

YARDI® Matrix

Portland's Promise

Multifamily Summer Report 2016

Rent Growth Outpaces Nation

Jobs Blossom in Silicon Forest

Developers Follow Millennials Downtown

Market Analysis

Summer 2016

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Rose City Multifamily in Full Bloom

Broad-based job growth and a constant influx of Millennials have propelled apartment rent increases in Portland to among the highest in the nation—though that growth is expected to decelerate as a result of a heavy development pipeline. Employment is boosted by industries such as education, health care, business and hospitality, while the tech sector is flourishing in the “Silicon Forest.”

The metro’s strong economy is attracting investors and driving development. A new wave of construction is overtaking the South Waterfront, where the Zidell family will fill in the last undeveloped part of the area with as many as 25 new buildings. A large expansion by the Oregon Health & Science University and the opening of the new Portland-Milwaukie MAX Orange line are also feeding waterfront development. Furthermore, the West Quadrant Plan, approved by the city council in 2015, is changing zoning to allow developers to build more high-rises in core submarkets.

Many companies are relocating or expanding in Portland, fueling the demand for multifamily units and pushing the transaction volume above historical levels, with demand expected to remain elevated. And although the 21,000 units currently in the pipeline will help slow rent growth to a more sustainable level, rent growth will be extremely strong in 2016 at 8.8%.

Recent Portland Transactions

Mint Urban RiverPlace



City: Portland
Buyer: NFN Investments
Purchase Price: \$97 MM
Price per Unit: \$335,172

Waterline



City: Portland
Buyer: Greystar
Purchase Price: \$94 MM
Price per Unit: \$386,831

Sterling Pointe



City: Beaverton, Ore.
Buyer: Prime Group
Purchase Price: \$91 MM
Price per Unit: \$144,571

Terrene at the Grove

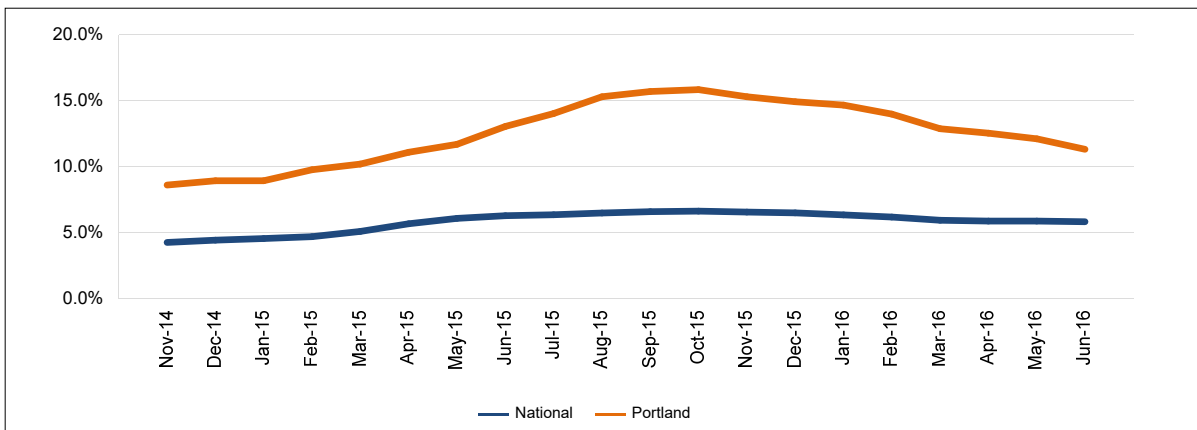


City: Wilsonville, Ore.
Buyer: Jackson Square Properties
Purchase Price: \$60 MM
Price per Unit: \$206,597

