HVS

MARKET REPORT

Portland Market Intelligence Report 2013

JULY 8, 2013

Portland, Oregon's reputation rests on its well-known microbreweries, cuisine, culture, city parks, innovative mass transient system, & arts and music scene. The following article shows trends in hotel supply, demand, & performance within the city.

Portland, Oregon's reputation rests on its well-known microbreweries, cuisine, culture, city parks, innovative mass transient system, and arts and music scene. The city's location relative to others in the Pacific Northwest, along with its relatively low energy costs and expansive marine-shipping facilities, support Portland's economic network of high-tech, transportation and distribution, manufacturing, and professional services industries. These industries, together with strong tourism and natural attractions, help support a healthy lodging market in Portland.

Economy Update

The following table illustrates historical and projected employment, population, and income data for the overall Portland market.

HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

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	Total		Office		Industrial						Household	
Year	Employment	% Chg	Employment	% Chg	Employment	% Chg	Households	% Chg	Population	% Chg	Avg. Income	% Chg
2000	983,200	—	283,540	—	208,314	—	755,690	—	1,952,510	—	$85,181	—
2001	950,130	(3.4)%	277,167	(2.2)%	192,964	(7.4)%	769,990	1.9 %	1,988,220	1.8 %	84,405	(0.9)%
2002	941,600	(0.9)	276,893	(0.1)	184,854	(4.2)	780,840	1.4	2,014,910	1.3	85,509	1.3
2003	935,930	(0.6)	274,250	(1.0)	180,315	(2.5)	787,270	0.8	2,031,150	0.8	88,128	3.1
2004	965,800	3.2	283,693	3.4	186,271	3.3	795,310	1.0	2,051,790	1.0	90,917	3.2
2005	996,300	3.2	292,765	3.2	189,773	1.9	808,600	1.7	2,085,110	1.6	94,582	4.0
2006	1,025,830	3.0	301,508	3.0	193,642	2.0	823,220	1.8	2,120,430	1.7	100,311	6.1
2007	1,039,570	1.3	303,096	0.5	192,758	(0.5)	838,170	1.8	2,155,260	1.6	104,411	4.1
2008	1,017,730	(2.1)	299,409	(1.2)	186,806	(3.1)	853,090	1.8	2,190,520	1.6	104,513	0.1
2009	961,030	(5.6)	286,168	(4.4)	168,245	(9.9)	866,340	1.6	2,220,390	1.4	97,914	(6.3)
2010	975,770	1.5	290,629	1.6	171,532	2.0	880,890	1.7	2,246,290	1.2	101,512	3.7
2011	988,870	1.3	291,191	0.2	174,524	1.7	898,400	2.0	2,282,210	1.6	104,784	3.2
2012	1,006,610	1.8	294,476	1.1	179,094	2.6	915,250	1.9	2,323,110	1.8	106,769	1.9
Forecasts												
2013	*1,022,980*	*1.6 %*	*301,072*	*2.2 %*	*179,823*	*0.4 %*	*934,500*	*2.1 %*	*2,364,820*	*1.8 %*	*$110,399*	*3.4 %*
2014	*1,052,540*	*2.9*	*311,777*	*3.6*	*182,065*	*1.2*	*956,950*	*2.4*	*2,407,490*	*1.8*	*116,672*	*5.7*
2015	*1,084,590*	*3.0*	*322,819*	*3.5*	*185,098*	*1.7*	*980,720*	*2.5*	*2,450,630*	*1.8*	*122,470*	*5.0*
2016	*1,108,440*	*2.2*	*331,201*	*2.6*	*186,956*	*1.0*	*1,003,960*	*2.4*	*2,493,460*	*1.7*	*127,249*	*3.9*
2017	*1,120,510*	*1.1*	*336,090*	*1.5*	*186,703*	*(0.1)*	*1,026,270*	*2.2*	*2,536,030*	*1.7*	*130,863*	*2.8*
Average Annual Compound Change												
2000 - 2012		0.2 %		0.3 %		(1.3)%		1.6 %		1.5 %		1.9 %
2000 - 2007		0.8		1.0		(1.1)		1.5		1.4		3.0
2007 - 2010		(2.1)		(1.4)		(3.8)		1.7		1.4		(0.9)
2010 - 2012		1.6		0.7		2.2		1.9		1.7		2.6
Forecast 2012 - 2017		*2.2 %*		*2.7 %*		*0.8 %*		*2.3 %*		*1.8 %*		*4.2 %*

Source: REIS Report, 4th Quarter, 2012

The market has realized gains in total employment annually during the historical period, with the exception of the dot.com bust at the turn of the millennia and the recession that began in late 2007. Industrial employment has experienced the largest changes, concurrent with the hire and layoff cycles typical of the manufacturing and distribution industries.

Households and population have grown consistently over the past decade, noting a 1% to 2% change from 2004 through 2012. Employment, household size, and population are forecast to grow modestly through 2017. Household average income is forecast to grow at rates that are more significant as higher-paying jobs in the technology industry, on which the Portland market heavily relies, are expected to increase in the coming years.
Unemployment statistics for Multnomah County, the Portland MSA, the state of Oregon, and the U.S. as a whole are illustrated in the table below.

