

**YARDI**<sup>®</sup> Matrix

# Portland's Charm

Multifamily Report Spring 2017

**Key Sectors  
Sustain Appeal**

**Downtown Draws  
Millennials**

**Transaction Volume  
Tops \$2 Billion**



## Market Analysis

Spring 2017

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## Silicon Forest Continues to Grow

Portland's multifamily demand remains elevated, fueled by a healthy job market and an influx of young people for professional and lifestyle purposes. Affordability remains a concern, and high rents have started to drive some renters to more affordable submarkets outside the city core.

Oregon's Gross Domestic Product grew 4.6% as of the third quarter of 2016, placing it in the top 10 fastest-growing states in the nation. Employment is thriving, with more than 28,000 jobs added in 2016, led by mining, logging and construction, and education and health services. The relatively lower cost of doing business compared to other West Coast metros has helped drive hiring, a boost to household formation. To speed delivery to the growing base of consumers in the metro, Amazon will open an 850,000-square-foot fulfillment center in the Port of Portland's Troutdale Reynolds Industrial Park.

While supply growth has increased, the number of new units delivered in recent months has not been able to meet demand, as occupancy remains high. Significant in-migration will likely allow the more than 25,000 units in the development pipeline to be absorbed smoothly. New supply is mainly focused in urban core submarkets, but the suburban submarkets of Tanasbourne and St. Johns/University Park are also showing considerable supply increases. Due to continued strong demand, we expect rents to grow by 5.0% in 2017.

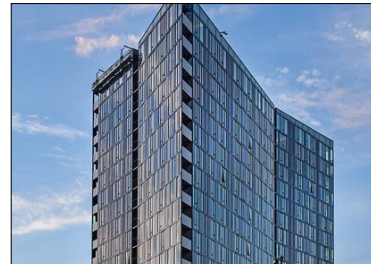
## Recent Portland Transactions

LaSalle



City: Beaverton, Ore.  
Buyer: Holland Partners  
Purchase Price: \$142 MM  
Price per Unit: \$255,866

Yard



City: Portland  
Buyer: Land & Houses  
Purchase Price: \$127 MM  
Price per Unit: \$445,775

Eddyline Bridgeport



City: Tigard, Ore.  
Buyer: Sequoia Equities  
Purchase Price: \$118 MM  
Price per Unit: \$321,798

Seven West at the Trails



City: Beaverton, Ore.  
Buyer: LaSalle Investment Management  
Purchase Price: \$96 MM  
Price per Unit: \$226,950

### To Subscribe

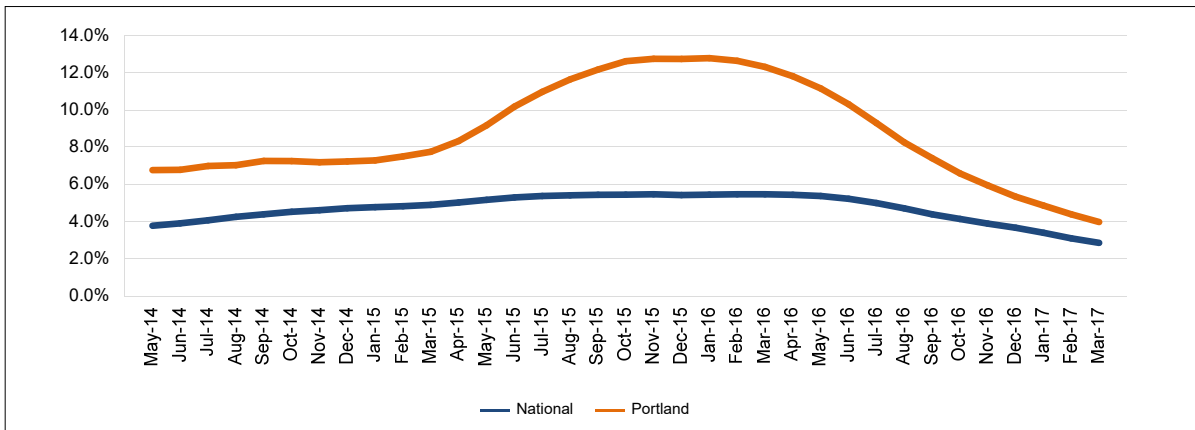
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## Rent Trends