Rent Trends

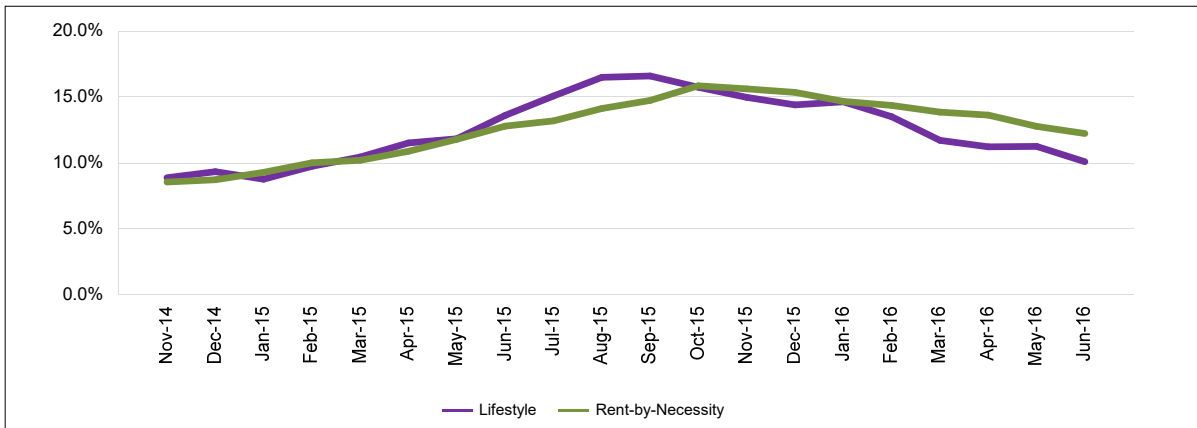
- Portland has led the nation in rent growth over the past 18 months, and consistently outpaced the nation for several years. Rents increased 11.2% year-over-year through June, nearly double the 6.0% national average. Average rental rates in the metro have climbed to \$1,304, compared to \$1,213 for the U.S.
- With thousands of new jobs being added in both core and non-traditional employment sectors and Portland's appeal as a lifestyle center, demand for housing is expected to continue to soar. This demand has led to a swelling in prices for all types of housing, in effect driving Portlanders to seek more affordable rental options in the suburbs and rapidly changing the face of many submarkets. Most of the submarkets that recorded the highest rent gains are located outside the city core: Creswell Heights (13%), St. Johns/University Park (11.6%), Hillside/Northwest (12.4%), Gresham (12.9%) and Wilsonville (10.5%). The growing cost of housing is also raising concerns about a bubble forming.
- Rents in the upscale Lifestyle segment rose 10.0% year-over-year, up to an average of \$1,536, while rates in the working-class Renter-by-Necessity segment increased 12.2%, to \$1,148 on average.
- Though demand is likely to keep outpacing supply in the near term, rent growth has started to cool down. Our forecast predicts a growth rate of 8.8% in 2016.

