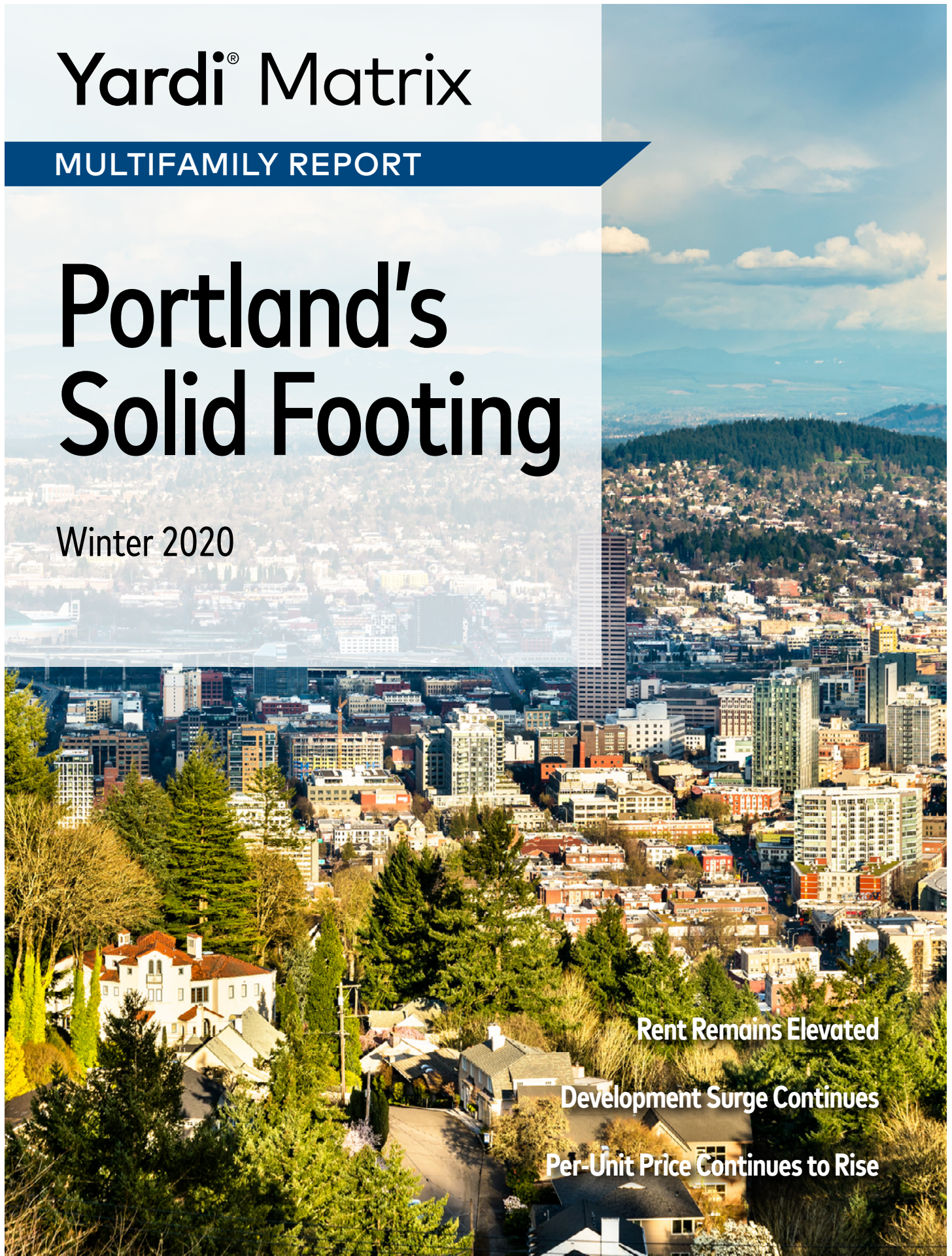


Yardi® Matrix

MULTIFAMILY REPORT

Portland's Solid Footing

Winter 2020



Rent Remains Elevated

Development Surge Continues

Per-Unit Price Continues to Rise

PORTLAND MULTIFAMILY

Yardi® Matrix

Core Submarkets In the Spotlight

Portland's multifamily market continues to thrive following a strong 2019, with healthy demographic expansion and steady economic growth, both of which outpaced the national average in January 2020. The market's solid fundamentals have kept developers busy. Despite consistent deliveries, rents rose by 3.8% year-over-year through January, climbing 80 basis points above the national rate. Meanwhile the occupancy rate in stabilized properties slid 10 basis points to 95.2% year-over-year as of December.

