



Yardi® Matrix

MULTIFAMILY REPORT

# First Gray Clouds Over Portland

Spring 2020

**Unemployment Claims Top 15% of Workforce**

**Pipeline Slated for Significant Slowdown**

**Investment Activity Shifts Down a Gear**

# PORTLAND MULTIFAMILY

Yardi® Matrix

## Jobless Claims Spike Across Oregon

Portland's multifamily market began 2020 on a high note, backed by a coveted quality of life and relative affordability compared to other coastal metros. However, the coronavirus lockdown has impacted most aspects of the industry. The average Portland rent increased by only 0.1% on a trailing three-month basis as of March, and transaction activity has also slowed down.

Portland gained 23,200 jobs in 2019, but despite topping national averages, the COVID-19 crisis that took hold in March has generated historic unemployment numbers. As financial instability continued to rise across the state, 334,000 Oregonians filed for unemployment benefits in a five-week period, according to the Oregon Employment Department. The planned \$2.8 billion light rail project between downtown Portland and Bridgeport Village is on hold. Meanwhile, work on large projects including the Intel expansion and the Hayward Field renovation is moving forward. In mid-April, state authorities introduced a plan to gradually lift restrictions and reopen businesses.

Developers had 8,824 units under construction in Portland as of March and 435 units were completed in the first quarter of 2020, following five years of consistent deliveries. Apartments in lease-up stages are most likely to be affected by the ongoing lockdown, as the prime leasing season began just as shelter-in-place orders were enacted to slow the spread of the virus.

### Market Analysis | Spring 2020

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#### Recent Portland Transactions

##### Multnomah Village



City: Portland, Ore.  
Buyer: G Group  
Purchase Price: \$30 MM  
Price per Unit: \$424,714

##### Maybeck at the Bend



City: Portland, Ore.  
Buyer: Freshwater Investments  
Purchase Price: \$25 MM  
Price per Unit: \$205,208

##### Barberry Village



City: Portland, Ore.  
Buyer: Cooper Street Capital  
Purchase Price: \$22 MM  
Price per Unit: \$119,444

##### King James Gate

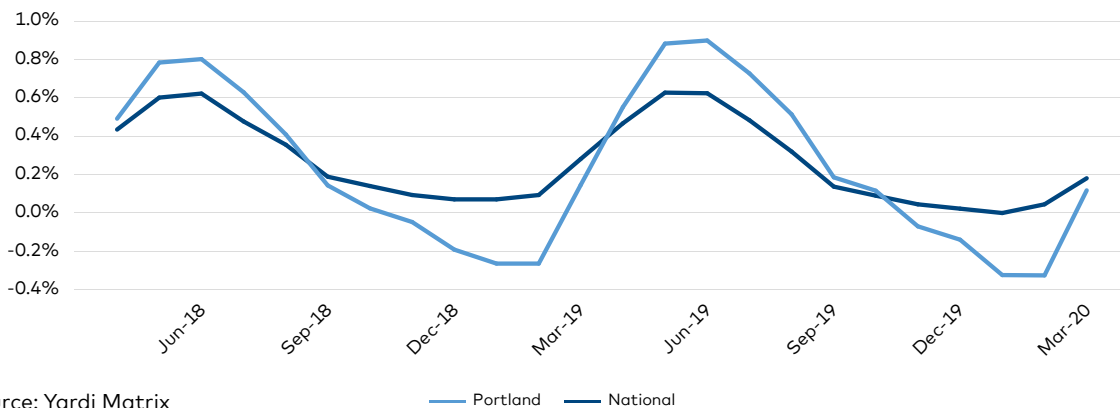


City: Vancouver, Wash.  
Buyer: Transpacific Investments  
Purchase Price: \$14 MM  
Price per Unit: \$169,688

