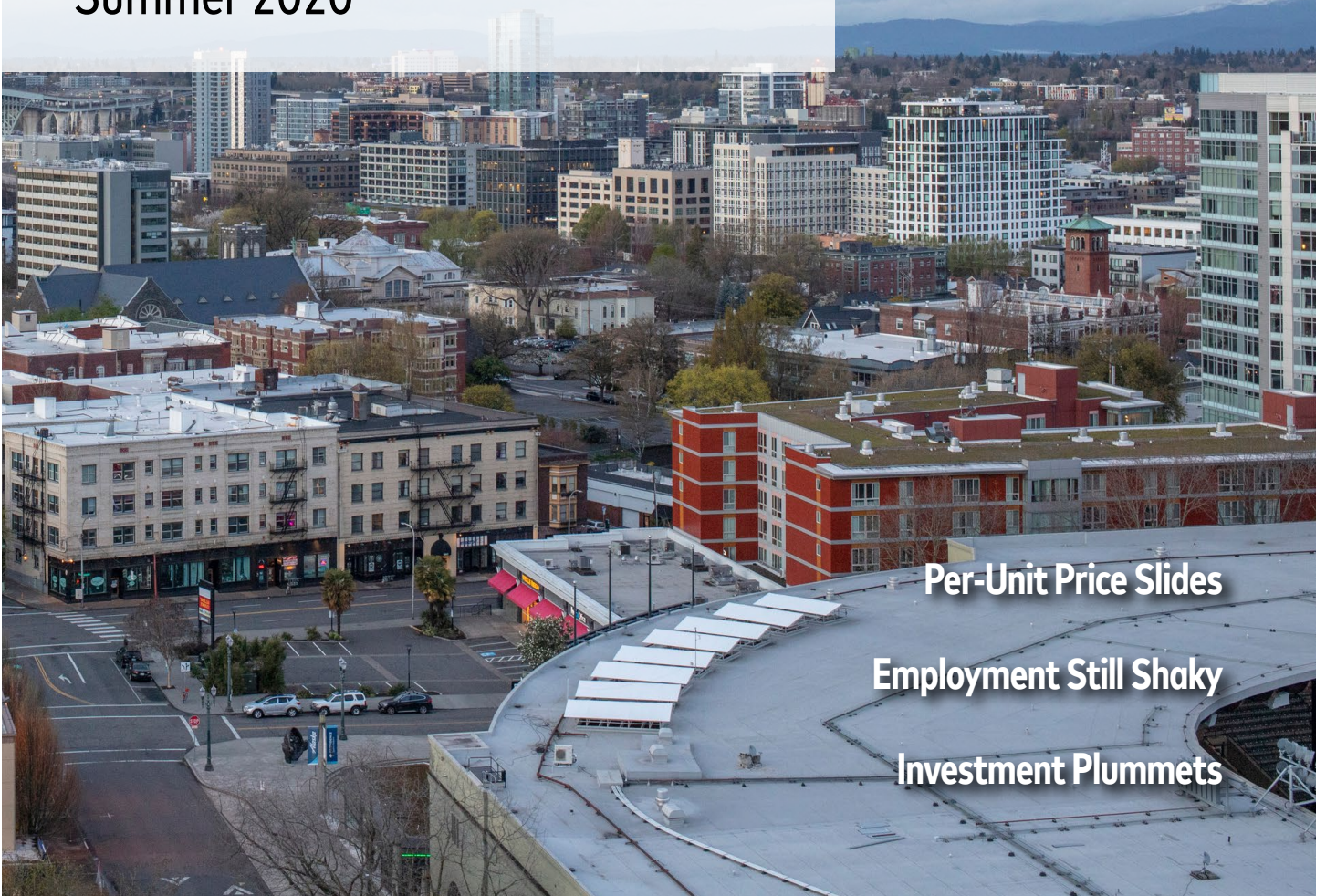




MULTIFAMILY REPORT

Portland Faces Bumpy Road Ahead

Summer 2020



Per-Unit Price Slides

Employment Still Shaky

Investment Plummetts

PORTLAND MULTIFAMILY



Coronavirus Woes Temper Rent Growth, Deliveries

Thanks to its highly qualified workforce and a healthy influx of residents priced out of more expensive West Coast markets, Portland's multifamily sector started 2020 on the right foot. However, fallout from the coronavirus outbreak has significantly dampened growth. As of July, rents were down 0.1% on a trailing three-month basis to \$1,420, just below the national average of \$1,460. And as a result of Oregon's eviction moratorium being extended through September, the occupancy rate only dropped 110 basis points year-over-year through June to 94.6%, 20 basis points above the national average.

