

### PAYROLL JOB SUMMARY

Average Payrolls	1,161.1m
Annual Change 4Q16	27.3m (2.4%)
RCR 2017 Forecast	30.3m (2.7%)
RCR 2018 Forecast	28.9m (2.5%)
RCR 2019 Forecast	20.2m (1.7%)
RCR 2020 Forecast	14.7m (1.2%)
RCR 2021 Forecast	12.2m (1.0%)
Unemployment (NSA)	4.2% (1/17)

### 4Q16 PAYROLL TRENDS AND FORECAST

Portland MSA added more than 30,000 jobs for the third consecutive year in 2016, repeating a feat last accomplished 20 years ago. But recent performance was moderately weaker. Total payrolls increased at a 27,300-job, 2.4% year-on-year pace during 4Q16, the slowest quarterly gain since 2Q13. Trends in early 2017 continued to decelerate, slowing to a 1.8% y-o-y rate in January and February.

Goods producing industries were largely responsible. Construction, manufacturing and wholesale trade shops hired at a 650-job annual rate in 1Q17, down from an 8,500-job annual comparison during 2Q16, when the Portland economy was running in full stride.

By contrast, PORT's tech and skilled service sectors continued to grow at a gallop. Financial, professional and health care service

employers added 10,300 (3.8%) jobs in the 12 months ended January and February, faster than 2Q16's 9,100-job, 3.4% advance.

Seasonally-adjusted job counts were consistent. These data show that Portland created 4,600 jobs in 4Q16, the smallest quarterly net employment add in nearly five years; the 1Q17 add may be weaker.

**RED Research** analysis found that nearly 98% of changes in Portland job growth can be explained by the rate of change of U.S. payroll growth, Portland personal income (+) and home price growth (+) and 5-year GDP growth. Against our base macro forecast calling for faster job GDP growth in 2017, followed by slower growth, the model projects a fourth consecutive 30,000+ job year in 2017, followed by a gradual decline to a 1% job gain in 2021.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.1%
RED 51 Rank	37 <sup>th</sup>
Annual Chg. (Reis)	-0.4%
RCR YE17 Forecast	94.4%
RCR YE18 Forecast	94.9%
RCR YE19 Forecast	95.1%
RCR YE20 Forecast	95.3%
RCR YE21 Forecast	95.5%

### 4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Slower job growth notwithstanding, Reis report that tenant demand remained robust during 4Q16, as renters occupied a net of 737 vacant units, about 32% above the trailing 10-year fourth quarter average. Supply (739 units) counterbalanced demand, however, holding occupancy unchanged sequentially on 95.1%. Strong interest in class-A space drove demand as tenants inked leases on 1,026 top tier units, while renters vacated -288 class-B&C apartments.

Axiometrics surveys of professionally-managed, same store properties found softer conditions. Stabilized properties in this sample were 94.3% occupied in 4Q16, down 100 basis points year-on-year. All communities were 93.8% occupied, down 120bps from 4Q15. Stabilized class-A buildings reported lowest occupancy (92.8%),

down from a 95.9% peak in 2Q15. Classes-C (96.0%) and -B (94.3%) maintained long-held first and second spots. Largely class -B&C Milwaukie (95.3%), East Gresham and Vancouver (95.1%) submarkets reported highest occupancy, while supply magnets Northwest (92.9%) and Northeast (93.7%) trailed the pack.