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



Source: YardiMatrix

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

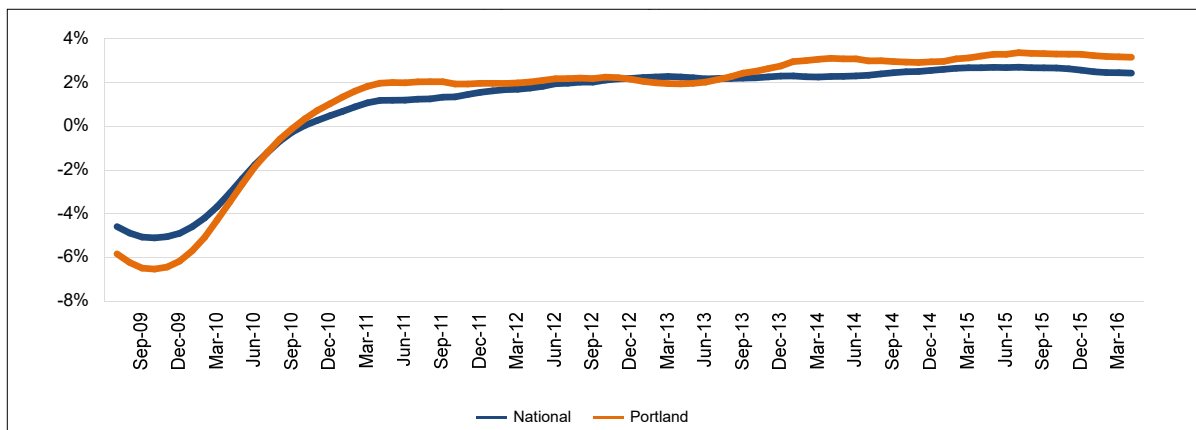


Source: YardiMatrix

Economic Snapshot

- Portland added 34,300 jobs during the 12 months ending in April 2016, a 3.2% change year-over-year and above the 2.4% national average. Job growth was broad-based and led by core employment sectors such as education, health care, and professional and business services. More and more companies are relocating or expanding in the “Silicon Forest,” drawn by the metro’s appeal as a startup mecca and its growing and highly educated workforce. As a result, the information sector expanded by 8.4%.
- Job growth was led by the education and health services sector, which added 6,800 new jobs. Major initiatives such as Portland’s Innovation Quadrant—aiming to create a health care innovation district along the Willamette River and add 30,000 new jobs over the next two decades—will continue to fuel development and growth in this sector. The Oregon Health & Science University is also moving forward with its major expansion in the South Waterfront, which entails the buildout of three new research facilities by 2018.
- Portland is also experiencing a hotel boom, with more than 3,000 new rooms in the pipeline and 3,600 new hospitality jobs added in the past year. Encouraged by high occupancy levels and low interest rates, developers are betting on the metro’s increasing appeal as a major West Coast travel destination. Upcoming projects include the publicly subsidized, \$200 million Hyatt Regency developed by Mortenson at the Oregon Convention Center, which will bring 600 new rooms to downtown.

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



Sources: YardiMatrix, 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	170	14.9%	6,800	4.2%
60	Professional and Business Services	175	15.4%	5,900	3.5%
40	Trade, Transportation and Utilities	208	18.3%	4,400	2.2%
90	Government	157	13.8%	4,000	2.6%
70	Leisure and Hospitality	115	10.1%	3,600	3.2%
15	Mining, Logging and Construction	58	5.1%	3,000	5.4%
55	Financial Activities	68	6.0%	2,100	3.2%
50	Information	26	2.3%	2,000	8.4%
80	Other Services	41	3.6%	1,900	4.9%
30	Manufacturing	122	10.7%	600	0.5%

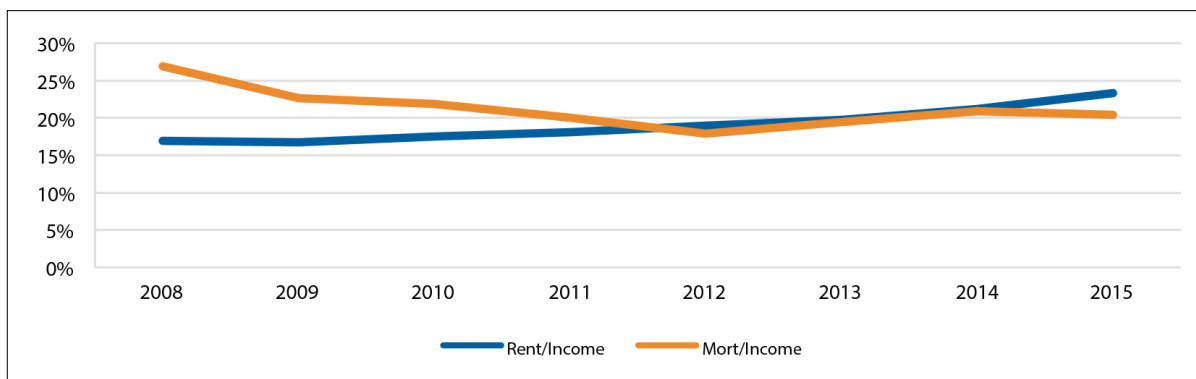
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

