

YARDI[®] Matrix

Stabilized Portland

Multifamily Winter Report 2017

Rent Growth Slows to Single Digits

Talented Workforce Draws Employers

Property Values Reach Cycle High

Market Analysis

Winter 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Ioana Neamt

Senior Associate Editor

Rent Growth Cools Off

The “Silicon Forest” still appeals to young professionals and continues to add jobs, especially in the booming business, education, health-care and tech sectors. But after more than a year of double-digit rent increases, growth is finally starting to slow down. Though multifamily demand remains elevated, fueled by a healthy job market and a constant influx of Millennials, increasing development and affordability issues have brought gains to a more sustainable level.

Portland’s healthy economy continues to attract investment as well as development, and a new wave of office construction is overtaking the central business district (CBD) and Northeast submarkets. Major companies such as Beaverton-based Nike and Under Armour are expanding, adding jobs and further boosting multifamily demand. The supply delivered in recent months has not been able to temper demand, and more than 24,000 units are still in the pipeline. The opening of the new Portland-Milwaukie MAX Orange line and the approval of the city’s West Quadrant development plan are likely to spur waterfront development and draw investor interest.

With so much growth, Portland will continue to see strong demand and steady job growth. But we expect rent growth, which measured 6.25% in December, to stay in the 6% range, still strong yet not at the frothy levels of the past two years.

Recent Portland Transactions

Waterline



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

Breckenridge



City: Portland
Buyer: Resource Real Estate
Purchase Price: \$82 MM
Price per Unit: \$228,291

One Jefferson Parkway



City: Lake Oswego, Ore.
Buyer: Security Properties
Purchase Price: \$78 MM
Price per Unit: \$224,783

Riverwalk at Happy Valley

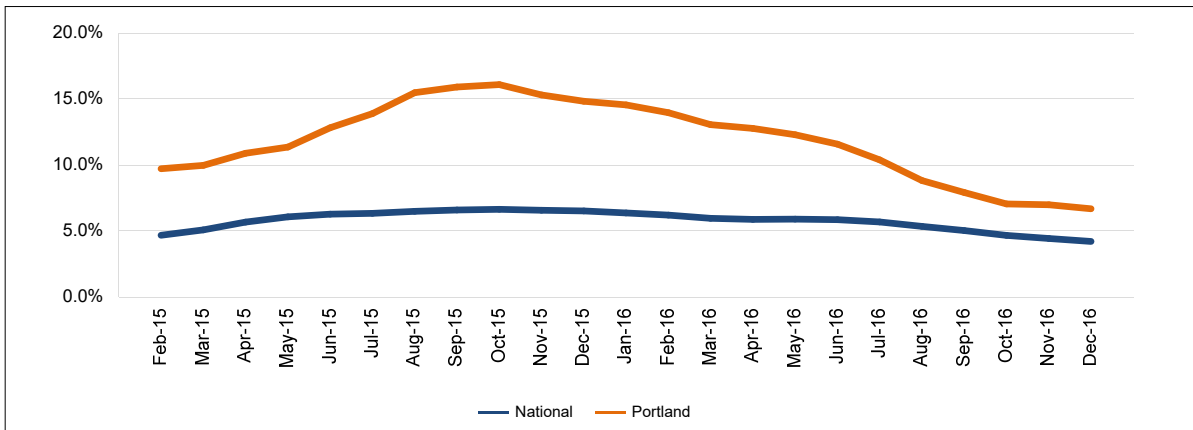


City: Happy Valley, Ore.
Buyer: MG Properties Group
Purchase Price: \$76 MM
Price per Unit: \$194,871