UNEMPLOYMENT STATISTICS

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Year	County	MSA	State	U.S.
2002	8.1%	7.8%	7.6%	5.8%
2003	8.5	8.3	8.1	6.0
2004	7.4	7.0	7.3	5.5
2005	6.1	5.9	6.2	5.1
2006	5.1	5.0	5.3	4.6
2007	4.9	4.9	5.2	4.6
2008	5.8	6.0	6.5	5.8
2009	10.4	10.7	11.1	9.3
2010	9.8	10.5	10.7	9.6
2011	8.5	9.1	9.5	9.0
Recent Month - Dec				
2011	7.8%	8.0%	8.8%	8.5%
2012	7.3	7.5	8.3	7.8

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

Unemployment in the Portland MSA remains well above pre-recession levels, though job growth has continued to increase, most notably in the manufacturing and construction sectors; the professional services and leisure and hospitality sectors have also realized job growth. Intel leads the way for growth in the manufacturing and construction sectors as it continues to expand. Intel's expansion of its D1X facility is also underway; the company announced in October of 2012 that it would double the size of its investment to $6 billion, expanding the facility to 2.5 million square feet. Nike is planning to invest $150 million in a capital project that will reportedly add 500 jobs in the Portland suburb of Beaverton. In addition, there has been enhanced activity at local port facilities, and construction of residential developments in Portland has realized an increase.

Office Space Market Update

The following table illustrates the Portland area's office space statistics, which are important indicators of the market's propensity to attract commercial lodging demand.

OFFICE SPACE STATISTICS – MARKET OVERVIEW

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	Inventory		Occupied Office	Vacancy	Average Asking
Submarket	Buildings	Square Feet	Space	Rate	Lease Rate
1 Vancouver	80	3,651,000	3,074,100	15.8%	$22.10
2 Central City	149	16,456,000	14,514,200	11.8	22.31
3 Sunset Corridor	67	4,860,000	3,999,800	17.7	18.88
4 Beaverton/Sylvan	76	3,964,000	3,131,600	21.0	20.12
5 John's Landing	38	1,673,000	1,355,100	19.0	20.00
6 Washington Square	107	5,612,000	4,579,400	18.4	23.21
7 Clackamas Twn Ctr	26	1,077,000	868,100	19.4	21.12
8 Eastside	69	3,527,000	3,093,200	12.3	22.11
Totals and Averages	**612**	**40,820,000**	**34,615,500**	**15.2%**	**$21.65**

Source: REIS Report, 4th Quarter, 2012

The office lease-rate recovery that started in 2011 was slow to grow in 2012. Office vacancy was lowest in the Central City

and Eastside area, while Beaverton/Sylvan noted the highest vacancies in the greater market.

The following table illustrates a trend of office space statistics for the overall Portland market.

HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET

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	Porland Market						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2000	35,455,000	—	33,206,000	—	6.3 %	$20.48	—
2001	36,916,000	4.1 %	33,012,000	(0.6) %	10.6	20.82	1.7 %
2002	37,963,000	2.8	31,558,000	(4.4)	16.9	20.31	(2.4)
2003	38,816,000	2.2	32,151,000	1.9	17.2	20.03	(1.4)
2004	39,066,000	0.6	32,820,000	2.1	16.0	19.83	(1.0)
2005	39,113,000	0.1	33,706,000	2.7	13.8	20.08	1.3
2006	39,425,000	0.8	34,641,000	2.8	12.1	20.93	4.2
2007	39,877,000	1.1	35,339,000	2.0	11.4	21.67	3.5
2008	40,241,000	0.9	35,470,000	0.4	11.9	21.87	0.9
2009	40,587,000	0.9	34,691,000	(2.2)	14.5	21.39	(2.2)
2010	40,638,000	0.1	34,251,000	(1.3)	15.7	21.27	(0.6)
2011	40,699,000	0.2	34,629,000	1.1	14.9	21.35	0.4
2012	40,820,000	0.3	34,616,000	(0.0)	15.2	21.65	1.4
Forecasts							
2013	*40,839,000*	*0.0 %*	*34,718,000*	*0.3 %*	*15.0 %*	*$21.99*	*1.6 %*
2014	*41,101,000*	*0.6*	*35,124,000*	*1.2*	*14.5*	*22.44*	*2.0*
2015	*41,490,000*	*0.9*	*35,631,000*	*1.4*	*14.1*	*22.93*	*2.2*
2016	*41,983,000*	*1.2*	*36,332,000*	*2.0*	*13.5*	*23.60*	*2.9*
2017	*42,567,000*	*1.4*	*37,204,000*	*2.4*	*12.6*	*24.40*	*3.4*
Average Annual Compound Change							
2000 - 2012		1.2 %		0.3 %			0.5 %
2000 - 2007		1.7		0.9			0.8
2007 - 2010		0.6		(1.0)			(0.6)
2010 - 2012		0.2		0.5			0.9
Forecast 2012 - 2017		*0.8 %*		*1.5 %*			*2.4 %*

Source: REIS Report, 4th Quarter, 2012

The greater Portland office market realized net absorption of only 117,000 square feet in 2012. The only construction completed during the past year was the 121,000-square-foot, single-tenant project at Cascade Station for the FBI. Construction remains subdued, with only three competitive general-purpose office projects that have broken ground; two of these have been put on hold indefinitely. The redevelopment of the 19,400-square-foot American Brush Company building should be completed in November of 2013. Available office space is forecast to increase only minimally; the decline in vacancy is therefore expected to continue, although not quite to levels seen during the peak years of 2007 and 2008. Average lease rate is forecast to increase modestly as the local economy improves and vacancy declines.