Boasting a highly educated workforce and friendly business climate, Portland gained 20,500 jobs in the 12 months ending in November, for a 1.9% year-over-year increase. The 3.1% unemployment rate as of November marked the lowest value in the cycle. Education and health services led growth in the metro. The sector has various health-care and research centers underway, including Asante's \$1 billion investment that will expand and redevelop the health-care system in Southern Oregon, as well as a partnership between the city and three of Portland's public higher education institutions for the construction of a \$104 million civic, education and health center at Portland State University.

Investors and developers remained unfazed by the rent regulations and pushed 2019 to the third-best spot in the cycle—sales amounted to nearly \$1.8 billion and deliveries totaled 4,591 units.

Market Analysis | Winter 2020

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Recent Portland Transactions

Pallas



City: Beaverton, Ore.
Buyer: MG Properties Group
Purchase Price: \$186 MM
Price per Unit: \$328,042

Alvista 23



City: Gresham, Ore.
Buyer: Phoenix Realty Group
Purchase Price: \$63 MM
Price per Unit: \$225,899

Bridge Creek



City: Vancouver, Wash.
Buyer: SB Real Estate Partners
Purchase Price: \$56 MM
Price per Unit: \$207,037

Terra Murrayhill

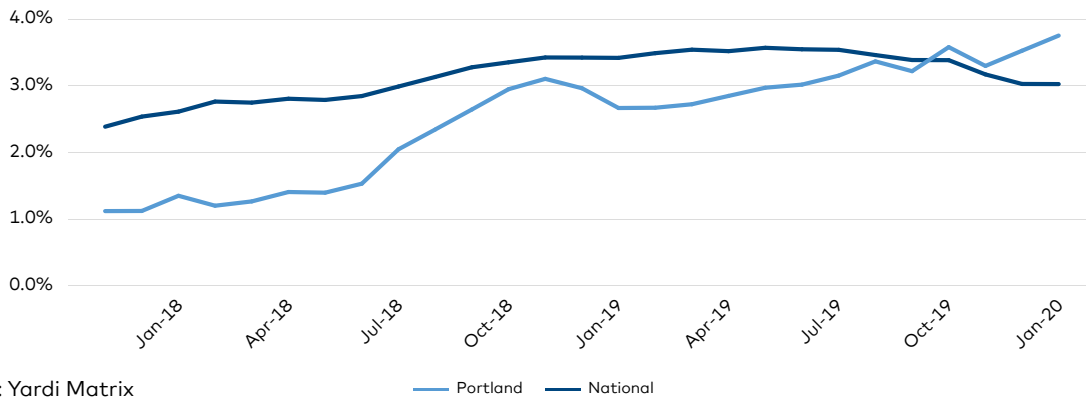


City: Beaverton, Ore.
Buyer: Arrowroot Real Estate
Purchase Price: \$34 MM
Price per Unit: \$247,101

