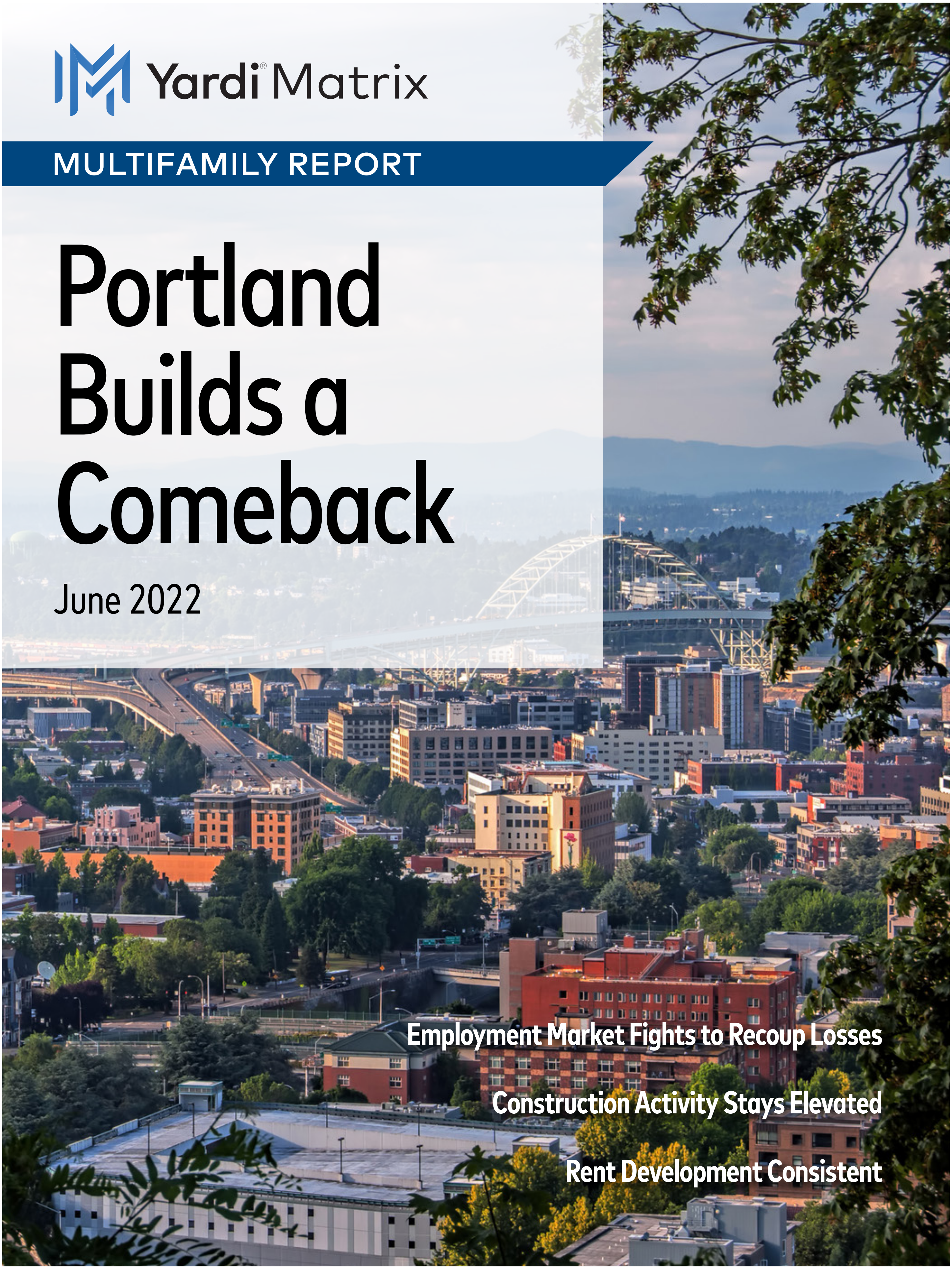
Yardi® Matrix

MULTIFAMILY REPORT

Portland Builds a Comeback

June 2022



Employment Market Fights to Recoup Losses

Construction Activity Stays Elevated

Rent Development Consistent

Yardi Matrix

Portland's Return to Form Now Underway

Portland's multifamily sector is registering solid metrics across the board as we move into summer, with rent growth at 0.7% on a trailing three-month basis, just 10 basis points behind the still-overperforming national average. Rental demand continues to provide a boost to Portland's construction sector, as continued inventory expansion has been absorbed consistently, keeping occupancy elevated, at 96.0% as of March.

The local economy is still reeling after the impact of pandemic-driven restrictions, while a largely positive demographic trend turned negative in 2021. Recovery is underway, however, as Portland regained 68,000 jobs in the 12 months ending in February. Leisure and hospitality accounted for nearly half of these gains, for a 39.9% jump. Projects underway, such as the Ritz-Carlton-anchored tower developed by BPM Real Estate Group in downtown Portland, indicate that confidence in the resurgence of the sector and the local economy is still reasonably high.

Following a slowdown in 2020, sales activity saw a bounce-back in 2021, as more than $2.8 billion in assets traded since the beginning of last year. Development has been high in Portland in the past five years, and the 10,677 units under construction point to further expansion in 2022 and beyond. Yardi Matrix expect rents to improve 7.6% by year-end.