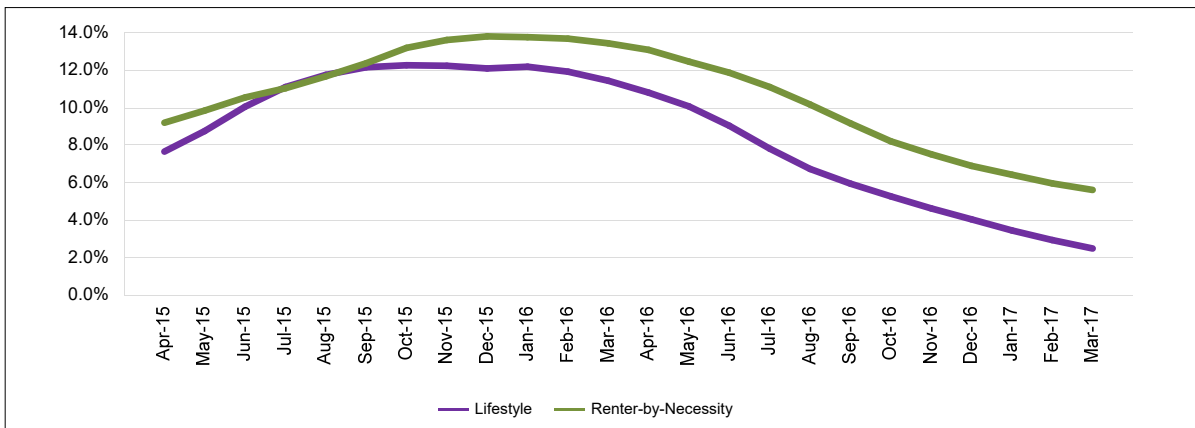
- Portland rents rose 4.0% year-over-year through March, exceeding the national rate by 130 basis points. The average rent was \$1,319, only \$7 above the national average, according to Yardi Matrix's latest survey. Thousands of new jobs were added in the past year, and Portland has emerged as an attractive market for young professionals. As many of these professionals choose renting, demand for apartments is expected to rise.
- Rents in the working-class Renter-by-Necessity (RBN) segment increased 5.6%, to \$1,171 on average, while rents in the upscale Lifestyle segment rose 2.5% year-over-year, to \$1,489. Stronger growth in the RBN segment underscores the demand for affordable housing among lower-income residents. Forest Grove is the only submarket with average rents under \$1,000.
- Downtown Portland continues to be an attractive location for Millennials and demand remains high in the urban core. However, rent growth throughout the metro remains strong, and in fact, the fastest-growing submarkets were located on the fringes: Canby (11.9%), Walnut Grove (9.9%) and Creswell Heights (9.5%).
- Occupancy for stabilized properties was strong, at 95.4% in February, and demand should remain high as population growth continues. We forecast rents to grow 5.0% this year.

