Yardi Matrix

Portland's Gradual Mending

Winter 2021

Transaction Activity Shifts Down a Gear

Unemployment Decreases Below U.S. Rate

Deliveries Stay in Line With 7-Year Average

Yardi Matrix

Economy Shows Encouraging Signs

Buoyed by its diverse business environment and attractive quality of life, Portland's multifamily industry was resilient amid economic volatility. While it experienced some softening, the metro's rental market was impacted to a lesser degree when compared to other West Coast cities. Rents slid 0.1% to $1,430, on a trailing three-month basis through December, in line with the U.S. rate.

The health crisis that took hold in March generated an all-time high in unemployment, with the rate hitting 14.2% in April. However, the unemployment figure had decreased to 5.9% by November, reaching 80 basis points below the U.S. rate. As in most parts of the country, businesses in tourism, retail and other sectors that couldn't operate exclusively online were among the hardest hit. McMenamins, a company that operates several breweries, hotels and meeting spaces across the Pacific Northwest, laid off almost all of its employees—nearly 3,000 workers. On a positive note, Intel continued to expand its Hillsboro facility, which is projected to increase the company's Oregon workforce by roughly 1,750 jobs.

Transaction volume stood at $1 billion last year, following two years when investment activity surpassed $1.7 billion. Although the crisis has slowed investment across the market, signs point to a robust recovery once restrictions are lifted and vaccines become widely available. Yardi Matrix expects rents to improve by 1.4% in 2021.

Market Analysis | Winter 2021

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

Recent Portland Transactions

The Ardea

City: Portland, Ore.
Buyer: Security Properties
Purchase Price: $146 MM
Price per Unit: $451,703

Sunset Summit

City: Portland, Ore.
Buyer: Prime Group
Purchase Price: $81 MM
Price per Unit: $309,387

Avana Evergreen

City: Vancouver, Wash.
Buyer: Greystar
Purchase Price: $72 MM
Price per Unit: $213,542

Van Mall North


City: Vancouver, Wash.
Buyer: Core Properties West
Purchase Price: $10 MM
Price per Unit: $196,872

RENT TRENDS

➤ Portland rates slid 0.1% on a trailing three-month basis through December, in line with the U.S. rate. The average price fell to $1,430, only $32 lower than the national figure.

➤ Rents in the working-class Renter-by-Necessity segment inched down 0.1% to $1,287, while the average Lifestyle rate contracted by 0.3% to $1,572. With low-income jobs—such as those in the leisure and hospitality industry—most affected by ongoing economic difficulties, demand for RBN assets is expected to increase.

➤ Rents in half of Portland's submarkets decreased in the 12 months ending in December, with urban core areas posting the steepest declines, affected not only by COVID-19 pressures

but also by weeks of civil unrest. Rates fell 8.8% in Goose Hollow and PSU/Lovejoy, and 8.1% in Downtown Portland. As a relatively affordable metro when compared to gateway cities, Portland is a preferred destination for residents wanting to escape the more expensive Seattle-Tacoma area or for those fleeing high-priced metros in the Bay Area.

➤ At the end of 2020, the Oregon Legislature passed a bill that extends the eviction moratorium until June 30 and appropriates $150 million for a landlord relief fund and $50 million for rental assistance. To avoid evictions, renters who experience financial difficulties and owe back rent need to fill out a sworn declaration to prove coronavirus-inflicted hardship.