Rent Trends

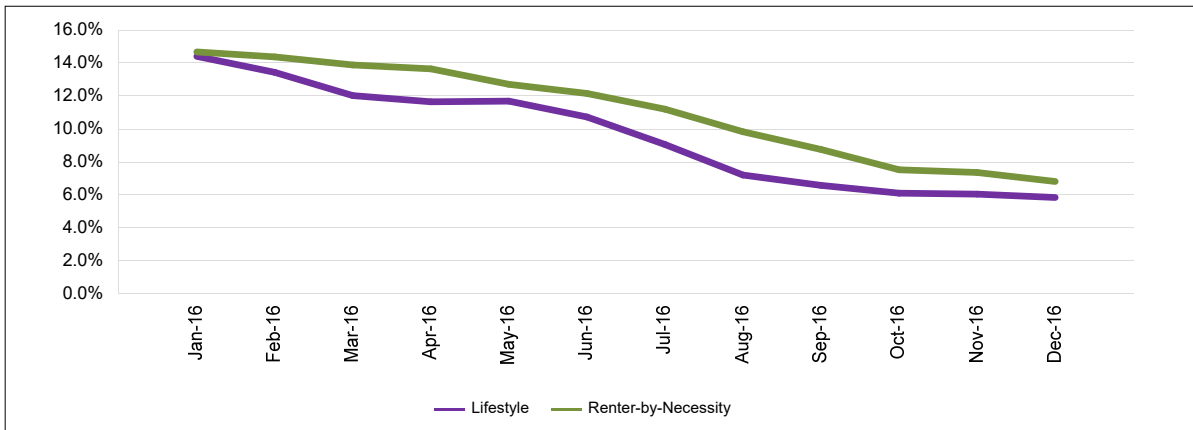
- Portland has consistently been among the leading metros in rent growth for several years, but that bull run may be coming to an end. After months of double-digit growth, rents cooled down to a more sustainable 7% year-over-year through November and hit 6.25% in December, although they are still well above the 4.3% national average. Average rental rates in the metro have climbed to \$1,279, compared to \$1,214 for the U.S.
- Despite the moderation in rent growth, demand for multifamily housing in the metro is expected to remain in good shape going forward. Thousands of new jobs are being added in both core and non-traditional employment sectors, and Portland's Millennial appeal will keep attracting young professionals to the area. As a result, housing in the metro is becoming more and more expensive, driving Portlanders to seek more affordable options outside the urban core. Most of the submarkets that recorded the highest rent gains are located on the fringes: Creswell Heights (15.5%), Troutdale (15.5%), Wilsonville (15%), Wilkes (14.6%) and Gresham (14.2%).
- Rents in the upscale Lifestyle segment rose 6.0% year-over-year, to an average of \$1,466, while rates in the working-class Renter-by-Necessity segment increased 7.36%, to \$1,155 on average.
- Though the imbalance between demand and supply has led to a decline in rent growth, Portland will continue to see strong demand and job increases. Our forecast predicts a growth rate of 6.75% in 2017.

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)

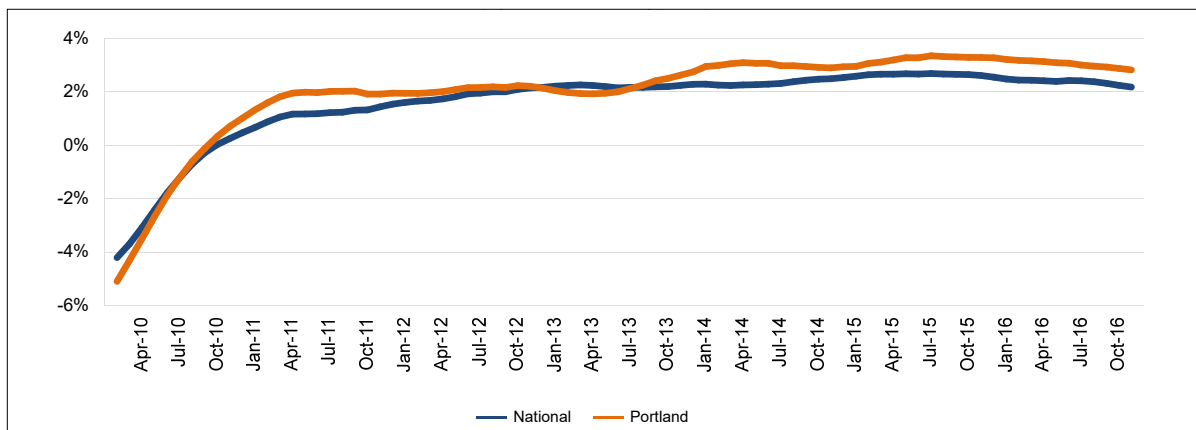


Source: YardiMatrix

Economic Snapshot

- Portland added 34,300 jobs during the 12 months ending in September, a 2.9% change year-over-year and above the 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 to or expanding in the “Silicon Forest,” drawn by the metro’s appeal as a startup mecca and its growing and highly educated workforce.
- Job growth was led by the professional and business services sector, which added 6,700 new jobs. Major sports companies are expanding in the metro, further solidifying its reputation as an epicenter of the athletic footwear and apparel industry. Nike plans to spend nearly \$400 million to grow its world headquarters in Beaverton, a 3.2 million-square-foot expansion that could house 7,000 additional employees, while Under Armour will be moving into the old YMCA on Barbur Boulevard and hiring 500 more workers.
- With strengthening market fundamentals across the board, Portland is also experiencing an office boom. A healthy job market and tight vacancy rates are luring investors to the metro, where the costs of operating a business are significantly lower than in other West Coast markets. Office construction is surging and largely concentrated in the CBD and Northeast submarkets, where companies such as DHS and Daimler Trucks are increasing their office footprints and adding to their payrolls.