### 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)

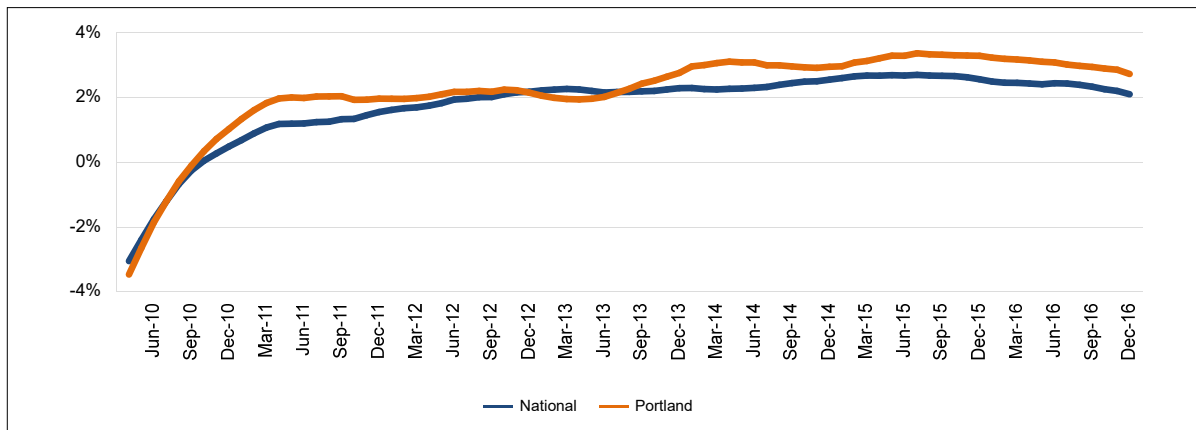


Source: YardiMatrix

## Economic Snapshot

- In the 12 months ending in December, Portland added more than 28,000 new jobs, representing an employment growth rate of 2.7% year-over-year, 60 basis points above the national average. Job growth was led by education and health services, as well as mining, logging and construction.
- Major sporting goods companies are relocating or expanding in the metro, adding to its strong reputation as the epicenter of the athletic footwear and apparel industry. Under Armour is expanding into a former YMCA building to further develop its footwear products, and will occupy roughly 110,000 square feet. Approximately 2.3 million square feet of new industrial space and more than 4,100 apartment deliveries in the past 12 months helped create 6,300 jobs in the construction sector.
- Portland's downtown office deliveries set records in 2016, and construction has remained very active through the beginning of 2017. A healthy job market and comparatively low costs of operating a business are keeping vacancy rates at 8% for office properties. Of the 1.4 million square feet under construction, 300,000 square feet are pre-leased. While some of the remaining 1.1 million square feet will lease before delivery, the substantial inventory expansion could move vacancy rates higher over the next two years.

### 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	%
15	Mining, Logging and Construction	63	5.4%	6,300	11.2%
65	Education and Health Services	172	14.8%	6,300	3.8%
60	Professional and Business Services	180	15.5%	5,500	3.2%
90	Government	159	13.7%	5,100	3.3%
55	Financial Activities	71	6.1%	2,900	4.3%
40	Trade, Transportation and Utilities	217	18.7%	2,200	1.0%
50	Information	27	2.3%	1,000	3.9%
80	Other Services	40	3.4%	500	1.3%
70	Leisure and Hospitality	113	9.7%	-1,600	-1.4%
30	Manufacturing	120	10.3%	-3,100	-2.5%

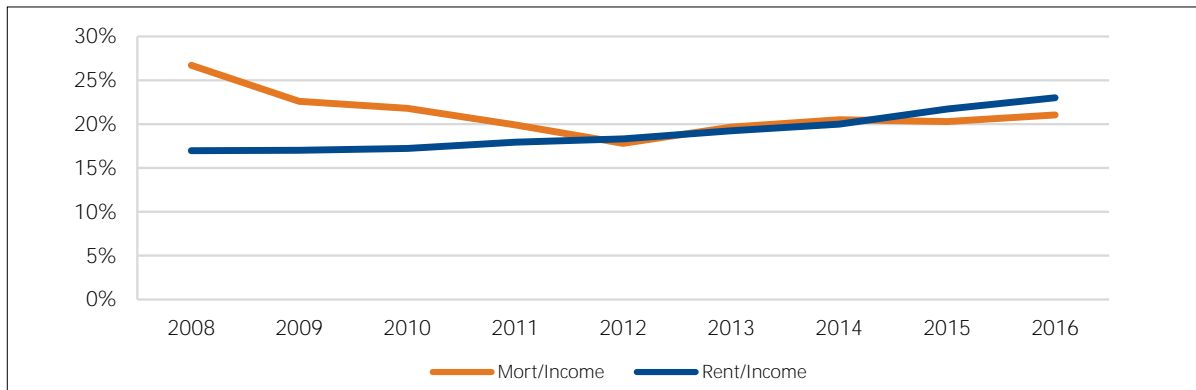
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