Portland vs. National Rent Growth (Trailing 3 Months)
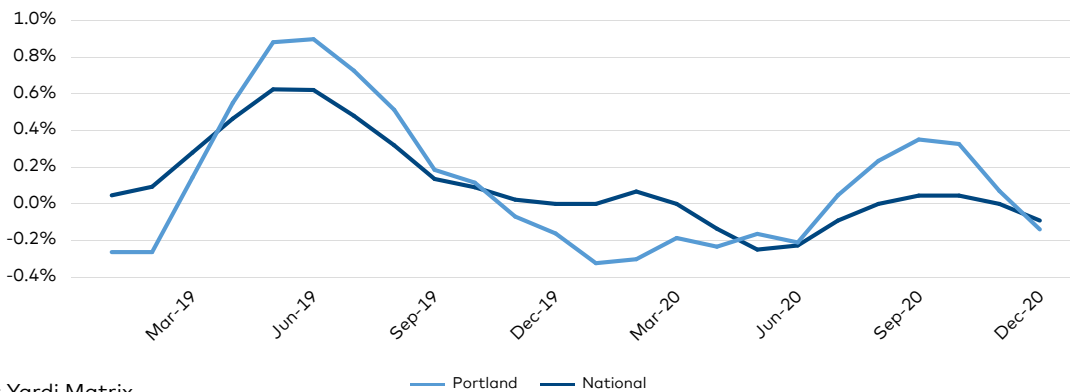
Source: Yardi Matrix

Portland Rent Growth by Asset Class (Trailing 3 Months)
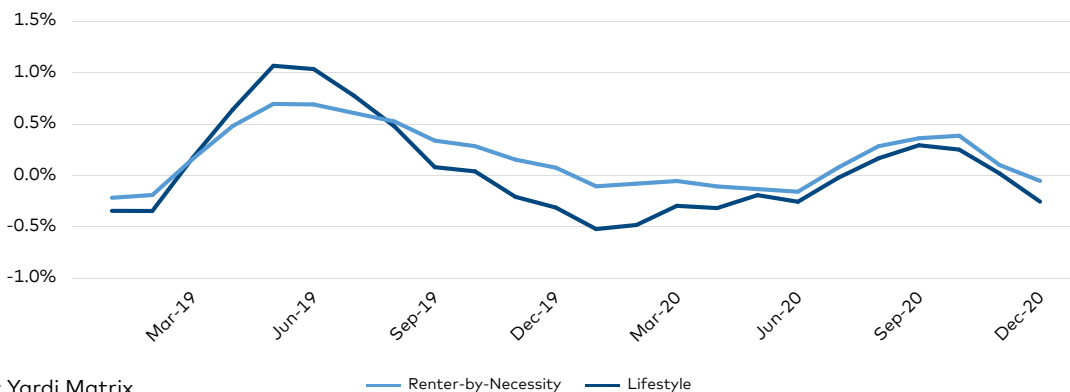
Source: Yardi Matrix

ECONOMIC SNAPSHOT

➤ Despite the initial blow that brought the unemployment rate to an all-time high of 14.2% in April, Portland's economy slowly started to rebound in the second half of 2020. Unemployment fell to 5.9% in November, according to preliminary data from the BLS.

➤ Employment marked a 7.7% decline in the 12 months ending in November, faring a bit worse than the -7.3% national rate. Consumer-facing services and the hospitality industry were among the hardest hit. Restaurant chain Burgerville furloughed more than 1,000 of its employees and RLK, the company operating the Timberline Lodge and Ski Area resort, laid off almost 500

employees. Metro, the area's regional government, cut roughly 40% of its workforce. Supply disruptions prompted Daimler Trucks North America to close its Portland plant, a move that affected 700 workers. On a more positive note, Intel continued to expand its D1X factory in Hillsboro, which is expected to increase the company's Oregon workforce by about 1,750 jobs.

➤ An Oregon Office of Economic Analysis 2021 forecast showed that the economy is expected to rebound by mid-2023, considering the widely available vaccine deployment, the federal fiscal policy and the underlying strong state of the local economy before the crisis.

Portland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	77	6.7%
50	Information	25	2.2%
60	Professional and Business Services	188	16.3%
80	Other Services	39	3.4%
40	Trade, Transportation and Utilities	221	19.2%
55	Financial Activities	69	6.0%
65	Education and Health Services	178	15.5%
30	Manufacturing	120	10.4%
90	Government	142	12.3%
70	Leisure and Hospitality	90	7.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

➤ Portland added 13,602 residents in 2019, up 0.5% and 20 basis points above the U.S. rate.