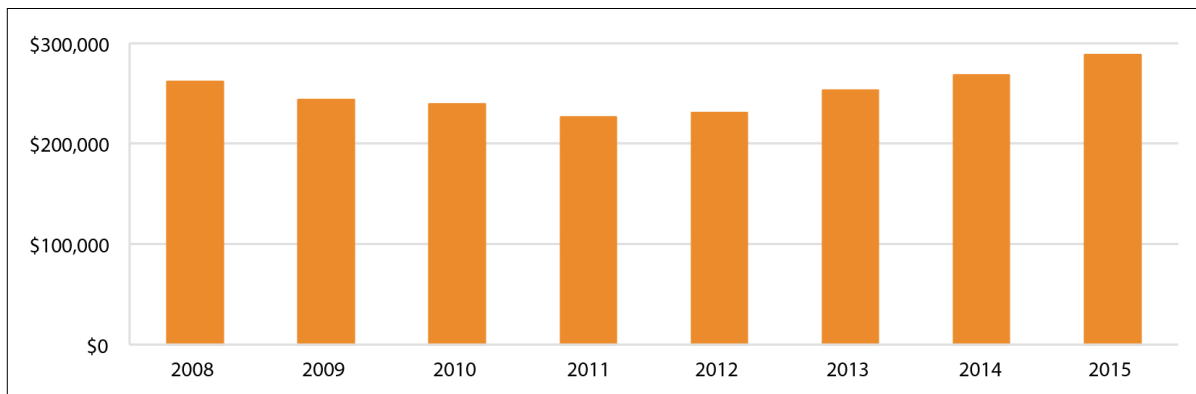
- As housing costs continue to rise, affordability has become a problem for Portlanders. Average rents climbed to an all-time high of \$1,221 at year-end 2015, comprising 23% of income, while mortgages equaled 20%. City leaders plan to alleviate the problem by investing in more affordable housing projects. Earlier this year, the Portland Housing Bureau announced it will contribute \$47 million toward eight projects intended to preserve or create 840 affordable housing units.
- The median home price rose to \$288,077, another all-time high for Portland and well above the national average. Surging homeownership rates continue to create strong demand for rental options, which in turn is fueling multifamily development in the region.

Portland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Portland Median Home Price



Source: Moody's Analytics

Population

- In the past five years, the metro's population grew by 7%, well above the 3% national rate.
- Portland added more than 40,000 residents in 2015, a 2% increase, once again outpacing the national growth rate.

Portland vs. National Population

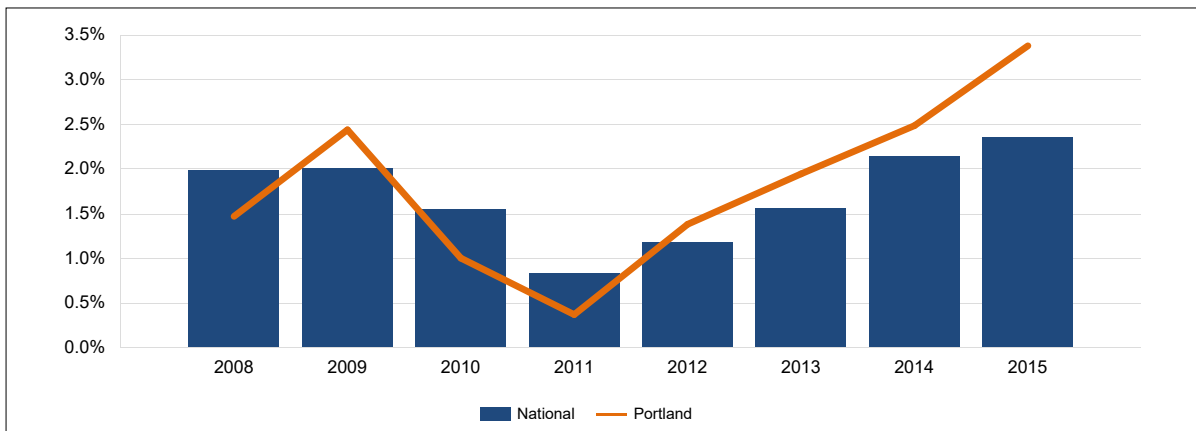
	2010	2011	2012	2013	2014	2015
National	309,346,863	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Portland-Vancouver-Hillsboro, OR-WA Metro	2,232,447	2,260,445	2,288,850	2,314,482	2,348,607	2,389,228