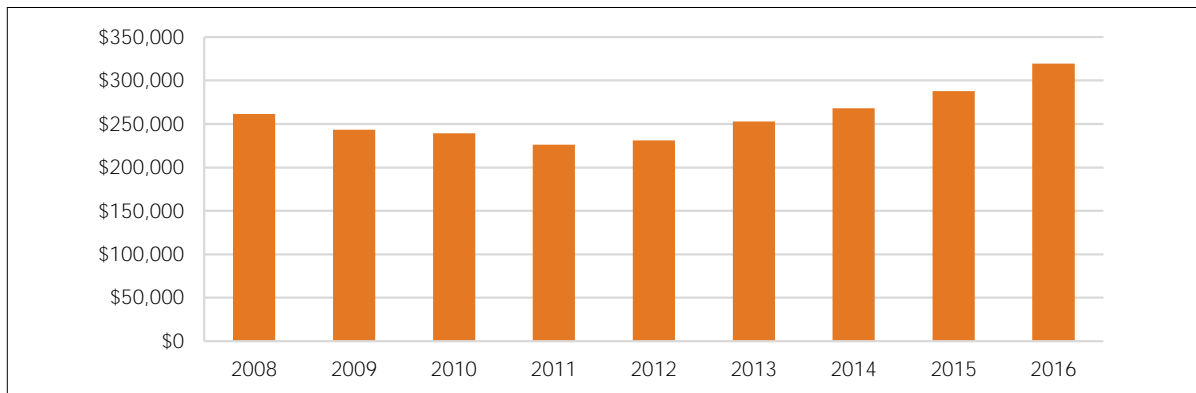
- Portland's median home value has consistently increased in the last five years, reaching a new cycle high of \$319,277 in 2016. However, owning remains a more affordable option than renting, with the average mortgage payment accounting for 21% of the area's median income, compared to 23% for the average rent.
- The city continues to struggle with an affordability issue, as developers are predominantly bringing upscale stock to the market. Portland voters approved a \$258 million bond that will help preserve or build affordable rental housing units over the next five to seven years. Although 2,000 income-restricted units are now under development, Portland still faces a shortfall of 24,000 units before it can meet its affordable housing needs.

### Portland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Portland Median Home Price



Source: Moody's Analytics

### Population

- Portland added 40,621 residents in 2015, and its population growth rate of 1.7% is more than double the national average. Population is expected to keep growing at an above-trend rate.

### Portland vs. National Population

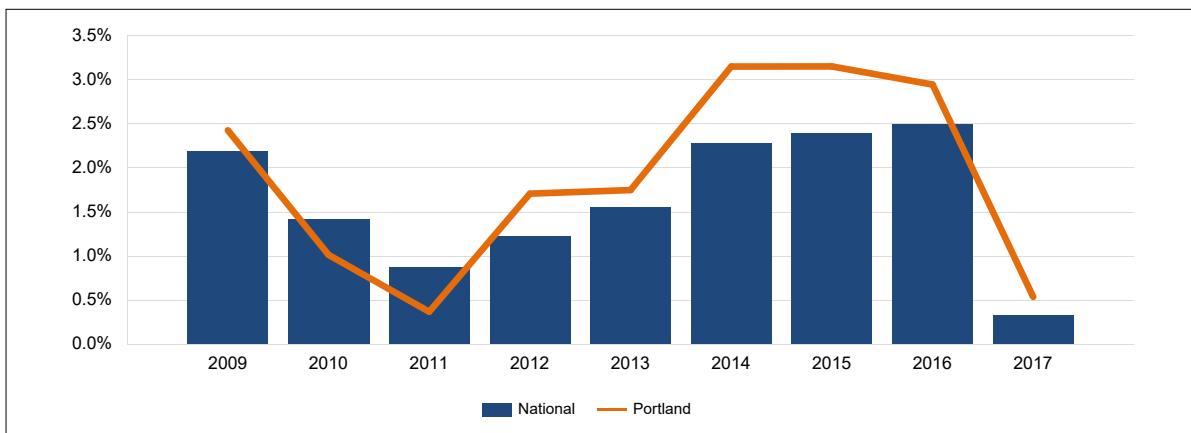
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Portland-Vancouver-Hillsboro, OR-WA Metropolitan Statistical Area	2,260,445	2,288,850	2,314,482	2,348,607	2,389,228