➤ According to the Portland State University Population Research Center, positive demographic trends continued in 2020, with robust growth in Multnomah and Washington counties.

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 had 9,105 units under construction across Portland, with three-quarters of them geared toward high-income residents. Although construction starts were almost halved in 2020—with developers breaking ground on only 2,841 units, compared to 4,532 units in 2019—they were still well above 2018 and 2017 levels.

➤ Developers added 4,272 units to the metro's inventory last year, accounting for 2.7% of total stock. Despite the economic volatility that defined 2020, deliveries were largely in line with the 4,294-unit average of the past seven years. With both recently delivered and underway apartments heavily catering to the upscale segment, the pressure on multifamily product at the opposite end of the quality spectrum is likely to continue going forward.

➤ Construction activity is more robust in northern areas of the metro, with Downtown Vancouver leading the way with 699 units under construction, followed by Piedmont (530 units) and Hillside/Northwest (496 units). The largest project underway is the 352-unit Amberglen South in Hillsboro. American Capital Group and Artemis Real Estate Partners pur-

chased the development project in November, attracted by its proximity to several large employers, including Intel, IBM and Nike.
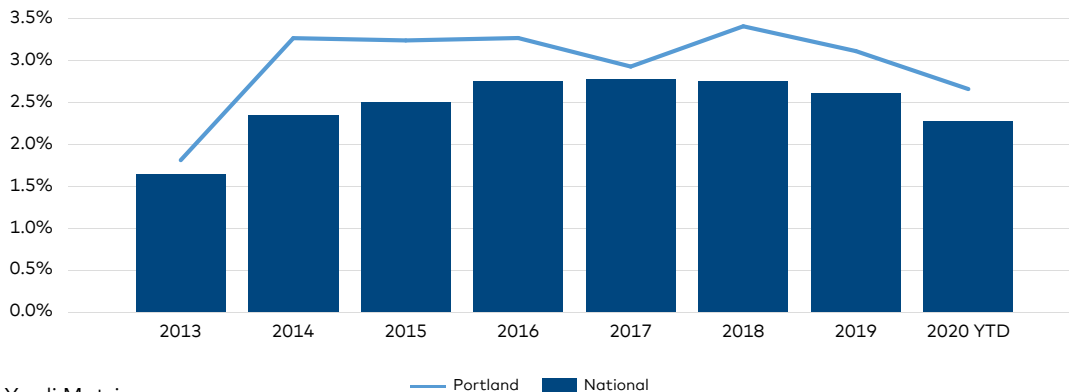
➤ The largest project that came online in 2020 was Core Spaces' The Collective On 4th, a 417-unit, 14-story tower in the heart of the Portland State University campus and just a few blocks away from the city's core.

Portland Completions (as of December 2020)
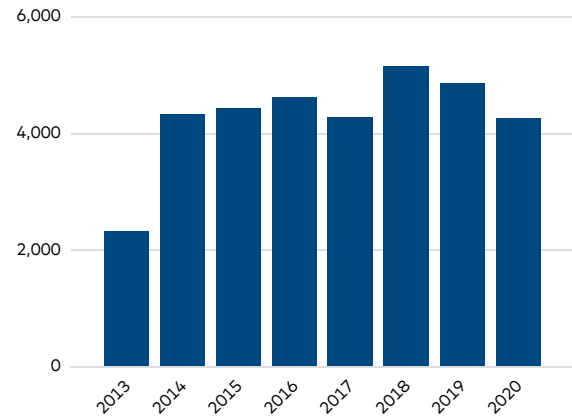
Source: Yardi Matrix

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

Source: Yardi Matrix

TRANSACTIONS

➤ Following two years when investment activity surpassed $1.7 billion, Portland's transaction volume stood at $1 billion last year. With two-thirds of the properties that traded in 2020 in the Renter-by-Necessity segment, the price per unit declined by 13% to $225,139, but remained well above the $169,709 national average.