The metro's employment shrank by almost 150,000 positions in the 12 months ending in May, for a 12% decrease. By the beginning of August, some 650,000 Oregonians had filed unemployment claims. Even so, tens of thousands of residents are still waiting for their claims to be paid. At the end of July, the Oregon Employment Department announced people could get paid sooner, under a new state program.

Some 4,800 of the total 8,843 units that were underway in July are slated to come online as early as year-end. However, while construction activity was allowed to continue during the state's stay-at-home order, delays in completions are likely.

Market Analysis | Summer 2020

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On the cover: Photo by xiao zhou/iStockphoto.com

Recent Portland Transactions

Columbia Ridge



City: Portland, Ore.
Buyer: Fairfield Residential
Purchase Price: \$27 MM
Price per Unit: \$188,194

Westwynd Apartment Homes



City: Vancouver, Wash.
Buyer: Rise Properties Trust
Purchase Price: \$19 MM
Price per Unit: \$154,522

King James Gate



City: Vancouver, Wash.
Buyer: Transpacific Investments
Purchase Price: \$14 MM
Price per Unit: \$169,687

Glendoveer Estates

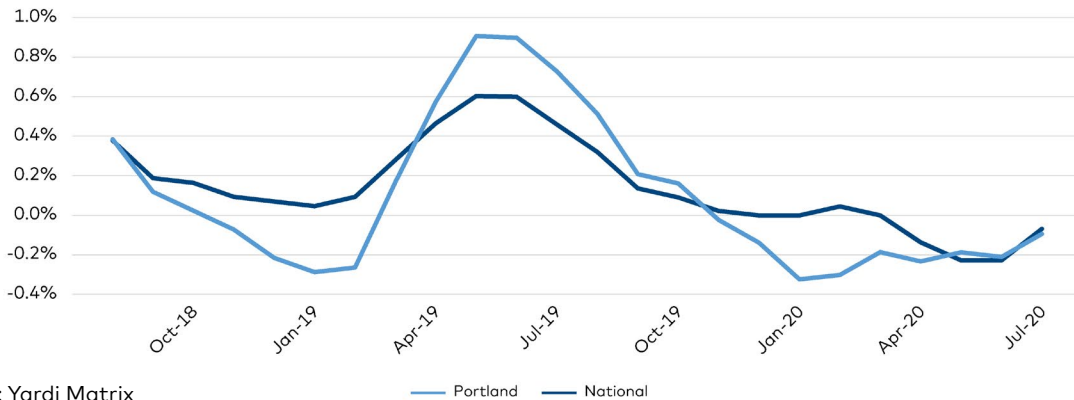


City: Portland, Ore.
Buyer: Cohen Rojas Capital Partners
Purchase Price: \$9 MM
Price per Unit: \$115,506