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	%
60	Professional and Business Services	180	15.7%	6,700	3.9%
90	Government	149	13.0%	6,400	4.5%
65	Education and Health Services	168	14.6%	6,000	3.7%
15	Mining, Logging and Construction	63	5.5%	3,900	6.6%
40	Trade, Transportation and Utilities	211	18.4%	2,200	1.1%
55	Financial Activities	69	6.0%	2,000	3.0%
50	Information	27	2.4%	1,600	6.4%
70	Leisure and Hospitality	118	10.3%	800	0.7%
80	Other Services	40	3.5%	600	1.5%
30	Manufacturing	123	10.7%	-200	-0.2%

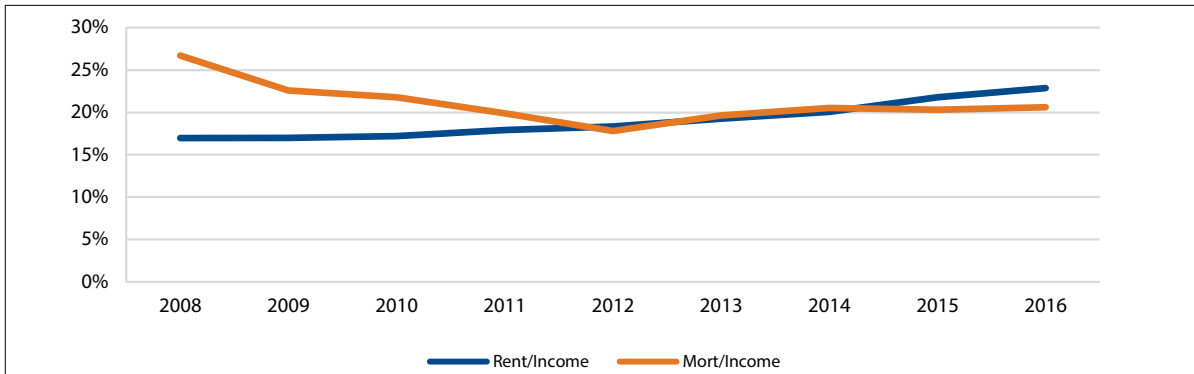
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

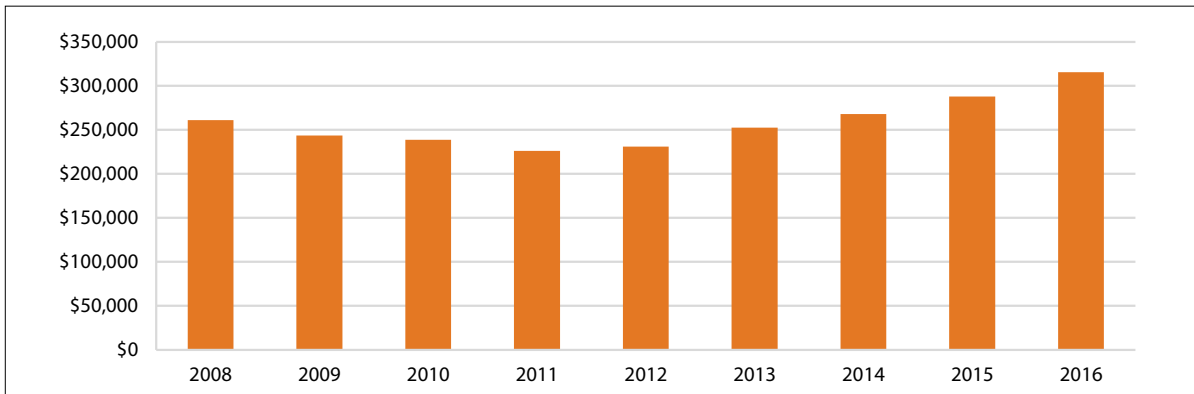
- Affordability has become a pressing problem for Portlanders in recent years, with both rents and mortgages on a constant upward path. The median home value reached \$315,543 in 2016, the highest value in the current cycle. Homeownership has, however, become slightly more affordable than renting, with mortgages accounting for 21% of the area's median income.
- The constant demand for housing options, especially in core submarkets near large employment centers, pushed rents to comprise 23% of the median income in 2016. Average rental rates climbed to \$1,279, just slightly above the national average.