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

Supply

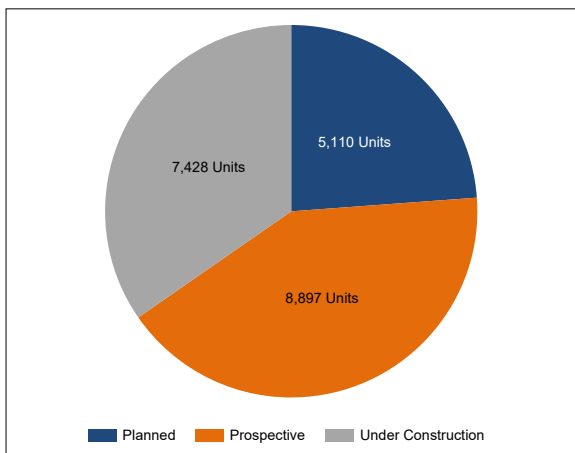
- Multifamily development in Portland is robust, with more than 4,500 units coming online during the past year. The new supply added 3.3% to stock, well above the 2.4% national average. The constant influx of Millennials, coupled with strong job growth, is fueling the demand for apartments.
- The level of new supply is likely to remain elevated over the next few years, as more than 21,000 units are in the pipeline. Nearly 7,500 multifamily units are already under construction, a boost that is precipitated by strong demand and a 96.2% occupancy rate for stabilized properties.
- Development is largely concentrated in core submarkets located in or around the downtown area, a desirable destination for Millennials looking for amenity-rich, transit-oriented residential options. The submarkets with the most units under construction are the Pearl District (1,241 units), Kerns/Buckman (1,091), Hillside/Northwest (753), Southwest Hills (446) and Piedmont (432).
- Some of the largest projects underway in the metro include the 396-unit Amberglen West in Hillsboro, where developers envision more than 6,000 new housing units and 3 million square feet of office space over the next few years.

Portland vs. National Completions as a Percentage of Total Stock (as of June 2016)



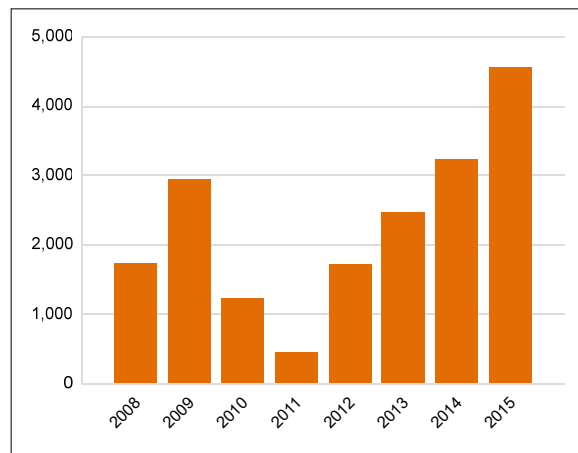
Source: YardiMatrix

Development Pipeline (as of June 2016)



Source: YardiMatrix

Portland Completions (as of June 2016)