Hotel Construction Update

According to HVS research, several new hotels are currently in the pipeline:

- RiverPlace Hyatt House Portland (203 units)
- Residence Inn by Marriott Portland (225 units)
- Independent Project Pearl District (100 to 150 units)
- Headquarters Hotel(s), Oregon Convention Center (comprising a single 600-unit hotel or two separate 400-unit and 200-unit properties)

No hotels are currently under construction in the greater Portland market; the proposed projects mentioned above are in the early planning phases. While new hotels are expected to enter the market in the coming years, the percentage increase to the overall market supply will be minimal.

Outlook on Market Occupancy and Average Rate

No new supply has entered the Portland market since 2008, and although the area was impacted by the effects of the

recent recession, the lack of new supply has assisted hoteliers in regaining lost occupancy. Portland area hotels were able to reach pre-recession occupancy levels by late 2011; however, average rate has yet to exceed pre-recession levels. Market participants are hopeful that the 2013 summer season will allow hoteliers to recoup average rate losses and achieve new average rate highs. The market has now essentially reached the occupancy level ceiling, and although modest gains are anticipated, RevPAR growth will likely be driven by significant increases in average rate.

Recent Hotel Transactions

The following table summarizes hotel transactions in the state of Oregon over the past two years.

REVIEW OF HOTEL TRANSACTIONS

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Property	Location	Sale Date	Price	Rooms	Price/Rm
Hilton Portland and Executive Towers	Portland, Oregon	Dec-12	$101,500,000	782	$129,795
Hotel Vintage Plaza	Portland, Oregon	Jul-12	30,500,000	117	260,684
Governor Hotel Portland	Portland, Oregon	May-12	20,000,000	100	200,000
RiverPlace Hotel	Portland, Oregon	Feb-12	21,000,000	84	250,000
La Quinta Inn Portland Convention Center	Portland, Oregon	Jan-12	3,400,000	79	43,038
Valley River Inn	Eugene, Oregon	Oct-11	16,400,000	257	63,813
Knights Inn Baker City	Baker City, Oregon	Sep-11	545,000	36	15,139
Winchester Bay Inn	Winchester Bay, Oregon	Sep-11	1,217,500	49	24,847
Cedar Lodge Inn	Medford, Oregon	Aug-11	560,000	79	7,089
Chestnut Tree Inn	Portland, Oregon	May-11	2,000,000	59	33,898
Courtyard by Marriott Portland City Center	Portland, Oregon	Mar-11	55,600,000	256	217,188
Best Western Grand Manor Inn	Springfield, Oregon	Jan-11	4,550,000	65	70,000
Siletz Bay Lodge	Lincoln City, Oregon	Jun-10	2,425,000	44	55,114
Motel 6 Gold Beach	Gold Beach, Oregon	Jun-10	1,750,000	50	35,000
SpringHill Suites by Marriott Portland Hillsboro	Hillsboro, Oregon	May-10	12,500,000	106	117,925

The four most recent sales in the Portland market are the most notable, as the Hilton and Hotel Vintage Plaza are two of the premier properties in Downtown Portland; the Hotel Vintage Plaza achieved a significantly higher RevPAR, accounting for the price-per-key difference. It should also be noted that the Hotel Vintage Plaza sold along with its sister property in Seattle in 2012. The Governor Hotel was an REO transaction, and therefore not equitable to the other two since it was a distressed sale. Kimpton Hotel & Restaurant Group LLC acquired the RiverPlace Hotel from Larkspur Hotels; this transaction represented the second-highest price-per-key sale of 2012 in Portland.

Brokers' Outlook

According to HVS broker interviews, current cap rates for limited-service hotels in Portland range from 8% to 9%, depending on the quality and location of a given property. Area brokers report that, dependent on circumstances, now is the time to buy limited-service hotels in Portland. Select-service hotels are selling at similar cap rates, and brokers report that the market presently favors the purchase of these assets as well. Full-service hotels would be selling for a lower rate, and although there is significant interest from potential buyers to enter the Portland full-service market, little to no inventory is available.

Conclusion

The Portland hotel market has continued to show improvement from the depths of the recent recession. Hotels transactions have increased slightly, with four notable sales occurring in 2012. Occupancy and average rate are anticipated to continue to improve as the area economy strengthens; the lack of new supply within the immediate future is also expected to increase RevPAR. Overall, the near-term outlook for the Portland hotel market remains optimistic.