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

## Supply

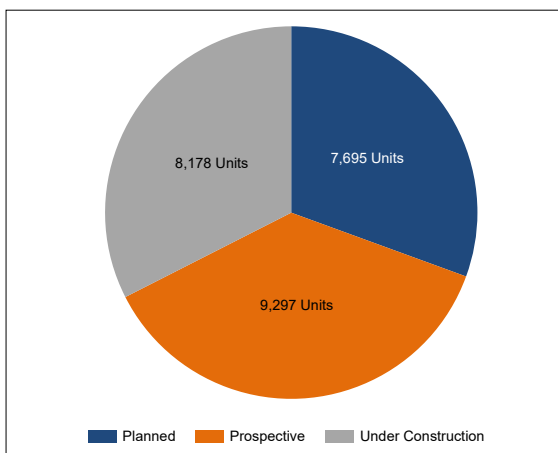
- Multifamily development remains robust, with more than 4,100 units coming online in the past year, marking a 2.9% increase as a percentage of total stock. Inventory expansion in the metro was above the 2.5% national growth rate.
- Supply is likely to remain elevated over the next few years, as 8,100 units are already under construction, mostly focused in core submarkets. More than 25,000 units are in various stages of development. The constant influx of young professionals, coupled with strong job growth, will continue to fuel a high demand for apartments.
- With occupancy for stabilized properties at 95.4% as of February and young workers migrating to the region, demand should remain high. The submarkets with the most units under construction are Hillside/Northwest (1,136 units), Pearl District (1,045 units), Kerns/Buckman (882 units) and Tanasbourne (672 units).
- The largest multifamily project underway is the 396-unit Amberglen West in the Tanasbourne section of Hillsboro, which is scheduled to be completed in June. The project is part of a mixed-use development near a train line that features a combination of office, retail and parkland.