Supply promises to remain heavy through 2018, with about 4,000 and 2,700 units on tap this year and next. **RCR's** occupied stock model (ARS=94.6%, SE=0.4%) projects that demand will fall about 1,000 units shy in 2017, cutting Portland occupancy about 70bps to 94.4%. But tenant demand shouldn't fade as supply levels recede, allowing occupancy to recover to the 95% level by 2019, and further to the mid-95% area during the forecast out-years.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,189
Annual Change	7.0%
RED 51 Rent Change Rank	5 <sup>th</sup>
RCR YE17 Forecast	5.5%
RCR YE18 Forecast	5.4%
RCR YE19 Forecast	4.7%
RCR YE20 Forecast	3.9%
RCR YE21 Forecast	3.5%

### 4Q16 EFFECTIVE RENT TRENDS

Reis report that Portland rent growth ground nearly to a standstill in the fourth quarter after a 5-year period of extraordinary gains. Average effective rent increased \$5 (0.5%) sequentially, representing the smallest one quarter advance since 1Q10. Indeed, class -A rent trends were negative (-\$1/-0.1%), the first decrease recorded since 1Q10. Nonetheless, year-on-year comparisons remained impressive, slowing only to 7.0% after 3Q's upwardly revised 8.8% advance, and double-digit gains from 3Q15 to 2Q16.

The foregoing downtrend was magnified in the Axiometrics same-store survey. Stabilized properties in this sample posted a 4.1% y-o-y rent advance, down from 5.6% in 3Q16, and as high as 15.6% in 3Q15. Class-A trends remained soft as segment rent increased

only 1.0% y-o-y, and the average concession spiked 33%. High-rise (-1.1%) rents fell for the third straight quarter. Class-B (4.5%) and -C (6.1%) rent growth, on the other hand, was constructive. Submarket trends followed form with affordable areas posting 6% to 9% hikes as core urban submarkets suffered setbacks.

Upward rent revisions forced **RCR** to re-specify the PORT rent model. The model now uses lagged occupancy change, Baa bond yields and Portland job and Seattle rent growth as variables to achieve a 94.1% ARS (SE=0.8%). The results are very bullish as 5% annual increases are projected until mid-2019. Rents are forecast to rise at a compound annual rate of 4.6% through 2021, third fastest among the **R48** after New York and San Francisco.

### TRADE & RETURN SUMMARY

\$5mm+ / 60-unit+ Sales	37
Approximate Proceeds	\$1,613.8mm
Average Cap Rate (FNM)	5.1%
Average Price / Unit	\$215,698
Expected Total Return	8.6%
RED 48 ETR Rank	2 <sup>nd</sup>
Risk-adjusted Index	3.79%
RED 48 RAI Rank	25 <sup>th</sup>