## RENT TRENDS

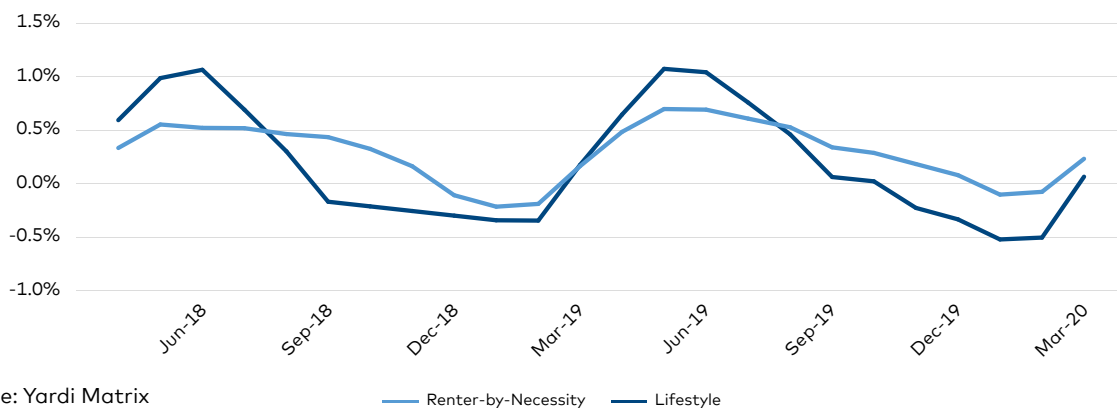
- ▶ Portland rents rose by 0.1% on a trailing three-month basis as of March, half the national growth rate. At \$1,441, the average rent remained almost on par with the \$1,474 U.S. figure.
- ▶ Working-class Renter-by-Necessity properties led rent growth, advancing by 4.1% year-over-year through March, to \$1,293. In the meantime, Lifestyle rents were up by 2.5%, to an average of \$1,592. While staying in the 2.0% to 3.0% band in the first three quarters of 2019, year-over-year rent growth in the high-end segment decelerated slightly over the past two quarters. The steady addition of upscale product since 2015—more than three-quarters of the communities delivered through March 2020 catered to high-income residents—has dampened rent growth
- and increased lease-up periods. Two urban core submarkets posted average rents above the \$2,000 mark as of March: Downtown Portland (\$2,061) and the Pearl District (\$2,037).
- ▶ In mid-March, local and state authorities enacted a moratorium on any evictions due to nonpayment of rent caused by coronavirus-related financial hardship. The moratorium allows tenants to defer payments until the end of the health crisis. However, surveys by the National Multifamily Housing Council show that a vast majority of tenants across the U.S. have at least partially paid their April rents, surpassing industry expectations. While this isn't a definite indication of what May or June collections will look like, the data brought some relief.

**Portland vs. National Rent Growth (Trailing 3 Months)**



Source: Yardi Matrix

**Portland Rent Growth by Asset Class (Trailing 3 Months)**



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ Metro Portland gained 23,200 jobs in 2019. The 1.9% expansion was 10 basis points above the national level. At the start of 2020, trade, transportation and utilities (18.2%) accounted for the largest share of the workforce.
- ▶ Although employment growth constantly outperformed national rates last year, the pandemic brought Oregon's unemployment rate to historic highs in a matter of weeks. Since public health measures debuted in mid-March, 334,000 residents—more than 15% of the state's workforce—had filed unemployment claims as of April 18. Moreover, as the state begins processing filings from self-employed workers, who weren't previously eligible, numbers could be further boosted. Yardi Matrix data shows that 31% of Portland jobs are in sectors especially at risk due to the crisis. In the meantime, e-commerce companies have created new jobs to meet surging demand, with Amazon hiring some 1,000 Oregonians.
- ▶ To cope with the situation, Oregon businesses received \$3.8 billion in funding through the first round of the U.S. Small Business Administration's Paycheck Protection Program, with construction companies obtaining 13% of the approved loan money—more than any other industry.

### Portland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	188	15.2%
65	Education and Health Services	191	15.4%
30	Manufacturing	132	10.7%
90	Government	155	12.5%
55	Financial Activities	75	6.1%
15	Mining, Logging, and Construction	76	6.1%
70	Leisure and Hospitality	127	10.3%
50	Information	26	2.1%
40	Trade, Transportation, and Utilities	225	18.2%
80	Other Services	42	3.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ In 2018, Portland gained 22,348 residents, a 0.9% expansion and 30 basis points above the national rate.
- ▶ Demographic growth has slowed in recent years. The metro gained 29,003 residents in 2017, up by 1.2%. In 2016, Portland added 45,089 residents, for a 1.9% jump.