### Portland vs. National Completions as a Percentage of Total Stock (as of March 2017)



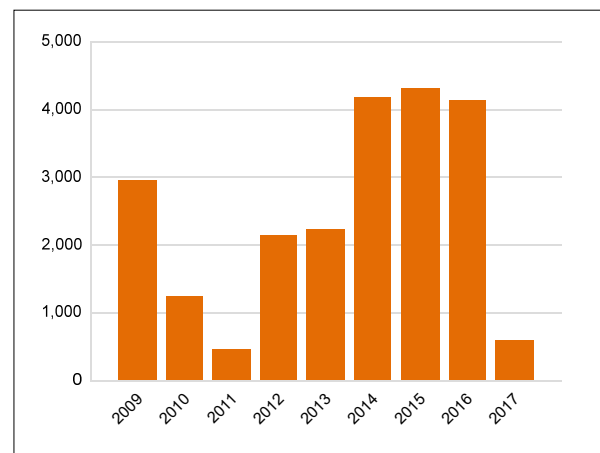
Source: YardiMatrix

### Development Pipeline (as of March 2017)



Source: YardiMatrix

### Portland Completions (as of March 2017)

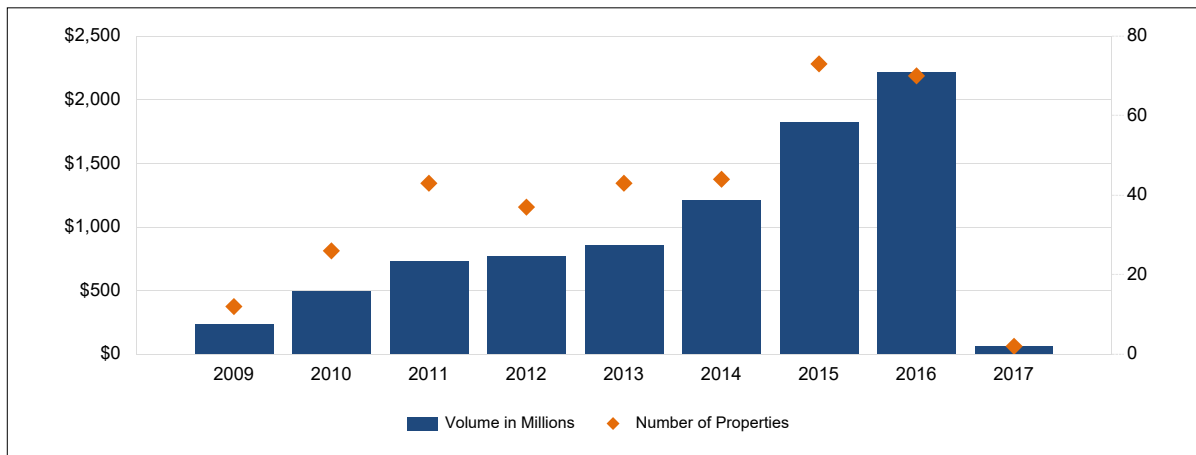


Source: YardiMatrix

## Transactions

- Investors are attracted to the city's growth and its appeal as a Millennial haven, and transaction volume hit a record-breaking \$2.2 billion in 2016, up 21% year-over-year. Sales slowed in the first quarter, with roughly \$300 million worth of properties changing hands.
- The average price per unit ended 2016 at \$195,578, reaching a new cycle high that is well above the national average of \$133,070. Acquisition yields for Class A assets hover between 4% and 5%, while in nearby Vancouver, Wash., where apartments are more affordable, cap rates are close to 6%. Investor appetite was focused on submarkets near downtown Portland such as Tualatin (\$252 million) and West Haven (\$174 million).
- The largest sale in the past 12 months was Holland Partners' \$142 million acquisition of the 554-unit LaSalle property in Beaverton. The asset was sold by Waterton for \$255,866 per unit.

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



Source: YardiMatrix

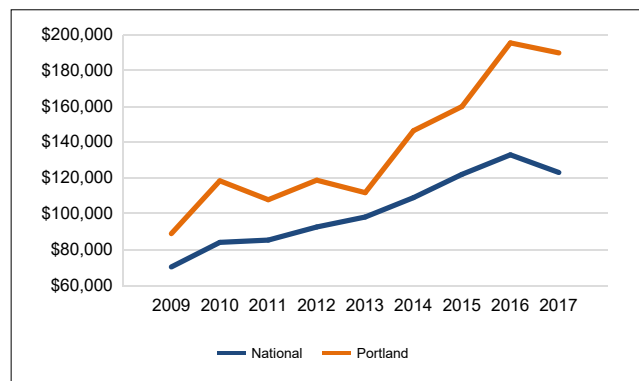
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Tualatin	254
West Haven	174
Kerns/Buckman	166
Beaverton	151
Tanasbourne	122
Walnut Grove	107
Westlake	96
Greenway	90