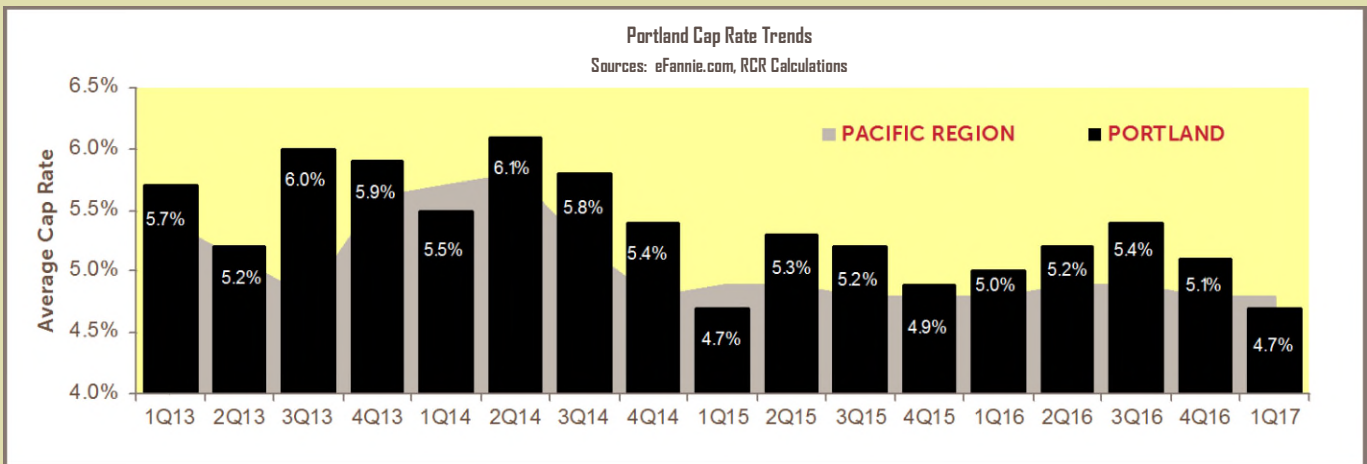
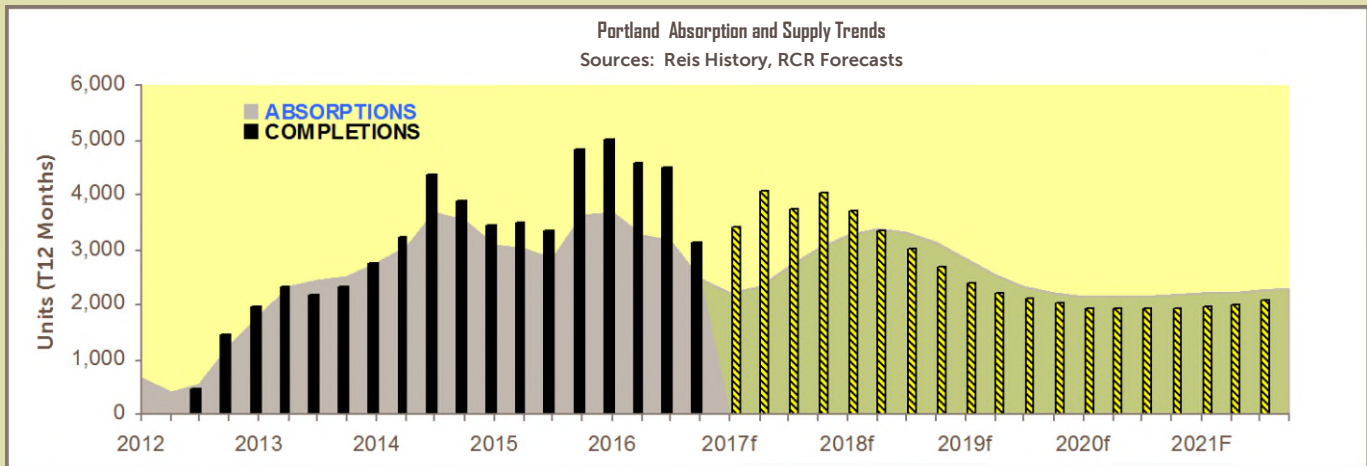
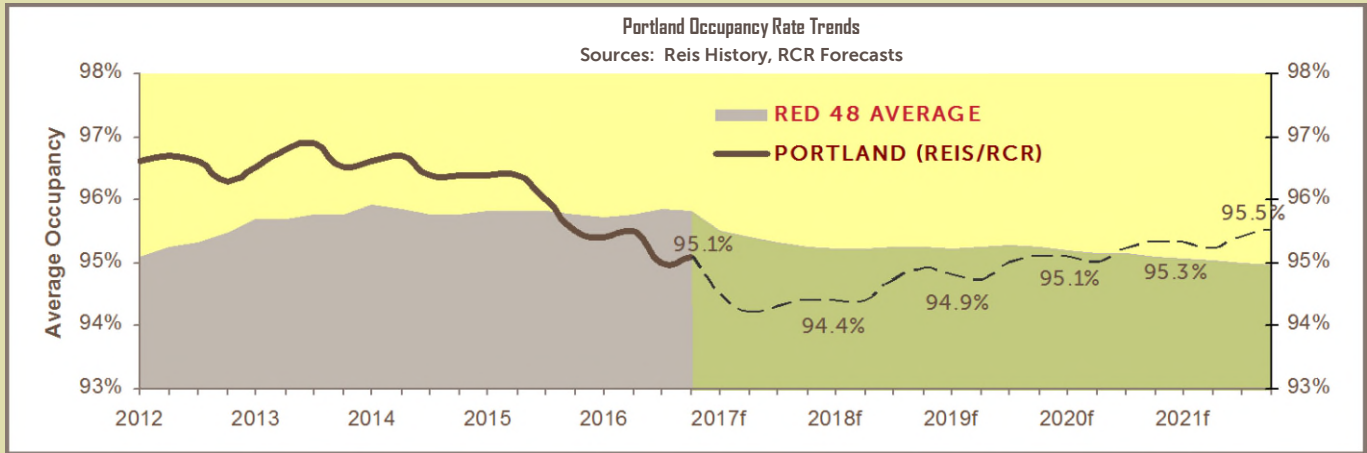
### 4Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity found a new gear in 4Q16 as investors made up for lost time and fully-embraced Portland investment opportunities. A total of 37 properties valued at \$5 million or more exchanged hands for \$1,614 million, a single quarter record by \$943 million. Sales volume increased 250% quarter-to-quarter and 266% year-on-year. The average price of units sold was \$215,698, also a series record, eclipsing the previous high metric by 16%.