RENT TRENDS

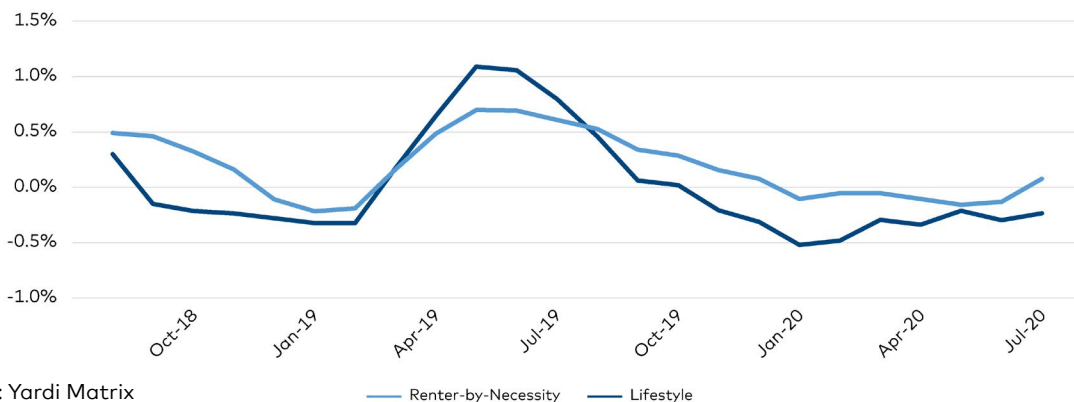
- ▶ Portland rents declined 0.1% to \$1,420, on a trailing three-month basis through July. The Renter-by-Necessity segment led growth, with rates up by 0.1% to \$1,279, while Lifestyle figures decreased 0.2% to \$1,562 during the same time frame. With new supply expected to surpass demand over the coming quarters, rent loss is likely to deepen.
- ▶ Urban submarkets with below-average rates led rent growth. Downtown Vancouver saw its rents increase by 8.8% on average to \$1,554 year-over-year through July. And in Brentwood-Darlington, prices rose 6% on average to \$1,188.
- ▶ Meanwhile, the rates in the metro's most expensive submarkets contracted. In Downtown Portland, rents dropped by 8.9%, to an average of \$1,908. And in the PSU/Lovejoy submarket, figures declined by 7.7% to \$1,610.
- ▶ Following spikes in confirmed coronavirus cases in recent weeks, some Oregon counties reinstated stay-at-home orders, which could result in a second wave of unemployment claims. President Donald Trump's new executive order, which adds \$400 in unemployment benefits, could provide relief to people affected by the COVID-19 pandemic. However, states will need to cover 25% of the cost, or \$100 per person.

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

- ▶ Portland lost a net 146,700 jobs in the 12 months ending in May, marking a 12% drop. As a result, the unemployment rate rose from 3.6% in March to 14.2% in April due to the pandemic. But as the stay-at-home order expired, the number dropped by 280 basis points, according to June estimates.
- ▶ Portland's decision to cancel or postpone major events, like the Shamrock Run—combined with other measures meant to slow down the spread of the virus—heavily impacted leisure and hospitality jobs. The sector led employment loss with 65,200 positions, for a 51.2% decline. However, all industries have been hit by the pandemic, with losses ranging from 0.8% in construction jobs to 17.4% in other services.
- ▶ With the economic outlook likely to get more worrisome as the country struggles with the pandemic, protests are expected to persist in Portland. And with statistics based on an Economic Policy Institute report showing that socioeconomic and racial divides are likely to be exacerbated by fallout from the pandemic, there may be more uncertainty on the plate.

Portland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	76	7.1%
50	Information	24	2.2%
55	Financial Activities	68	6.3%
80	Other Services	36	3.3%
90	Government	146	13.6%
30	Manufacturing	118	11.0%
60	Professional and Business Services	177	16.4%
40	Trade, Transportation and Utilities	203	18.9%
65	Education and Health Services	166	15.4%
70	Leisure and Hospitality	62	5.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Portland's positive demographic trends continued in 2019, when the metro added 13,602 residents, for a 0.5% increase year-over-year.
- ▶ Population growth has slowed down significantly over the last three years, following a 1.9% uptick in 2016 when the metro added 45,089 people.

Portland vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Portland Metro	2,427,459	2,456,462	2,478,810	2,492,412

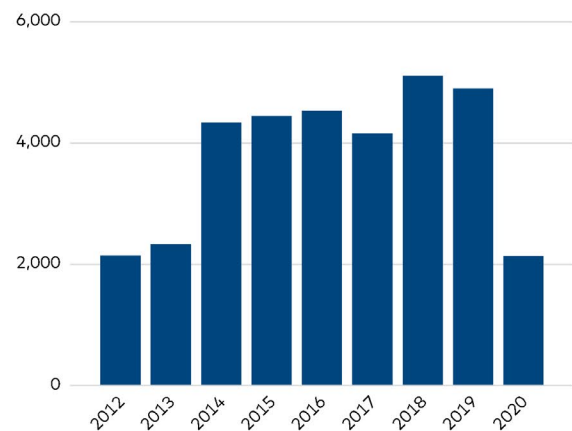
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Developers were working on some 8,939 units in Portland as of July, accounting for 5.7% of existing stock. While more than half of the units under construction are slated to come online as early as year-end, the current health crisis could push the completion dates of some of these projects into next year. Another 24,000 units were in the planning and permitting stages, but the pandemic could result in some delays.
- ▶ After reaching a cycle-peak of 5,110 units in 2018, completions saw a slight decline to 4,902 units. And while over the first seven months of 2020, developers completed 13 projects totaling almost 2,139 apartments, deliveries slid by nearly one-third from the same period of last year.
- ▶ Development activity was almost evenly distributed between the metro's urban and suburban areas. Following the completion of three projects totaling 459 apartments last year, construction activity is soaring in the Piedmont submarket, where developers were working on 596 units as of July, or 27% of existing stock.