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 4% national rate.
- Portland added more than 40,621 residents in 2015, a 2% increase, once again outpacing the national growth rate.

Portland vs. National Population

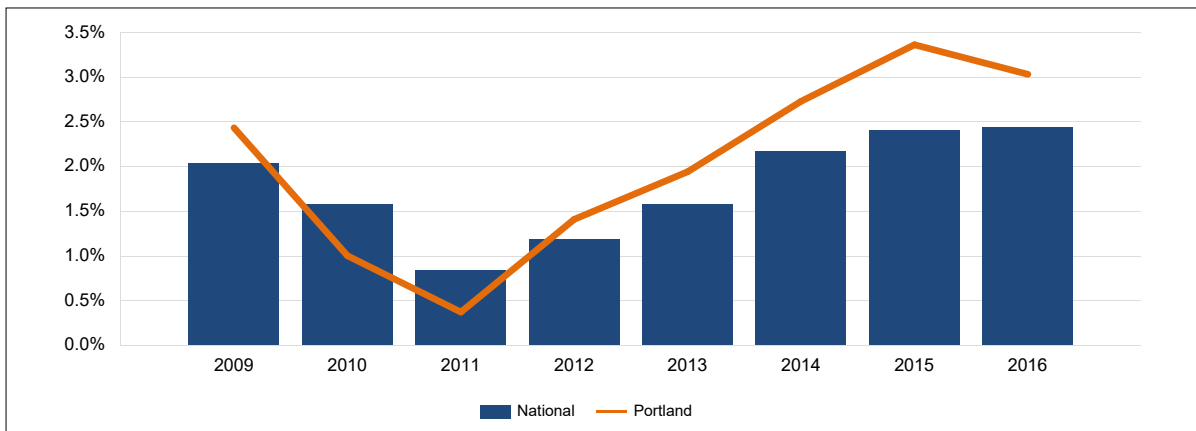
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Metropolitan Statistical Area	2,260,445	2,288,850	2,314,482	2,348,607	2,389,228

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

Supply

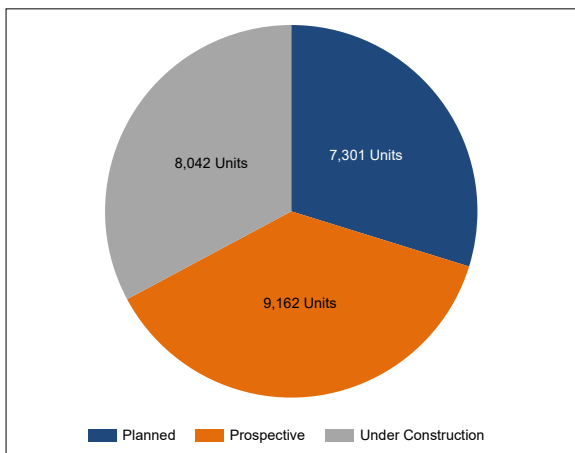
- Though most West Coast markets are feeling the pinch of new supply, multifamily development in Portland remains robust, with more than 4,600 units coming online during the past year. The new supply added 3.4% to stock, well above the 2.4% national average.
- Construction is likely to remain elevated over the next few years, with 24,000 units in the pipeline. More than 8,100 units are already under construction, a boost precipitated by ongoing demand and a 96.1% occupancy rate for stabilized properties. Development is mostly concentrated in core submarkets located in or near the downtown area, an appealing destination for Millennials looking for highly amenitized and transit-oriented housing options. The submarkets with the most units under construction are Hillside/Northwest (1,140 units), Kerns/Buckman (949), the trendy Pearl District (802), Tanasbourne (672) and Southwest Hills (571).
- The largest project underway in the metro is the 396-unit Amberglen West in Tanasbourne, 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 January 2017)