### 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

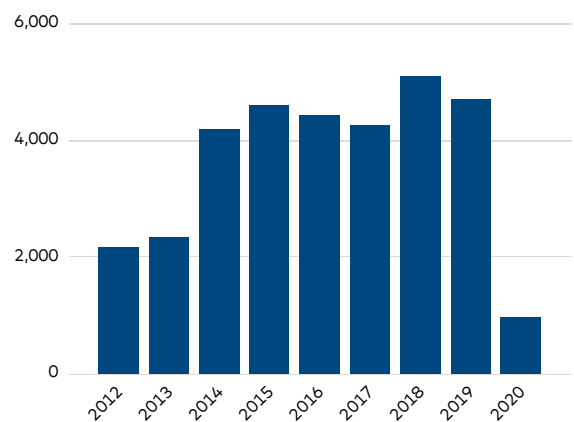
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ The metro had 8,824 units under construction as of March, with roughly three-quarters geared toward high-income residents. Although the majority of projects is scheduled for completion by the end of this year, delays are expected due to the current economic context. Oregon's statewide stay-at-home order exempts construction, only where practicing social distancing is possible.
- ▶ In the first quarter of 2020, Portland added 435 units, or 0.6% of total stock, 20 basis points above the national average. This follows the best two years for deliveries in the last decade: Developers completed 4,711 units in 2019 and 5,110 apartments in 2018.
- ▶ The Kerns/Buckman area in Portland's northeast quadrant had the most units underway as of March—1,229 apartments. This submarket appeals to developers and residents alike as it provides easy access to public transportation and the downtown area. Other submarkets with significant development pipelines include the Pearl District (633 units underway), Piedmont (596 units) and St. Johns/University Park (525 units).

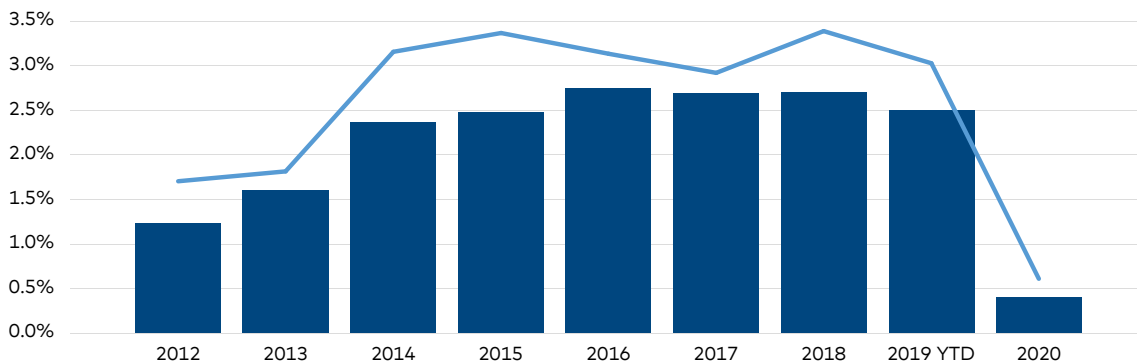
- ▶ Alamo Manhattan's 20-story project, The Columbia, in PSU/Lovejoy is the largest project under construction. Located in Portland's central business district, the 348-unit development was financed through a four-year, \$96.5 million construction loan, with completion scheduled for the fourth quarter of this year.