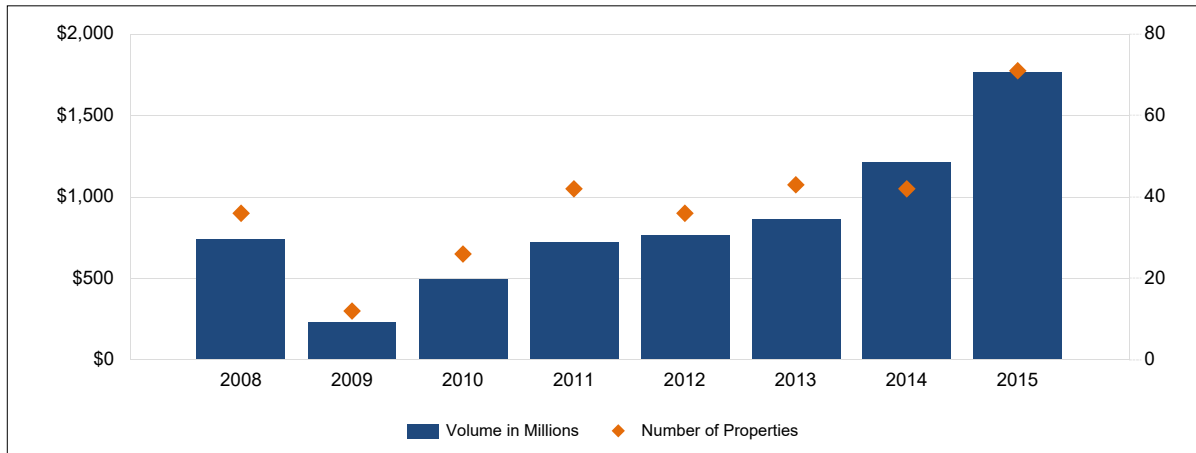


Source: YardiMatrix

Transactions

- Demand for multifamily assets is more robust than ever, with over \$1.7 billion worth of properties changing hands in the past year, another all-time high for the metro and significantly higher than last year's volume.
- The average price per unit reached \$153,796 in 2015, the highest in the current cycle and well above the national average of \$117,165. Strong investor demand has also helped yields constrict to 5.7% for stabilized properties.
- The largest transaction in the past year was the \$97.2 million sale of Mint Urban RiverPlace, a 290-unit apartment community near the Willamette River that traded at \$335,172 per unit. The sale price was 25% higher than the last time the asset traded, back in 2012. The most active submarkets have been Hillside/Northwest (\$141 million), Greenway (\$114 million) and Wilsonville (\$106 million).

Portland Sales Volume and Number of Properties Sold (as of June 2016)



Source: YardiMatrix

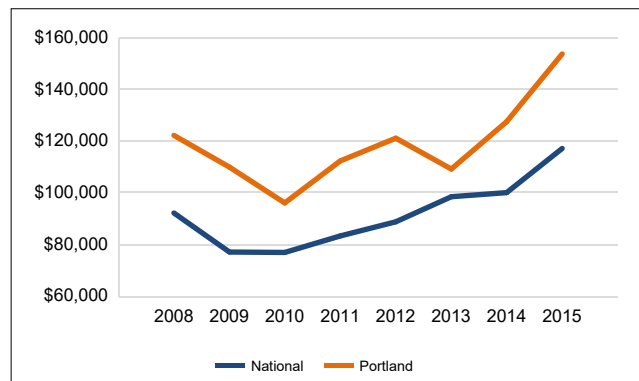
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Hillside/Northwest	141
Greenway	114
Wilsonville	106
PSU/Lovejoy	97
Gresham	92
Beaverton	87
Kerns/Buckman	60
Hazelwood	57