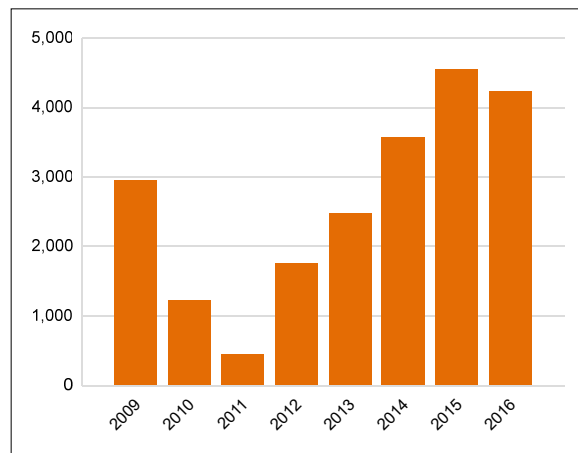
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Portland Completions (as of January 2017)

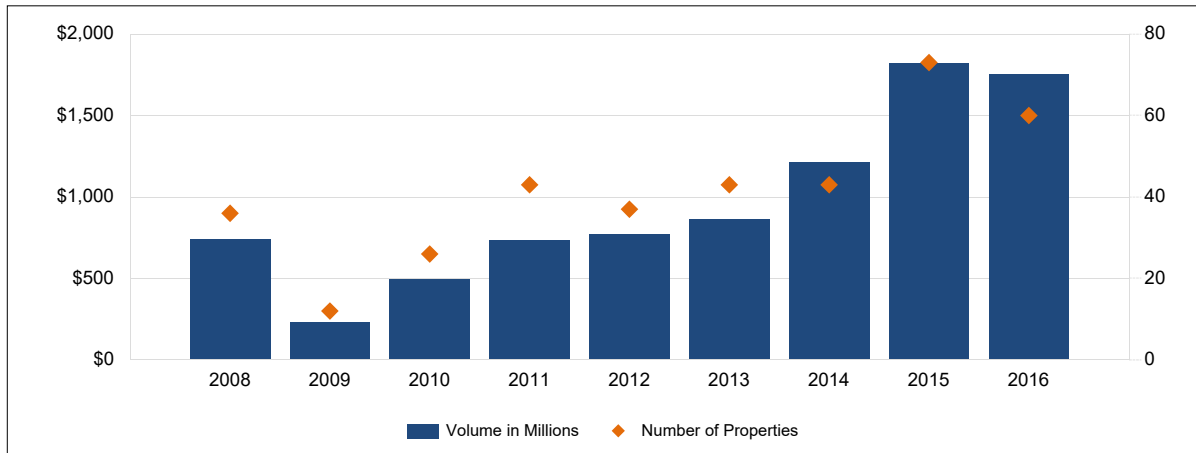


Source: YardiMatrix

Transactions

- Demand for multifamily assets in Portland has slightly tempered, with \$1.3 billion worth of properties changing hands in 2016, below last year's all-time high volume of \$1.8 billion. Nevertheless, investors continue to flock to the metro, drawn by its appeal as a Millennial mecca and the flourishing tech sector.
- The average price per unit reached \$184,535 this year, the highest value in the current cycle and well above the national average. Strong investor demand also helped property yields constrict into the 4% range for stabilized properties in the first half of 2016.
- The largest deal of the past year was Greystar's \$94 million acquisition of Waterline, a 243-unit apartment community in Hillside/Northwest that traded at \$386,831 per unit. The most active submarkets have been West Haven (\$137 million), Hillside/Northwest (\$94 million) and Wilsonville (\$93 million).

Portland Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

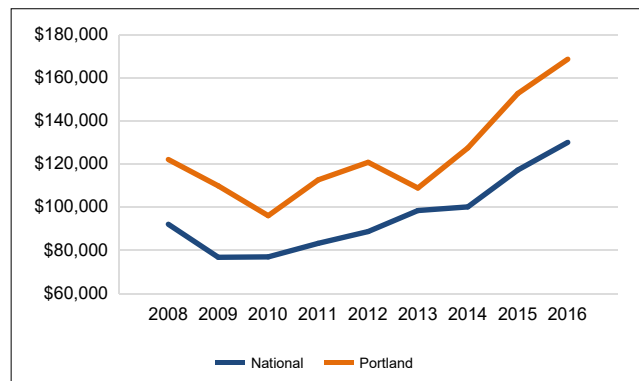
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
West Haven	137
Hillside/Northwest	94
Wilsonville	93
PSU/Lovejoy	87
Milwaukie/Gladstone	82
Westlake	78
Gresham	71
Hazelwood	58