➤ Three submarkets—Tanasbourne, Southwest Hills and Mill Plain—accounted for half of last year's total investment volume. Security Prop-

erties was one of the most active buyers in the market, paying $405 million for a three-property portfolio that included two Oregon assets.

➤ Even though statewide rent control enacted in 2019—which caps rent growth on assets at least 15 years old—curbed renovations and made value-add communities less appealing, the over-all investment market's allure was not negatively impacted. However, pandemic-induced economic burdens limited investor activity last year.

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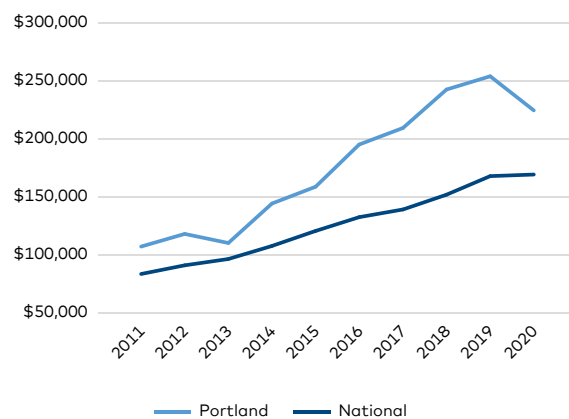

Source: Yardi Matrix — Number of Properties ▬ Volume in Millions

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tanasbourne	238
Southwest Hills	146
Mill Plain	137
Lake Oswego	99
West Haven	81
Kerns/Buckman	62
Wilkes	31