**Portland Completions** (as of March 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

— Portland ■ National

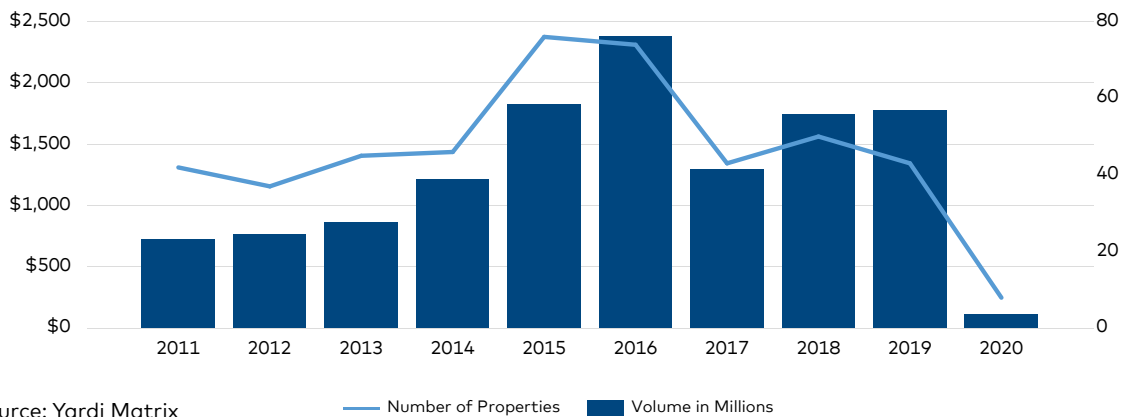
## TRANSACTIONS

- ▶ In the first quarter of 2020, only \$112 million in multifamily assets traded in Portland, less than half the transaction volume for the same period of 2019. Many deals were delayed, repriced or canceled due to pandemic-related concerns.
- ▶ After peaking at \$255,143 in 2019, the average per-unit price dropped sharply in the first quarter, to \$137,781. Investors favored value-add assets: Seven of the eight properties that changed hands in the first quarter were in the

Renter-by-Necessity segment. However, considering the current market climate, value-add plays are expected to slow down significantly.

- ▶ In the 12 months ending in March, total sales volume was close to \$1.7 billion, with Portland's top five submarkets accounting for nearly half of that. Chicago-based Magnolia Capital was among the most active buyers, paying \$181 million for two waterfront properties totaling 530 units.

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



Source: Yardi Matrix

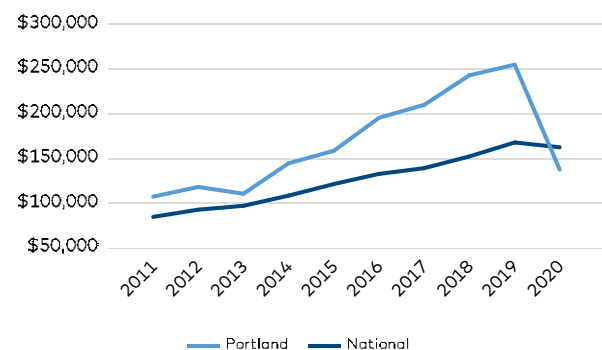
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Southwest Hills	246
Beaverton	220
Hillside/Northwest	150
Orchards	124
Raleigh Hills	100
Fort Vancouver	91
Hillsboro	73

Source: Yardi Matrix

<sup>1</sup> From April 2019 to March 2020

### Portland vs. National Sales Price per Unit



Source: Yardi Matrix



## How Portland's Skyline Changed Over the Past Decade

By Laura Calugar

Portland, Ore., has come a long way since 2010. Cushman & Wakefield research found that the city's transformation has been dramatic, with 85 million square feet of new development over the past 10 years. In an interview with *Multi-Housing News*, Research Analyst Samuel Hatcher and Senior Director Jim Lewis, of Cushman & Wakefield's Portland office, talk about the market's evolution and share their expectations for the next decade.

*What triggered Portland's growth at the beginning of the last decade?*

**Lewis:** 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 of the metro have seen the most transformation?*

**Lewis:** The entire Portland metro area has 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, with over 43 million square feet of development. The most visible concentration of development has been within the central business district and



Jim Lewis (left) and Samuel Hatcher (right)

adjacent close-in markets including the Lloyd District, 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.