RENT TRENDS

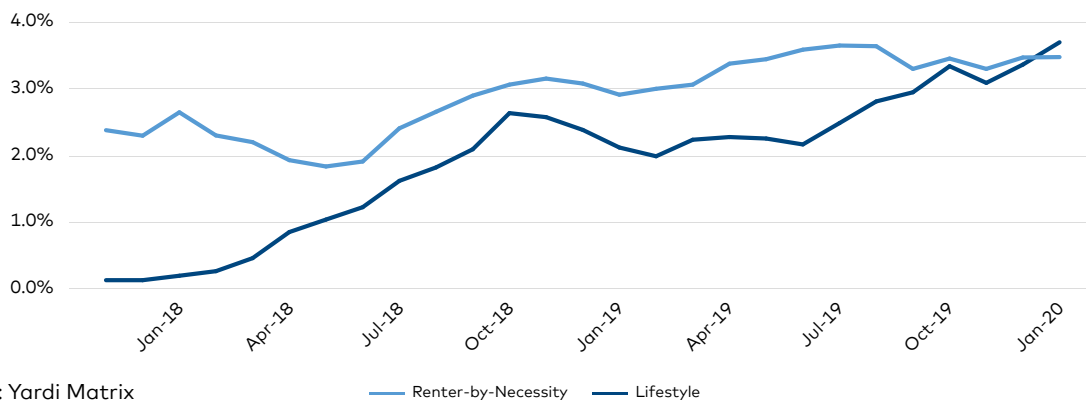
- ▶ Portland rents rose by 3.8% year-over-year through January, outpacing the 3.0% national rate. The metro's average rent stood at \$1,436, largely in line with the \$1,463 national figure. Despite robust multifamily deliveries through the second half of the cycle—since 2014, 27,000 units have been added to the metro's rental stock—demand remained strong. The occupancy rate for stabilized properties slid 10 basis points year-over-year, to 95.2% as of December.
- ▶ Rents in the Lifestyle segment rose by 3.7% to \$1,596, while Renter-by-Necessity rates were up by 3.5% to \$1,278. The small spread between the two asset classes shows the sustained demand for multifamily units, buoyed by above-average population growth, consistent employment expansion and an affordable lifestyle compared to neighboring states.
- ▶ While nearly all submarkets registered rent increases, rates contracted in some areas including Orchards (down 0.4% to \$1,247) and Pleasant Valley (down 0.2% to \$1,043). Rental inventory in Pleasant Valley mostly consists of workforce housing and is Portland's most affordable submarket. The core submarkets remained the most expensive areas: downtown Portland (up 1.6% to \$2,083) and the Pearl District (up 6.1% to \$2,015). Other core areas that are highly attractive to developers—Kerns/Buckman and PSU/Lovejoy—also saw rent hikes of 3.0% and 5.5%, to \$1,556 and \$1,746, respectively.

Portland vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Portland Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

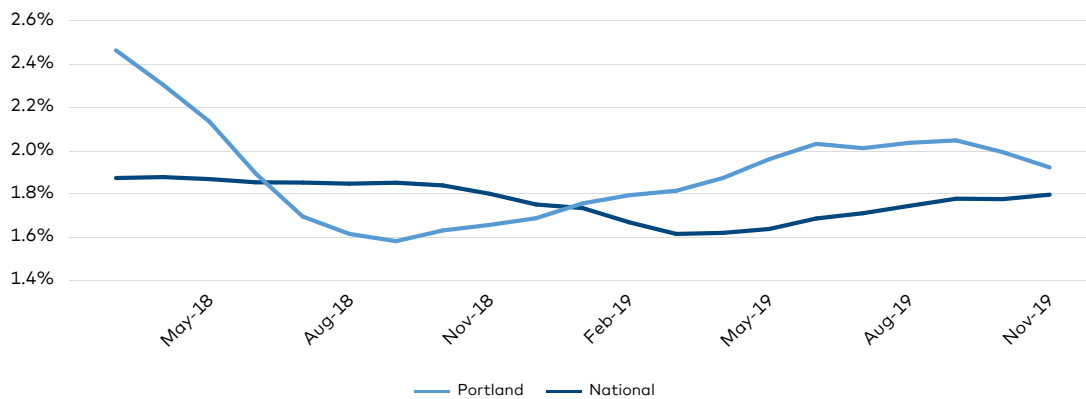


Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Portland gained 20,500 jobs in the 12 months ending in November, up by 1.9% year-over-year and 10 basis points above the national rate. The unemployment rate dropped to 3.1% during the same period, the lowest value this cycle.
- ▶ All sectors expanded except trade, transportation and utilities—the metro’s main driver—which accounted for 18% of all employment. Despite losing 1,500 positions, several projects underway in Hillsboro are expected to rejuvenate the sector. Intel’s multibillion-dollar expansion of its D1X research factory, Edwards Vacuum’s new factory and Japanese semiconductor materials specialist JSR Micro’s \$100 million facility are all under construction—solidifying the metro’s position in the electronic exports market.
- ▶ Education and health services led growth (7,600 jobs). Asante’s \$1 billion investment in Southern Oregon over the next decade will likely sustain the trend, as will the new 175,000-square-foot education and health center currently underway in the heart of Portland State University’s downtown campus, slated to open this fall.
- ▶ Professional and business services added 3,100 jobs and will continue to be fueled by corporate expansions, including the 400 new jobs Amazon is adding to its Portland team.