Source: Yardi Matrix
[1] From January 2020 to December 2020

Portland vs. National Sales Price per Unit

— Portland — National

Source: Yardi Matrix
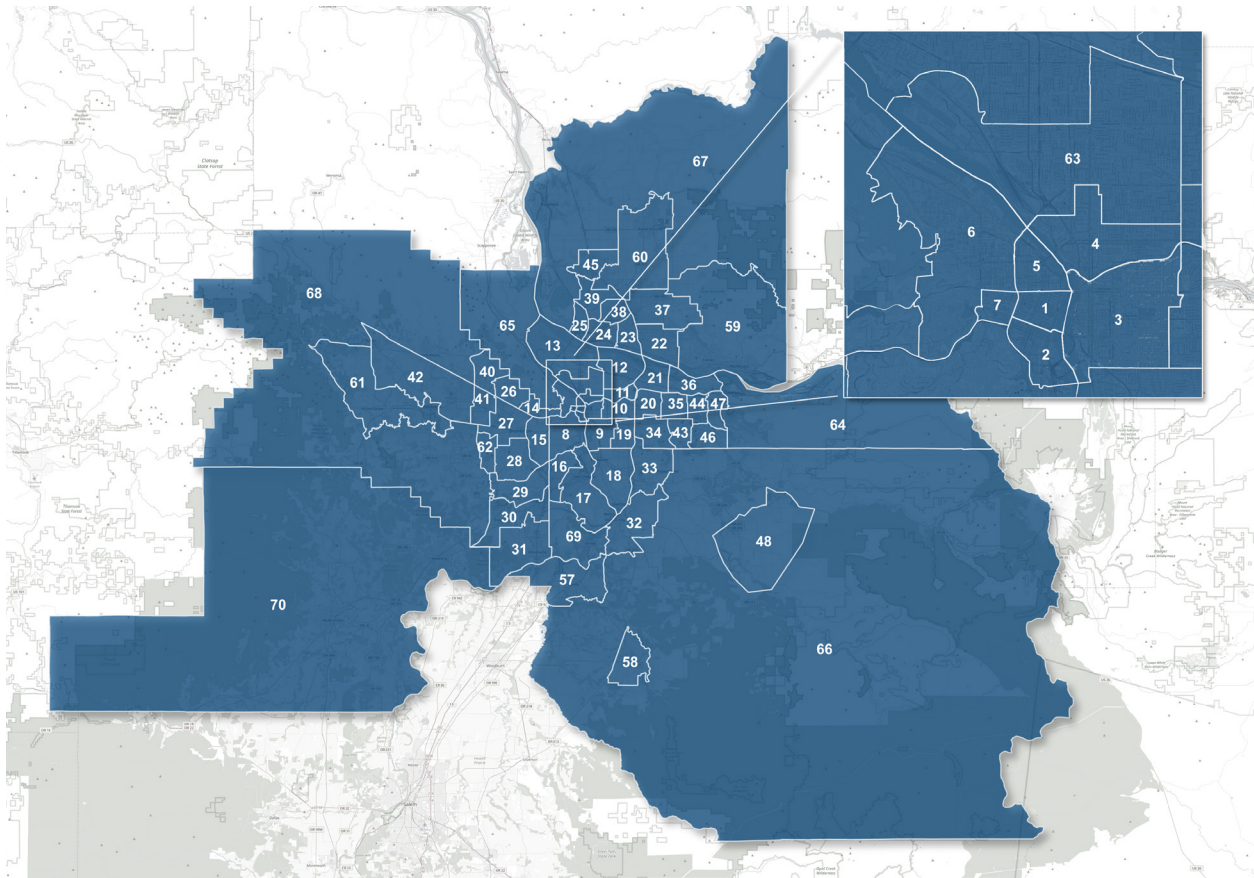
Area No.	Submarket
1	Downtown Portland
2	PSU/Lovejoy
3	Kerns/Buckman
4	Lloyd/Irvington
5	Pearl District
6	Hillside/Northwest
7	Goose Hollow
8	Southwest Hills
9	Brooklyn/Moreland
10	Laurelhurst
11	Madison South
12	Cully/Rosewway
13	St Johns/University Park
14	West Haven
15	Raleigh Hills
16	Westlake
17	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

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 December 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 December 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, December 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.

Yardi® Matrix

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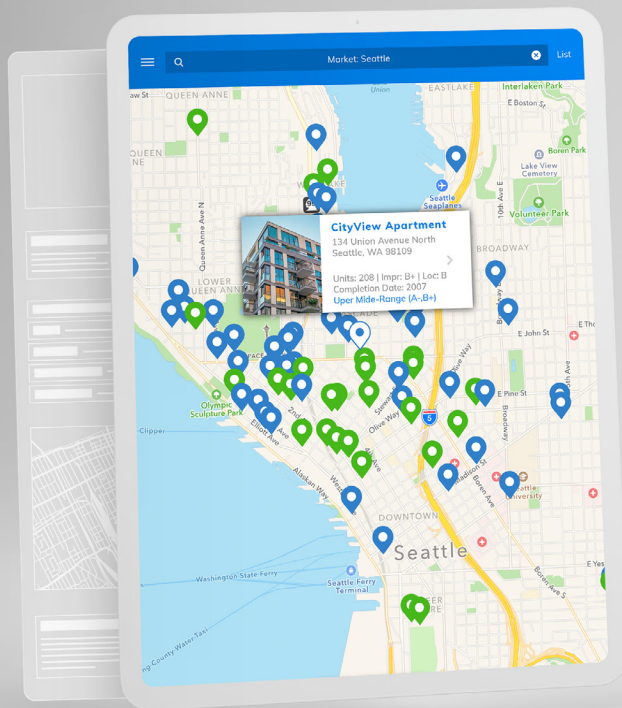
Yardi Matrix Multifamily provides accurate data on **18+ million units,** covering over **90% of the U.S. population**.

Key features

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- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information

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