Source: YardiMatrix

¹ From December 2015 to November 2016

Portland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Alliance Acquires Site
For Pearl District
Apartments in Portland



Hi-Lo Hotel to Open
In Downtown Portland



Sequoia Equities Expands
Portland Footprint

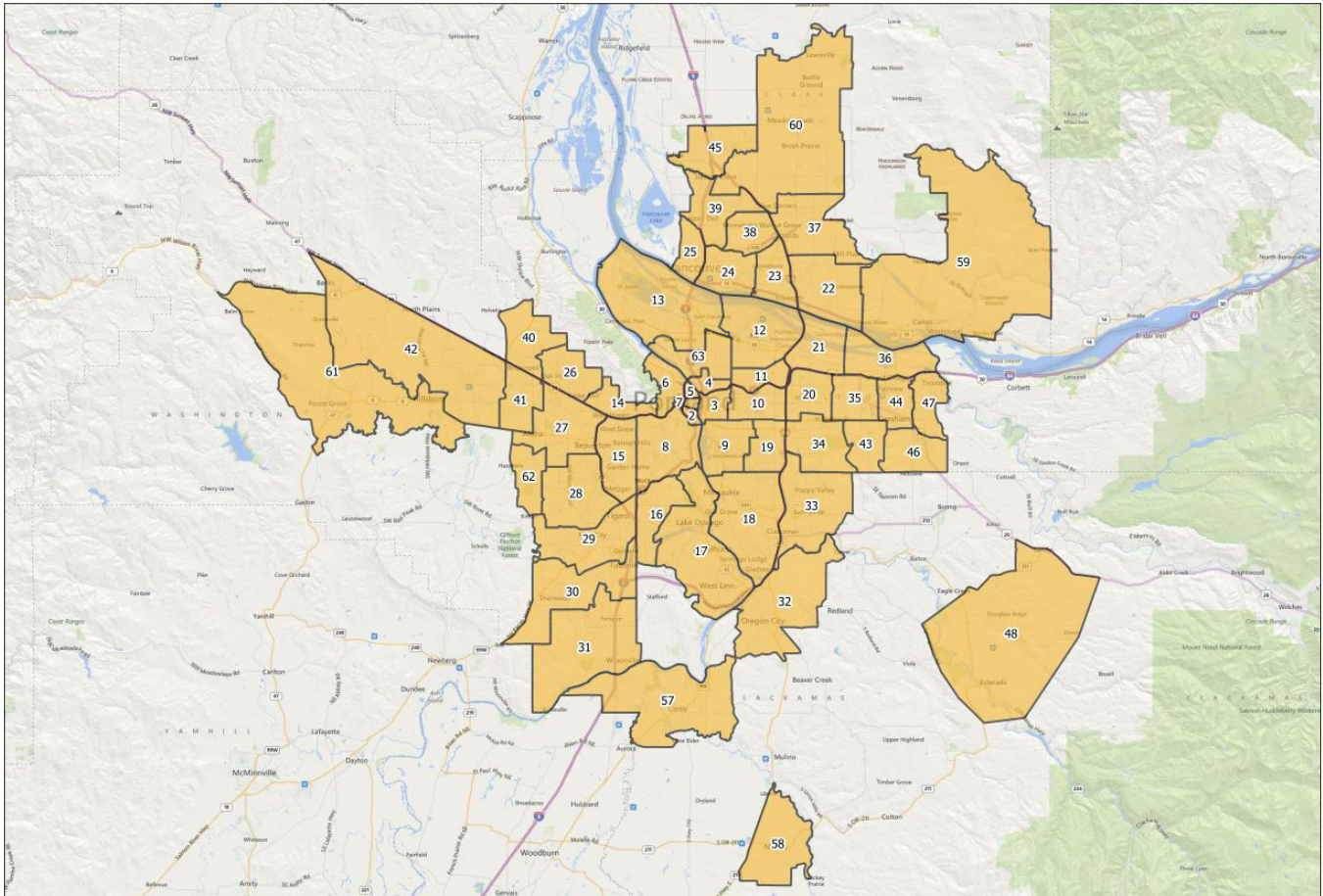


HFF Does Double Duty
On Portland Office
Campus Deal

Get the latest Portland real estate
news at



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.

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

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.