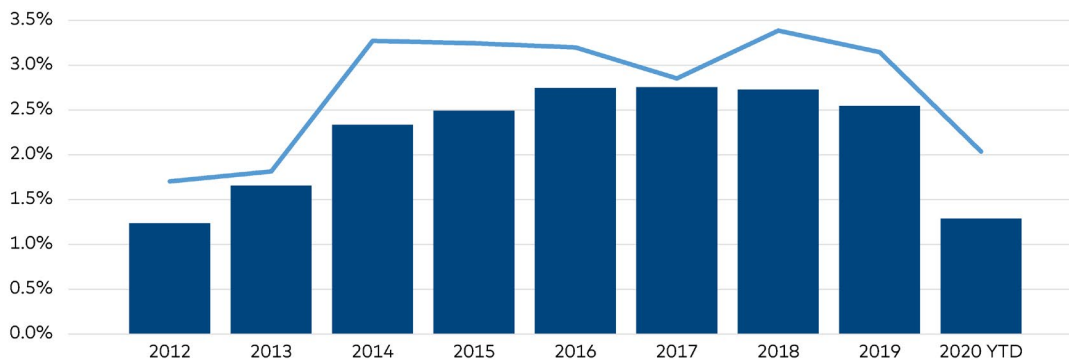
- ▶ Alamo Manhattan teamed up with Diamond Realty Investments to develop the AvalonBay 348-unit 100 Columbia, the largest project underway in the metro as of July. At full build-out, the transit-oriented project will be the submarket's fourth-largest multifamily community.

Portland Completions (as of July 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

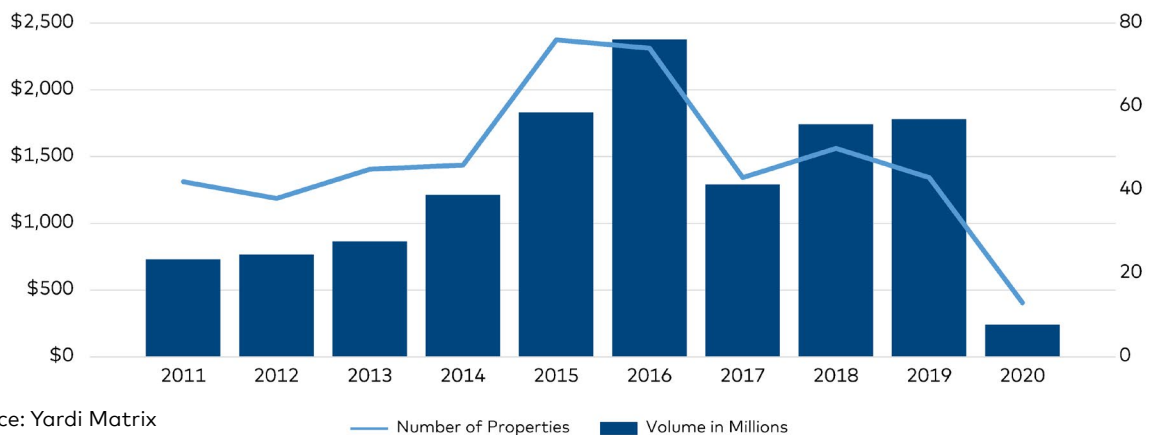
TRANSACTIONS

- ▶ Portland's investment volume totaled \$258 million year-to-date through July, almost two-thirds less than the \$714 million in closed deals during the same interval last year. Per-unit prices dropped by 32.4% this year, to \$172,413, marking the lowest level since 2015. That's still 4.5% above the U.S. figure of \$164,990 per unit.
- ▶ Some 2,006 units changed hands year-to-date through June, reflecting a 36% drop compared to the 3,149 apartments sold during the same time

last year. Of the 14 properties that have traded so far in 2020, 11 were in the Renter-by-Necessity category, while only three were Lifestyle assets.