By comparison, first quarter 2017 trade was considerably slower. Through late March, CoStar reported only seven closed transactions accounting for proceeds of \$199.7 million. Only one transaction valued at more than \$40mm was closed in the period, whereas fourteen such sales were completed in 4Q16.

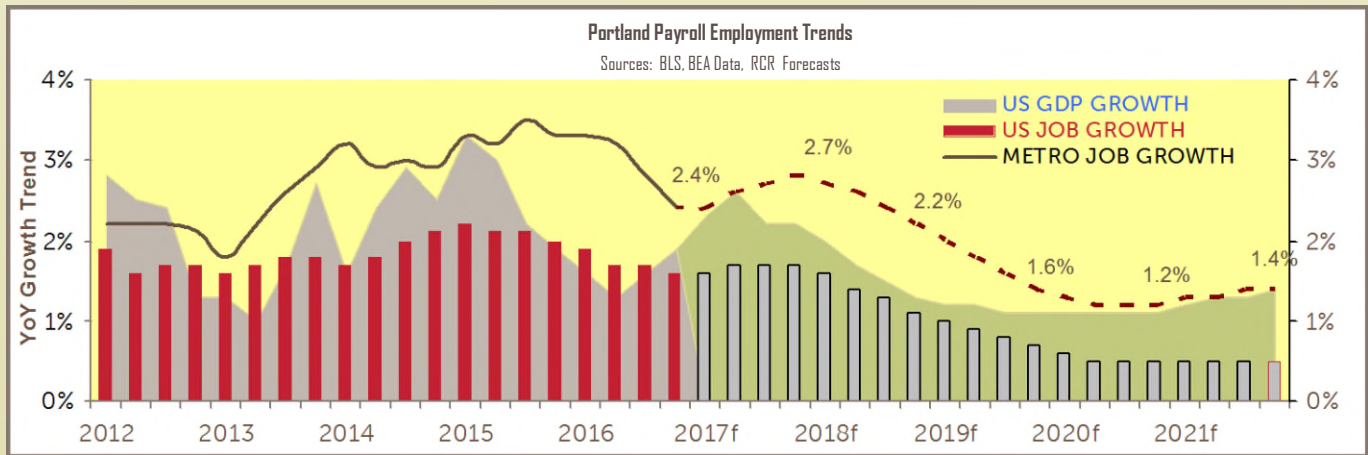
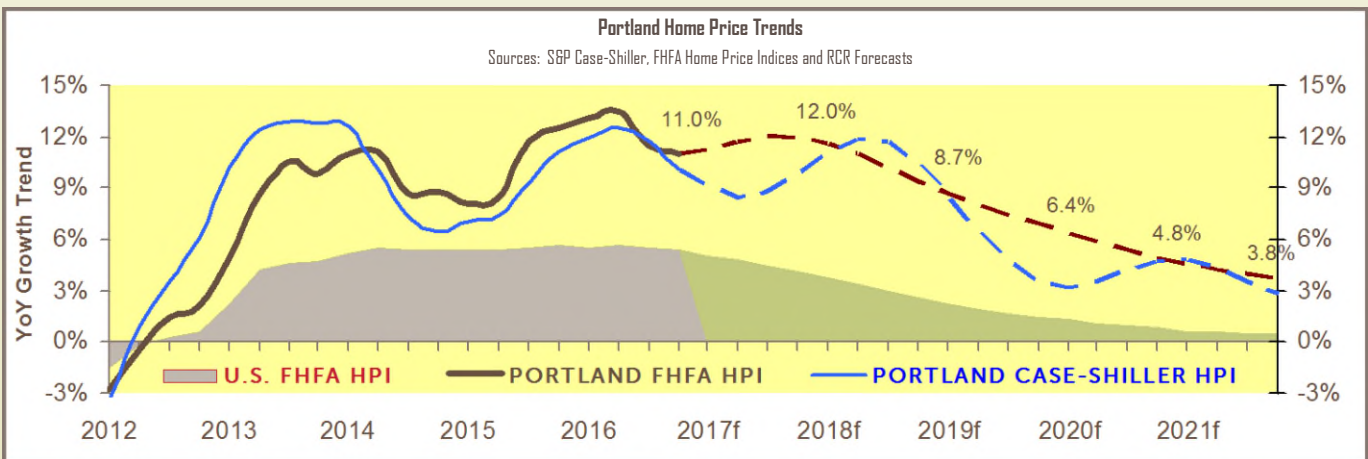