Portland vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Portland Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	191	15.5%	7,600	4.1%
60	Professional and Business Services	188	15.2%	3,100	1.7%
15	Mining, Logging and Construction	78	6.3%	2,800	3.7%
30	Manufacturing	132	10.7%	2,600	2.0%
55	Financial Activities	75	6.1%	2,400	3.3%
90	Government	155	12.6%	1,300	0.8%
70	Leisure and Hospitality	124	10.0%	1,100	0.9%
50	Information	27	2.2%	1,100	4.3%
80	Other Services	43	3.5%	-	0.0%
40	Trade, Transportation and Utilities	222	18.0%	-1,500	-0.7%

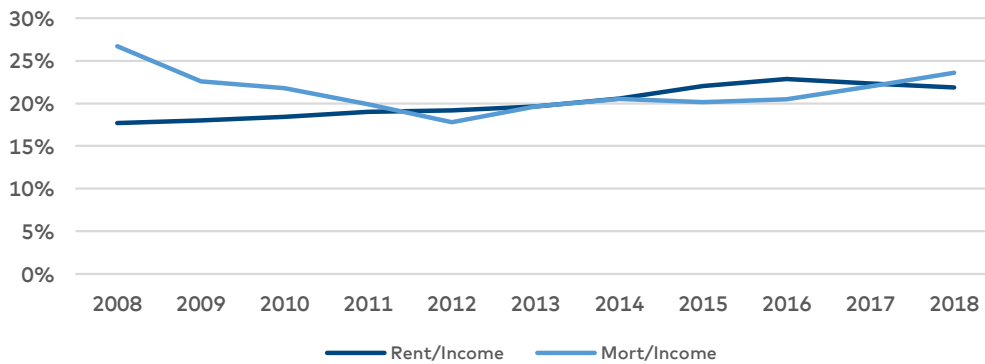
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

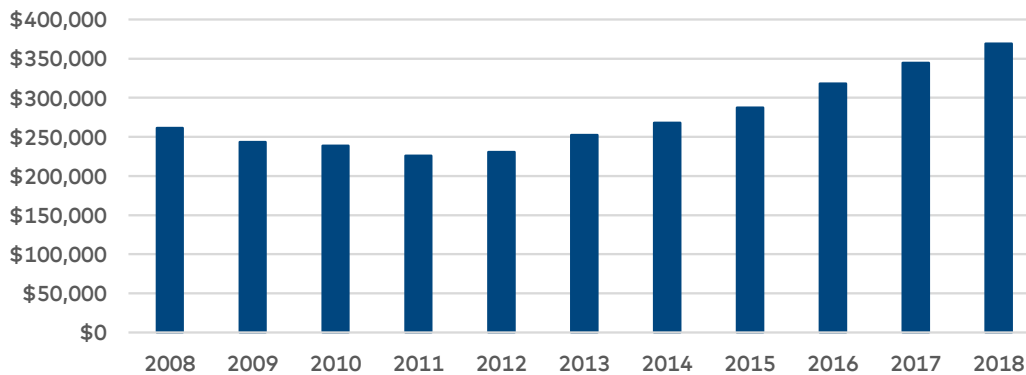
- ▶ The median home price in Portland rose to a cycle peak of \$369,339 in 2018, up by 7.2% since 2017 and 41.4% above the 2008 figure. In 2018, the average rent accounted for 22% of the area median income, while the average mortgage payment equated to 24%, 30 basis points higher than its share in 2008.
- ▶ According to the National Low Income Housing Coalition's 2018 report, Oregon's rental housing inventory can supply only 28 units for every 100 extreme low-income renter household. In January 2020, the metro had 1,201 units in 10 fully affordable properties underway, and since 2018, 1,324 units in 11 such communities have been delivered.

Portland Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Portland Median Home Price



Source: Moody's Analytics

Population

- ▶ Portland gained 22,348 residents in 2018, up by 0.9% and 30 basis points above the national rate.
- ▶ The metro gained 96,440 residents since 2015, mainly boosted by natural population growth and immigration.