*What property type has performed best in Portland during the past 10 years and why?*

**Lewis:** Class A office rents in the CBD increased over 45 percent, which is stronger than retail and industrial rent growth. That was driven by a strong demand for creative type office spaces and was also a function of the high con-

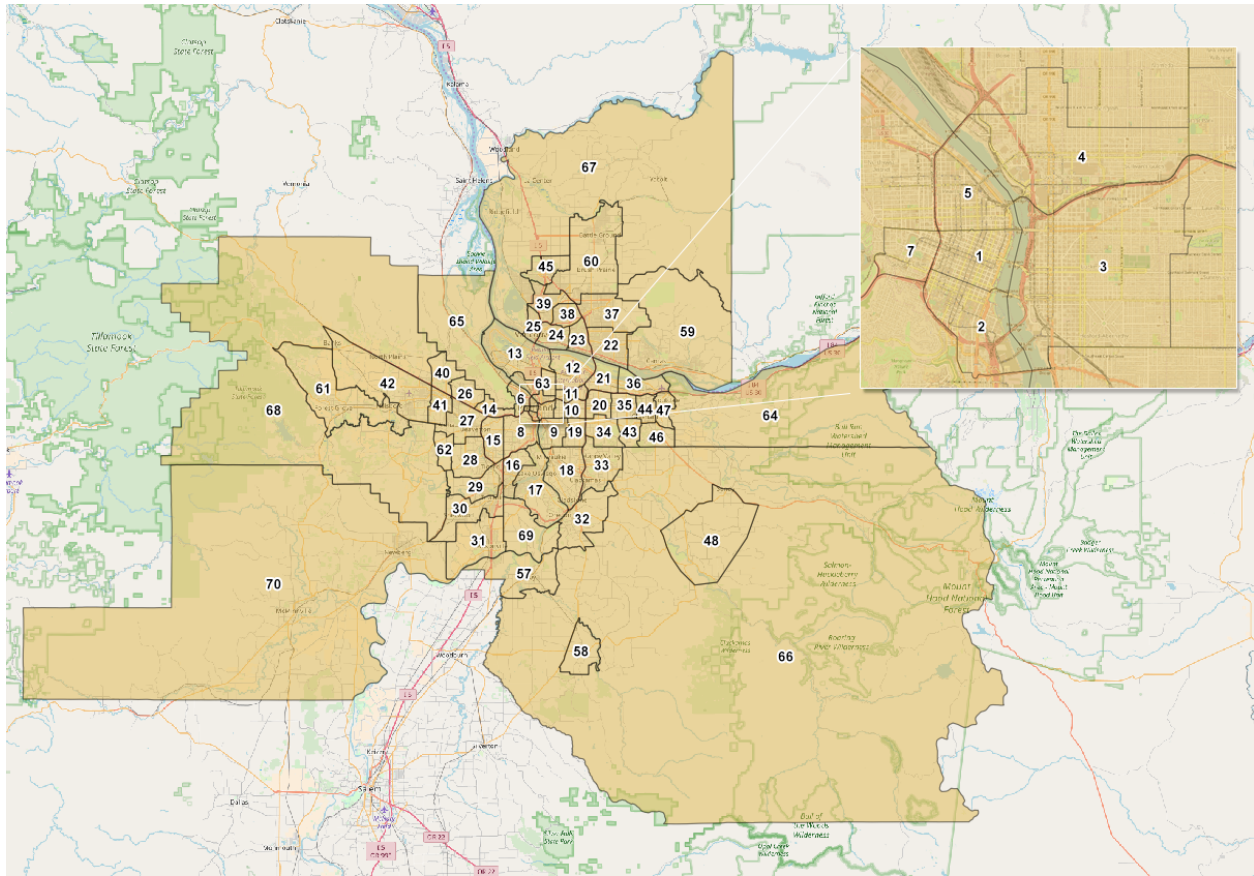
struction costs associated with building renovations and tenant improvements. Industrial, on the other hand, achieved historically low vacancy rates—standing at 3.4 percent as of the fourth quarter of 2019—and has had an incredible run over the last 10 years.

*Where do most transplants come from and why do they choose Portland?*

**Hatcher:** These days, a majority of transplants are moving from Seattle, San Francisco and other areas in the region, primarily due to the overall higher cost of living in those markets—especially for families—and for companies it's the cost of doing business, including real estate costs. I would not say only people from major West Coast cities are moving to Portland, nor is cost always necessarily the reason. I can speak for myself. Having moved here from Cleveland in late 2018, I was immediately drawn to Portland after only one visit.

*(Read the complete interview on [multihousingnews.com](http://multihousingnews.com).)*

# 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.

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