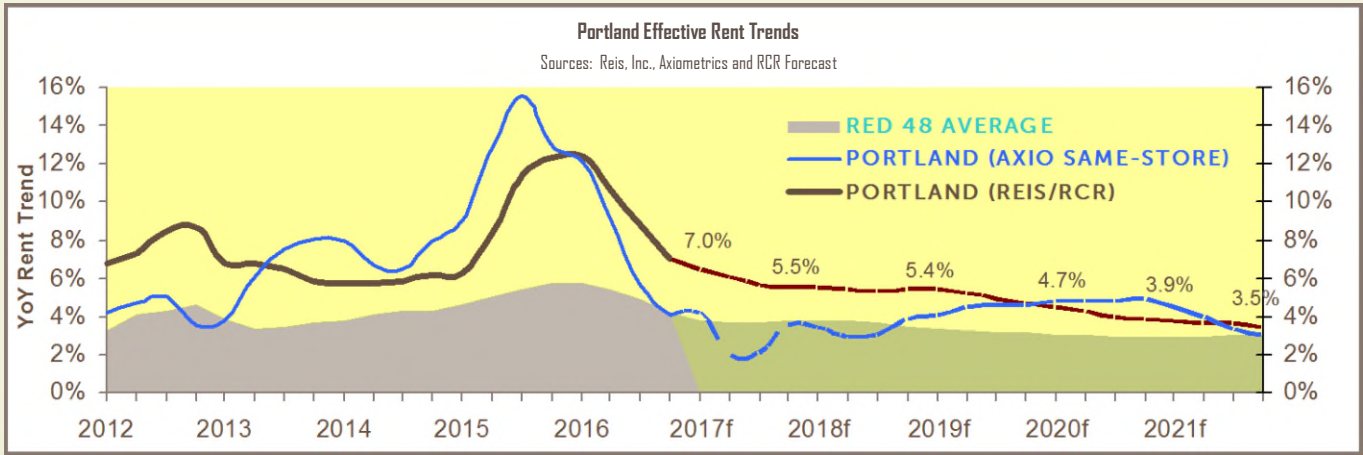
Cap rates for institutional quality properties were universally below 5%. A steel reinforced high rise trophy traded at a going in yield of less than 1%, with a pro forma of 4.5%. High quality suburban garden projects were priced to yield in the low- to mid-4% range. Value-adds appeared to fall in the 5% to 5.5% neighborhood.