Portland vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Portland Metro	2,382,370	2,427,459	2,456,462	2,478,810

Sources: U.S. Census, Moody's Analytics

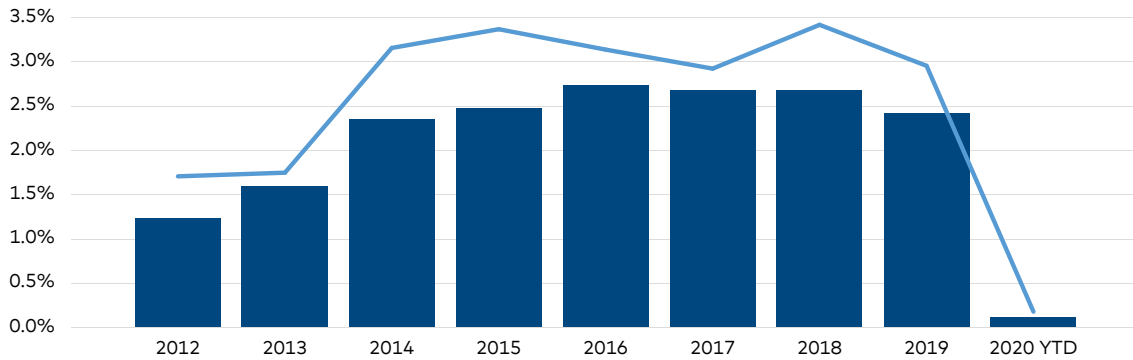
SUPPLY

- ▶ Portland had 9,180 units under construction as of January, with the bulk of the inventory geared to the Lifestyle segment. In 2019, developers added 4,591 units, or 3.0% of total stock, marking the cycle's third-best year for completions. Of the 27,000 units delivered in the metro since 2014, half are located within three miles of downtown Portland. The state-wide rent control law has not yet impacted development in the metro, as new construction is exempt for a 15-year period.
- ▶ In January, one Lifestyle community was delivered in an Opportunity Zone in the Gresham submarket—the 180-unit Northbrook Village, which was 69% preleased. The metro also had

21,350 units in the planning and permitting stages at the start of 2020.

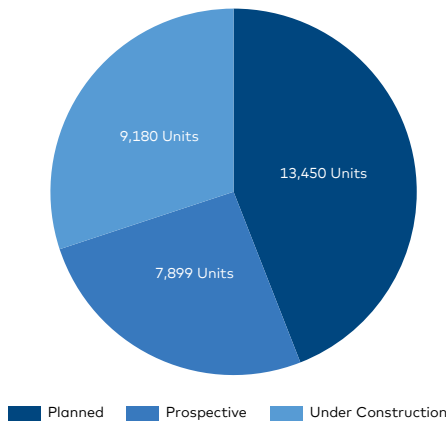
- ▶ Nearly half of the metro's pipeline was concentrated in five submarkets: Kerns/Buckman (1,319 units), PSU/Lovejoy (873), St. Johns/University Park (700), Piedmont (596) and Hillside/Northwest (497). The two largest projects under construction are transit-oriented developments located in the PSU/Lovejoy Opportunity Zone: The 417-unit The Collective on 4th—a mixed-use, LEED Silver-seeking community—that was completed in March, and the 348-unit The Columbia, slated for completion by the end of the year.

Portland vs. National Completions as a Percentage of Total Stock (as of January 2020)



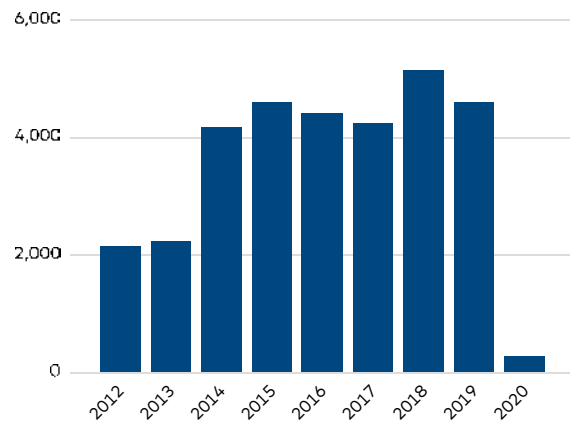
Source: Yardi Matrix

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Portland Completions (as of January 2020)



Source: Yardi Matrix

TRANSACTIONS

- Nearly \$1.8 billion in multifamily assets traded in Portland in 2019, at an average per-unit price of \$253,348. The metro's average was well above the \$168,177 national figure. Investor interest was balanced between segments, with sales almost equally split between Renter-by-Necessity and Lifestyle properties.
- Investor demand remained strong, as the new rent regulations have not yet impacted investment. Acquisition yields in the second part of

2019 ranged between 4.0% and 4.5% for stabilized, core Class A assets, and went up to 6.8% for suburban value-add assets.

