to see significantly slower activity in comparison to Portland’s annual averages from 2017 through 2021, as well as forecasted activity levels in 2024 and beyond.

Net Absorption (units)



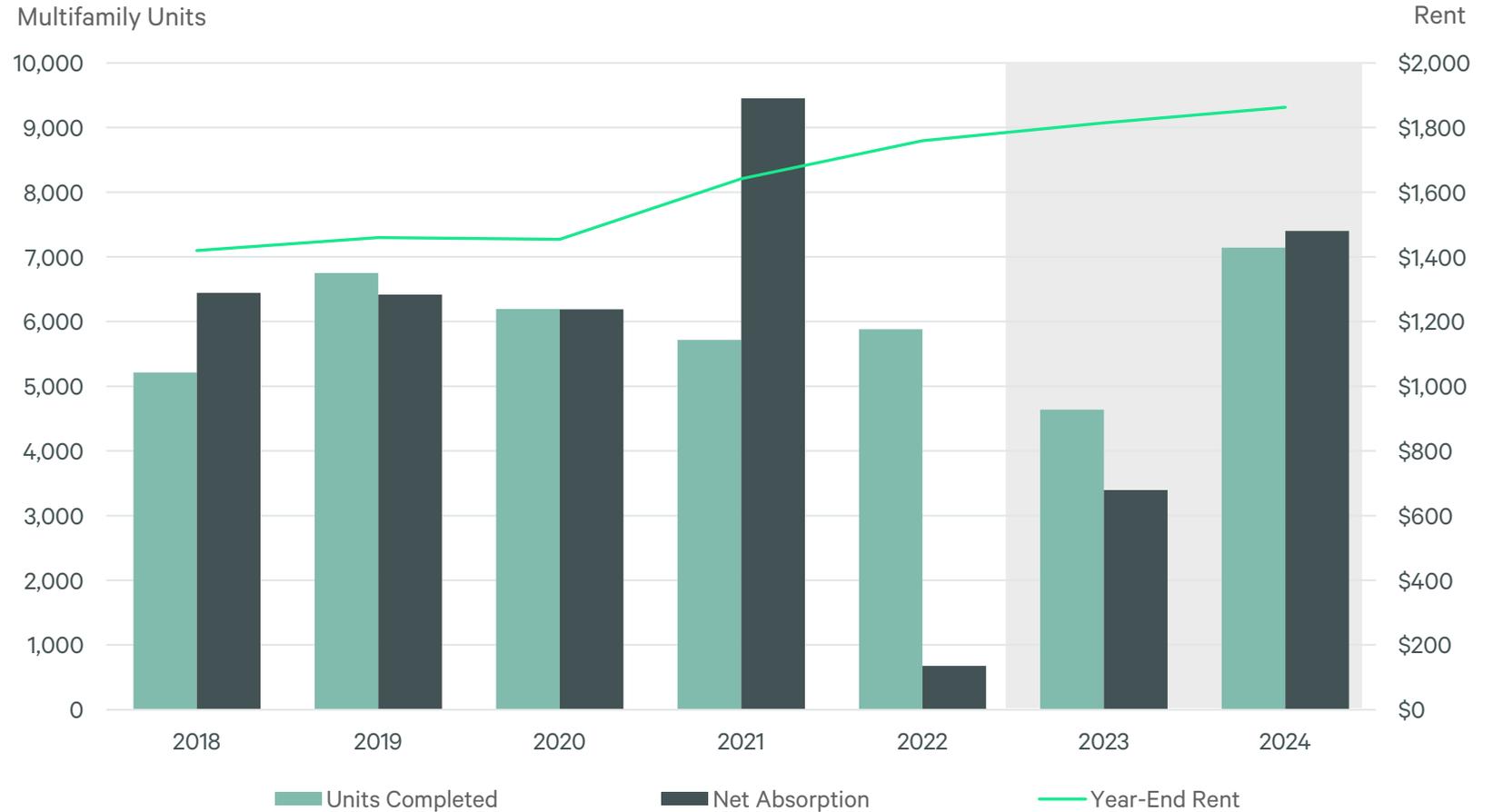
Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Supply & Demand Dynamics

On a net basis, Portland residents absorbed 678 multifamily units in 2022, which clearly fell short of recent years' figures. Almost 3,400 units are expected to be absorbed in 2023, however, which indicates positive progress toward relative normalcy.

Looking forward, CBRE expects rents to grow modestly over the next few years, albeit at a slower average pace than what was seen during the pandemic era, on the back of solid demand.

Supply & Demand = Vacancy



Source: CBRE Research, CBRE Econometric Advisors, June 2023.

Market Area Map



Definitions

Net Absorption. The change in occupied square feet from one period to the next, recognized at the move-in date or delivery of new construction, rather than at the lease signing date.

Vacancy. Space that is physically vacant, but may be available or newly leased.

Absorption Over Completions: This ratio provides a means of measuring the balance between supply and demand. A ratio above 1.0 indicates demand is outpacing new construction, as more additional units are rented than were delivered during a given quarter. A ratio from 0.5 to 1.0 indicates demand and supply are roughly in balance. A ratio below 0.5 suggests a market is at risk of being over-built relative to demand. A ratio below 0.0 indicates multifamily units completed during the quarter were not absorbed and the market has been oversupplied.

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