- ▶ Investment amounted to \$1.3 billion in the 12 months ending in July. Buyers focused primarily on suburban submarkets, where transaction volume surpassed \$850 million.

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



Source: Yardi Matrix

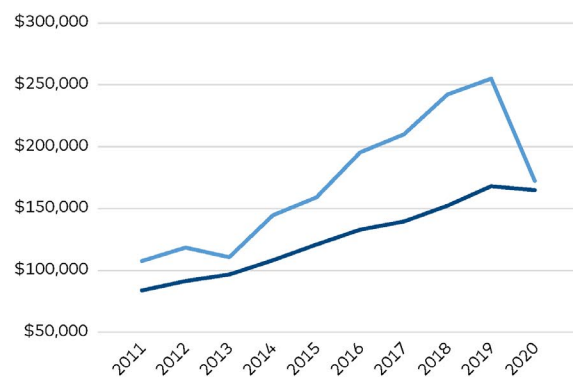
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Southwest Hills	235
Beaverton	220
Hillside-Northwest	150
Tanasbourne	91
Hazel Dell	74
Hillsboro	73
Milwaukie-Gladstone	69

Source: Yardi Matrix

¹ From August 2019 to July 2020

Portland vs. National Sales Price per Unit



Source: Yardi Matrix



Property Management Expert on Portland's Multifamily Market

By Adina Marcut

The inability to work due to shutdowns and shelter-in-place rules has had a notable impact on Portland's multifamily market. With more than 13 years of multifamily and commercial property management experience, Sunrise Management's recently appointed Regional Vice President Dennis Mitchell explains why communication and technology are paramount in overcoming COVID-19-induced challenges.

How would you describe Portland's multifamily market in the new economic context?

While the pandemic has certainly changed the way any market operates, I've noticed that tech-forward companies were well equipped to adapt to the sudden shift in the leasing experience. There was a short lull in leasing in March and April, but the market seems to have bounced back for new leases since.

People still need a place to live and companies willing to be creative with leasing strategies have done relatively well, all things considered. The market as a whole is projected to see declining rents in the near term, primarily due to the number of deliveries in the past 12 months—7,200 units—and the slowing of in-migration due to the pandemic. However, the Portland market is strong and still an affordable hotspot on the West Coast—I certainly see it bouncing back.

Concerns related to safety and social distancing amid the crisis



have accelerated the ever-evolving high-tech boom. What steps did you take in this direction?

Even before the coronavirus outbreak, a range of new technologies were changing the face of the multifamily industry. We have never been afraid to embrace new technologies and products that work. Virtual tours and videos were already in place at our properties, so it was more of just shifting to those marketing tools. Prospective residents quickly adapted to this new way of taking tours and viewing apartments. It was easy to embrace with the tech boom triggered by the pandemic.

What are the top things property managers should focus on?