Source: YardiMatrix

<sup>1</sup> From April 2016 to March 2017

### Portland vs. National Sales Price per Unit



Source: YardiMatrix



# Read All About It!



IPA Closes \$127M Sale  
Of Portland's Yard Tower



BKM Sells Industrial Asset  
In Portland



HFO Investment Sells  
Oregon Community



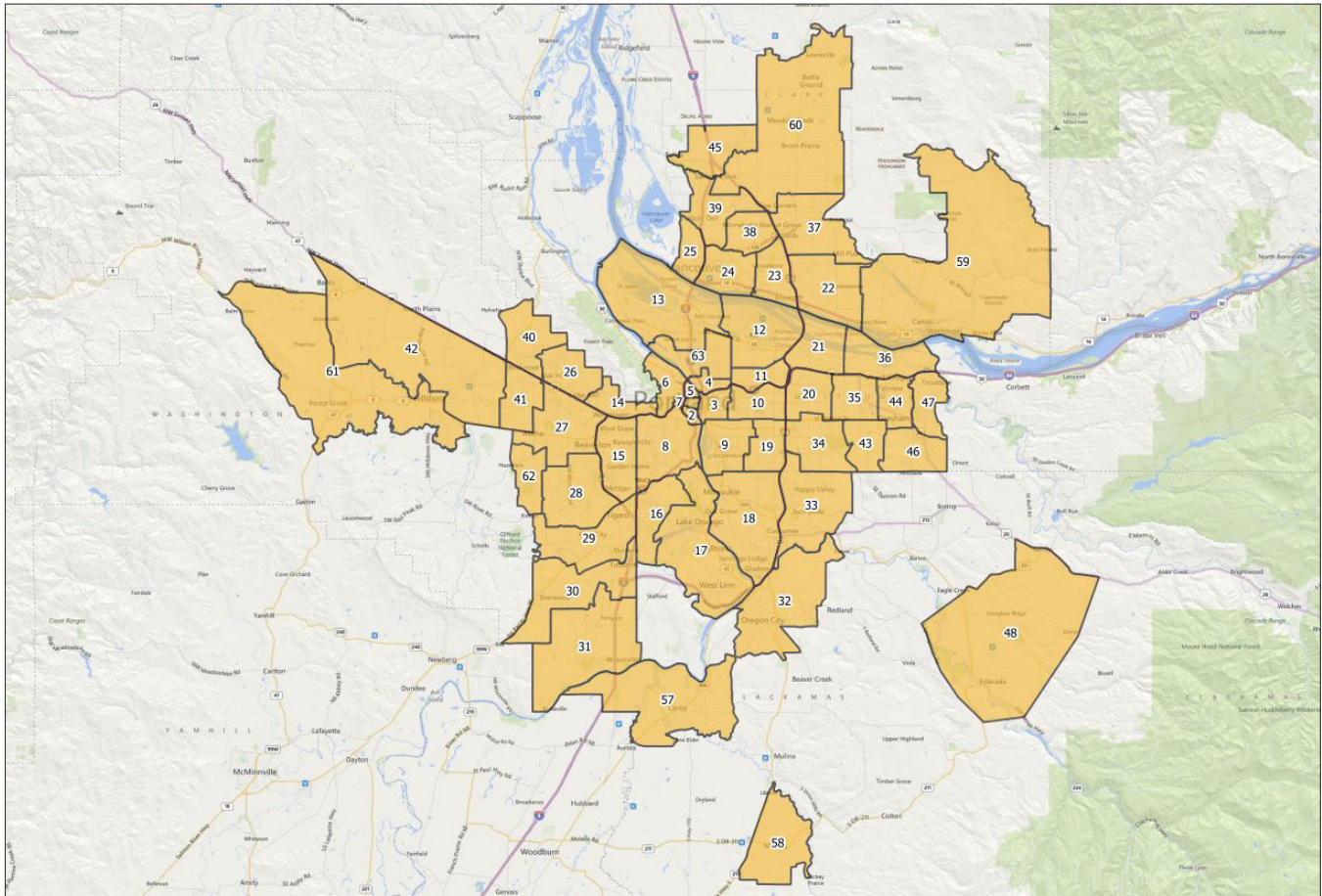
Oregon Shopping Center  
Changes Hands  
In \$107M Deal

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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

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## 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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