Source: YardiMatrix

¹ From July 2015 to June 2016

Portland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



HFF Expands Pacific Northwest Sales Team



Commonwealth Office Tower Sells for \$69M



Resource Real Estate Expands Portland Portfolio

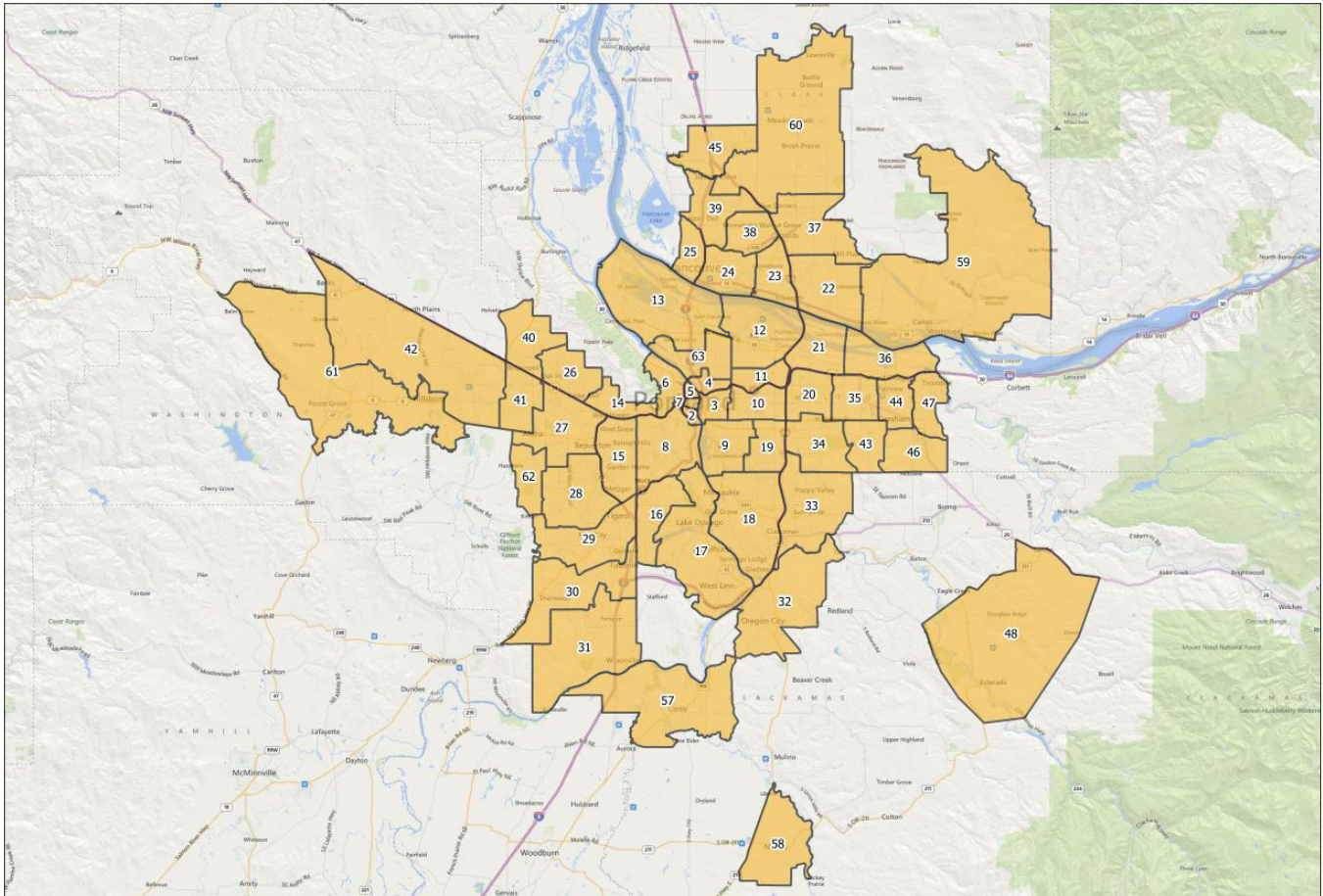


New Residence by Marriott Opens in Silicon Forest

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Portland Submarket Map



Area #	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

Area #	Submarket
20	Hazelwood
21	Parkrose
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

Area #	Submarket
39	Hazel Dell
40	Rock Creek
41	Tanasbourne
42	Hillsboro
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

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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