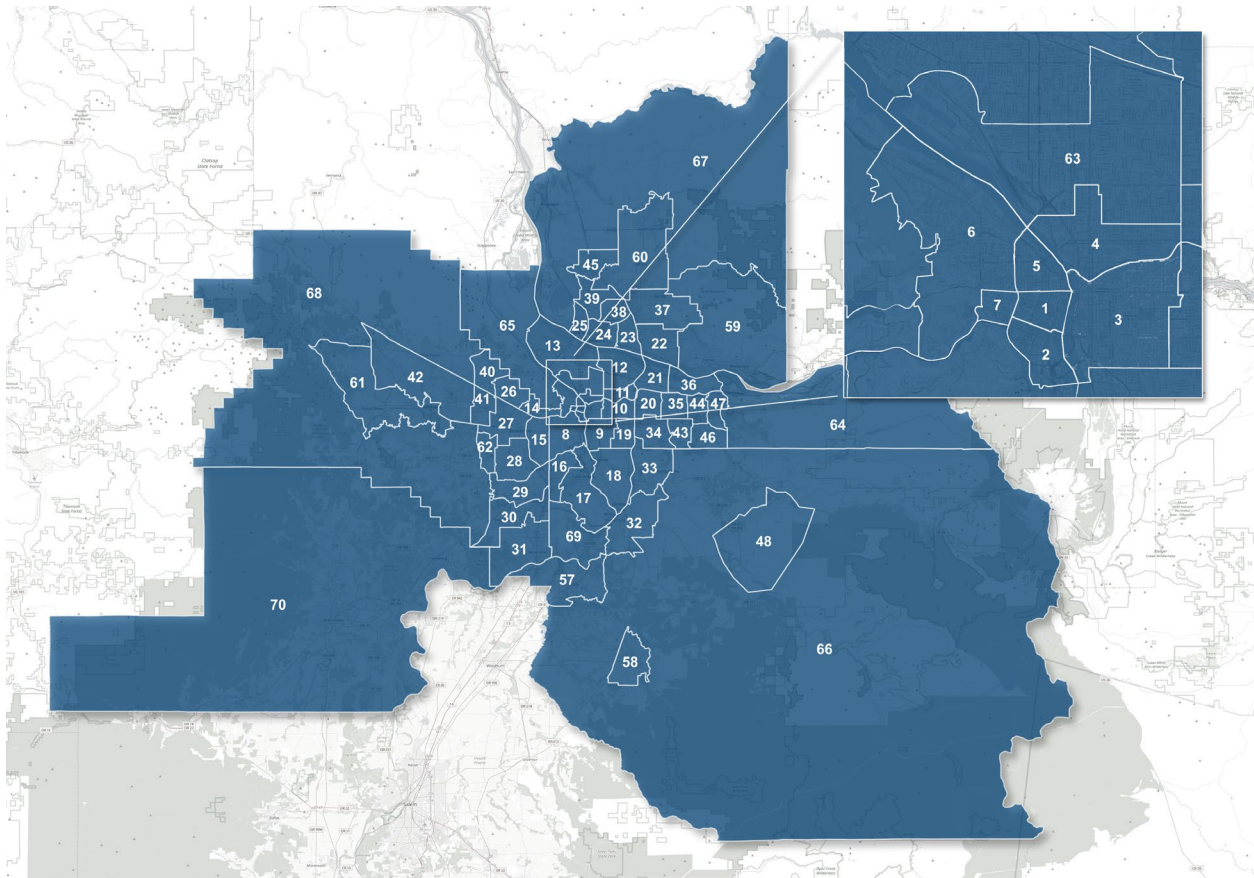
Communication, communication, communication. Every facet of successfully navigating this pandemic has boiled down to thoughtful, constant and sometimes frank communication. Whether it be reaching out to check on residents that have been furloughed or laid off due to the pandemic to offer thoughtful solutions and referrals to resources, or continually updating the client with collections, local employment trends, etc. It all comes down to staying in constant contact with the full circle.

What are your expectations for Portland rent collections going forward?

I expect rent collections to start bouncing back, with recent jobless claims in the U.S. falling under one million in a week and businesses beginning to operate again, albeit in a modified fashion.

(Read the complete interview on 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
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 July 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 July 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, July 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.

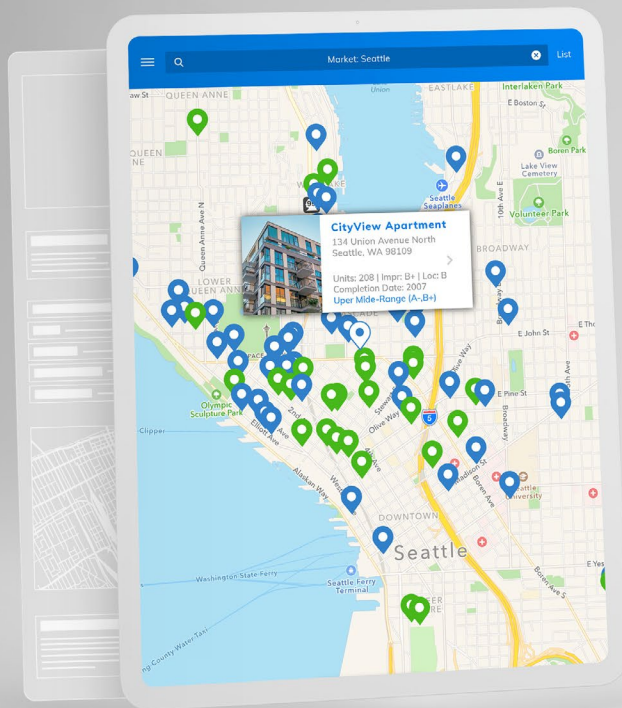
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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