**RCR** elected to cut the purchase cap rate proxy to 4.5%, placing Portland in the same league as Boston, LA and Seattle. At this level, a 5.0% terminal cap rate and model derived rent and occupancy point estimates, we estimate an investor would expect to earn an 8.6% annual unlevered total rate of return, ranking 2<sup>nd</sup> among the **RED 48**. Above average rent model standard error hampers risk-adjusted returns. PORT ranks peer group #25 on this basis.



## NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Eddylne Bridgeport (Tigard / Bridgeport Village)	B+ / GLR (2014)	20-Nov-2016	\$118.1	\$321,798	3.6% / 4.65% p.f.
Seven West at the Trails (Beaverton / Neighbors Southwest)	C+ / GLR (1996/2016)	1-Dec-2016	\$96.0	\$226,950	4.8%
Alara Hedges Creek (Tigard / Tualatin / Country Club)	B- / GLR (1998)	2-Dec-2016	\$93.0	\$227,941	4.3%
The YARD (Northeast / Kearns @ Willamette)	A / SR HR (2016)	16-Dec-2016	\$126.7	\$446,056	0.7% / 4.5% p.f.
The Ellington (Northeast / Madison South / Rose Park)	C+ LIHTC / GLR (1950)	9-Feb-2017	\$47.0	\$178,707	4.2%
Sedona Bridgecreek (Vancouver / Ogden)	B- / GLR (1989)	28-Feb-2017	\$31.0	\$155,2231	5.6%



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## SUBMARKET TRENDS

REIS Submarket	Reis Inventory Percent Chg.	Effective Rent			Physical Vacancy		
		4Q15	4Q16	Change	4Q15	4Q16	Basis Point Change
Beaverton	1.2%	\$1,232	\$1,316	6.8%	4.3%	4.4%	10 bps
East Gresham	0.0%	\$820	\$880	7.3%	1.0%	0.9%	-10 bps
Milwaukie / Oregon	0.0%	\$1,124	\$1,237	10.1%	2.3%	1.8%	-50 bps
Northeast	11.2%	\$1,171	\$1,227	4.8%	6.5%	8.4%	190 bps
Northwest	7.5%	\$1,310	\$1,373	4.8%	10.1%	11.1%	100 bps
Tigard / Oswego	1.0%	\$1,045	\$1,109	6.1%	3.6%	3.9%	30 bps
Vancouver	1.9%	\$993	\$1,081	8.9%	4.2%	4.5%	30 bps
Metro	2.7%	\$1,111	\$1,189	7.0%	4.5%	4.9%	40 bps

AXIOMETRICS SAME-STORE Submarket	Year-on-Year Effective Rent Growth			Physical Occupancy		
	4Q15	3Q16	4Q16	4Q15	4Q16	Basis Point Change
Beaverton	16.1%	4.6%	3.0%	95.3%	94.2%	-110 bps
East Gresham	14.6%	10.2%	6.7%	95.8%	95.1%	-70 bps
Milwaukie / Oregon	11.0%	7.0%	9.2%	95.6%	95.3%	-30 bps
Northeast	6.3%	1.0%	-0.6%	96.6%	93.7%	-290 bps
Northwest	4.7%	0.5%	-0.1%	94.1%	92.9%	-120 bps
Tigard / Oswego	12.6%	9.5%	5.3%	94.7%	94.3%	-40 bps
Vancouver	11.9%	5.8%	6.6%	95.4%	95.1%	-30 bps
Metro	13.0%	5.6%	4.1%	95.3%	94.3%	-110 bps

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