- The largest transaction of 2019 was the sale of the 567-unit, 28-building Pallas community located in an Opportunity Zone in Beaverton. MG Properties Group acquired it from Holland Partner Group for \$186 million, or 328,042 per unit.

Portland Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

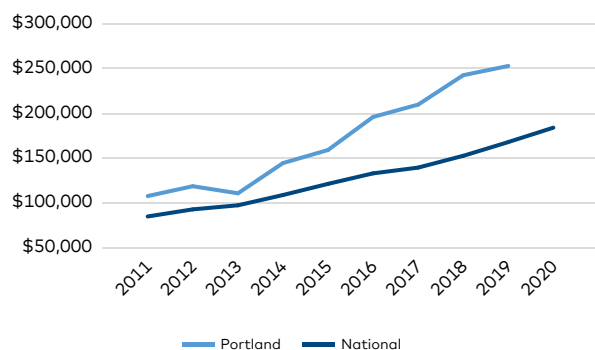
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Beaverton	278
Southwest Hills	216
Hillside/Northwest	150
Orchards	124
Raleigh Hills	85
Fort Vancouver	78
Hillsboro	73

Source: Yardi Matrix

¹ From February 2019 to January 2020

Portland vs. National Sales Price per Unit



Source: Yardi Matrix



How Portland Has Evolved Over the Past Decade

By Laura Calugar

Portland, Ore., has come a long way since 2010. The metro's growing tech scene, affordable cost of living and easy commute to employment centers have all contributed to its blossoming economy. Research Analyst Samuel Hatcher and Senior Director Jim Lewis, both from Cushman & Wakefield's Portland office, talk about the market's evolution and their predictions for the next decade.

What triggered Portland's growth 10 years ago?

Portland's growth has been consistently above the national average for decades. It really seemed to change and accelerate this cycle with improvements in technology that make physical distance less important. People and companies can more easily locate here and still access venture capital in the Bay Area, for example. Or a team within a larger company can choose to locate here even if its corporate headquarters is in a different state.

Which areas have seen the most transformation, and why?

The entire Portland metro area experienced over 84 million square feet of new development over the last 10 years. More than half of the total new development has been in the multifamily sector, which had over 43 million square feet of development. The most visible concentration of development has been within the central business district and adjacent close-in markets including the Lloyd Dis-



Jim Lewis (left) and Samuel Hatcher (right)

trict, Northwest Portland and the Central East Side, where over 22 million square feet of combined development has taken place, representing about 26 percent of all development in this cycle, on a square footage basis. These areas are attractive because of their proximity to employment downtown, surrounding amenities and the cultural vibe.

What are the top three projects within the past 10 years that have impacted the metro's skyline?

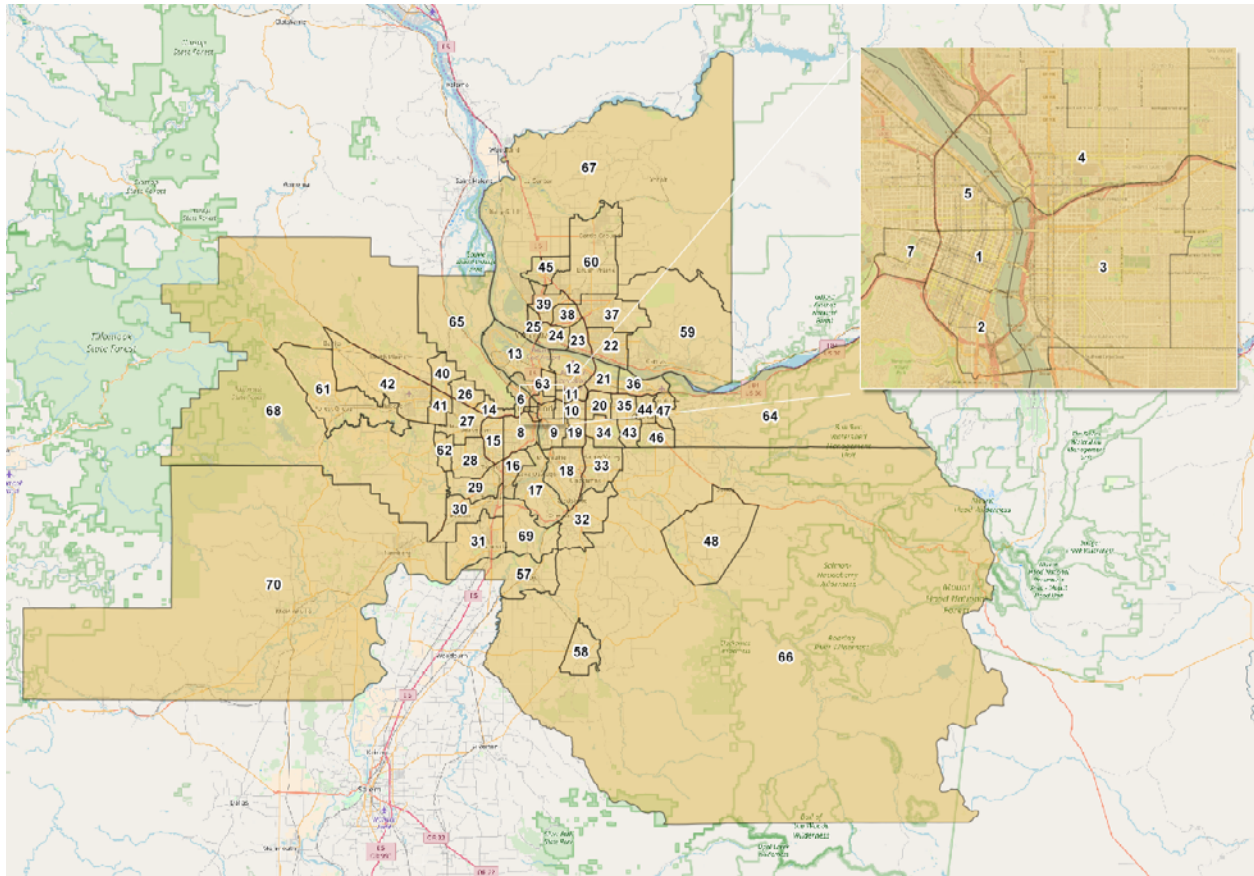
Park Avenue West—it was the first major CBD project out of the ground coming out of the recession. It signified that the Portland

market was back. Broadway Tower—This was a mixed-use project of office and hotel product and was impactful for continuing to move the center of downtown Portland further south. The YARD—this 284-unit apartment project was the first very notable Burnside Bridgehead high-rise project. You can't miss it on the Close-In Eastside. It also is emblematic of all the growth going on in the Close-In Eastside.

What will Portland look like in 2030?

The main predictions are that many of the suburbs will begin to take on a more urban/town center look with typical urban amenities. You already see that happening in places like downtown Beaverton and Lake Oswego. The biggest transformation of the skyline will be the continued growth and development of the CBD and Close-In Eastside. It's great real estate and it will only get better over the next 10 years.

PORTLAND SUBMARKETS



Area No.	Submarket
1	Downtown Portland
2	PSU/Lovejoy
3	Kerns/Buckman
4	Lloyd/Irvington
5	Pearl District
6	Hillside/Northwest
7	Goose Hollow
8	Southwest Hills
9	Brooklyn/Moreland
10	Laurelhurst
11	Madison South
12	Cully/Roseway
13	St Johns/University Park
14	West Haven
15	Raleigh Hills
16	Westlake
17	Lake Oswego
18	Milwaukie/Gladstone
19	Brentwood/Darlington
20	Hazelwood
21	Parkrose

Area No.	Submarket
22	Mill Plain
23	McLoughlin
24	Fort Vancouver
25	Downtown Vancouver
26	Oak Hills
27	Beaverton
28	Greenway
29	Tigard
30	Tualatin
31	Wilsonville
32	Oregon City
33	Happy Valley
34	Pleasant Valley
35	Wilkes
36	Fairview
37	Orchards
38	Walnut Grove
39	Hazel Dell
40	Rock Creek
41	Tanasbourne
42	Hillsboro

Area No.	Submarket
43	Hollybrook
44	Gresham
45	Salmon Creek
46	Kelly Creek
47	Troutdale
48	Sandy
57	Canby
58	Molalla
59	Creswell Heights
60	Battle Ground
61	Forest Grove
62	Hazeldale
63	Piedmont
64	Eastern Multnomah County
65	Northwest Multnomah County
66	Outlying Clackamas County
67	Outlying Clark County
68	Outlying Washington County
69	Stafford
70	Yamhill County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also may span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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