Market Analysis | June 2022

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On the cover: Photo by James Michael House/iStockphoto.com

Recent Portland Transactions

Arbor Heights

City: Tigard, Ore.
Buyer: Kennedy Wilson
Purchase Price: $121 MM
Price per Unit: $346,983

Revere

City: Portland, Ore.
Buyer: The Wolff Co.
Purchase Price: $79 MM
Price per Unit: $372,038

10th at Hoyt

City: Portland, Ore.
Buyer: RISE Properties Trust
Purchase Price: $75 MM
Price per Unit: $421,348

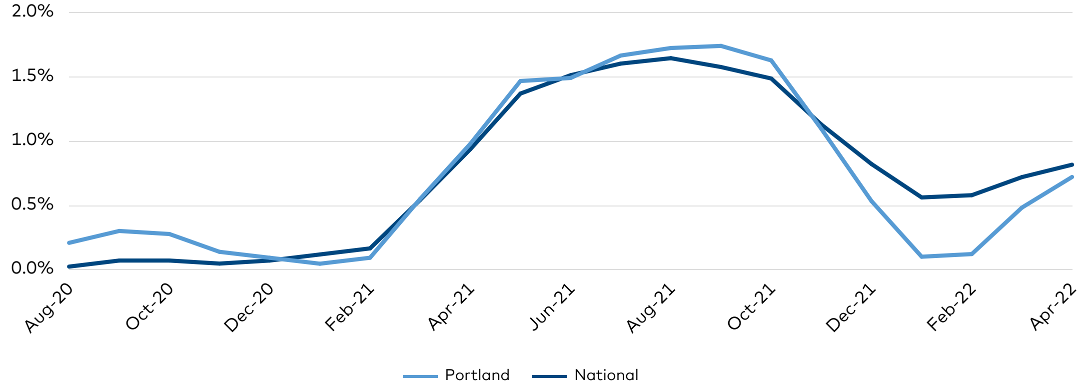
Verso

City: Beaverton, Ore.
Buyer: Brookfield Properties
Purchase Price: $74 MM
Price per Unit: $430,233

RENT TRENDS

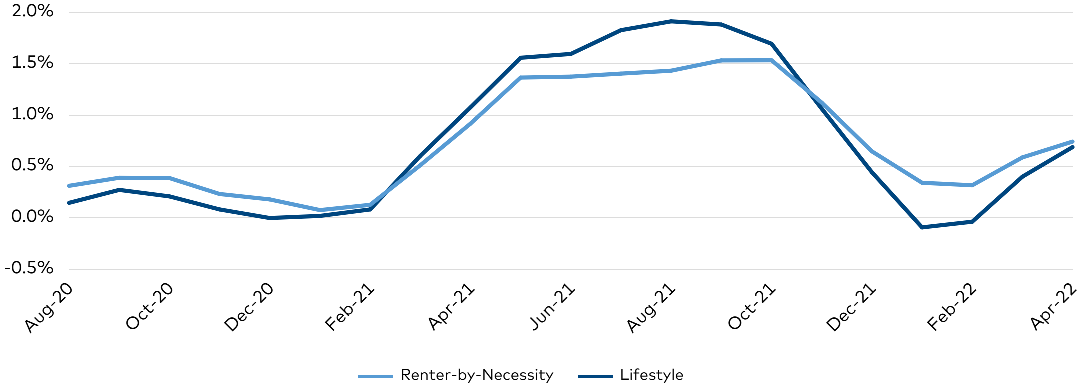
- Rents in Portland rose 0.7% on a trailing three-month (T3) basis, just 10 basis points below the U.S. rate. Nationally, rates have consistently overperformed since 2021, and even a seasonal slowdown has done little to dampen continued growth. However, with increasing economic woes and sustainability concerns, there should be some incoming moderation.
- The average overall rate in Portland was $1,690 in April, $31 over the national figure. The average rent in the Lifestyle segment was $1,863, while the working-class Renter-by-Necessity segment had an average of $1,503. The quality segments grew in unison, recording a 0.7% rate of improvement across the board on a T3 basis.
- The average occupancy rate in stabilized assets stood at 96.0% as of March, as demand has pushed continued rent development, keeping occupancy elevated over the past 12 months. By quality segments, occupancy was strongest in RBN assets, where the rate stood at 96.7%. Upscale assets had a lower figure, but still recorded solid performance, at 95.4% as of March.
- No Portland submarkets recorded rent decreases in the 12 months ending in April, with most areas actually seeing growth in the double digits. On a year-over-year basis, rent expansion was highest in Rock Creek (20.7%), Creswell Heights (18.1%), Beaverton (17.7%) and Hillsboro (17.4%).

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

- Employment growth in Portland was solid, having added 68,000 jobs in the 12 months ending in February, for a 5.4% rate of improvement year-over-year. The local economy is fighting back after a tough go during the pandemic, but however elevated job gains are now, there's still work to do to make up for the losses in 2020 and 2021, when decreases were in the double digits.

- On a high note, all employment sectors recorded gains through the interval, with the most severely affected, leisure and hospitality, benefiting from the bulk of improvement: The sector added 31,000 jobs, for a 39.9% jump. Improvement in the sector comes as a result of hospitality establishments reopening at full capacity across the metro, as well as the opening of new projects. The most significant venture underway for the sector is the upcoming completion of the first Ritz-Carlton in the Northwest, in a $600 million, 35-story tower that's being developed by BPM Real Estate Group. The project is taking shape at Southwest 10th Avenue and Alder Street in downtown Portland.

- Financial services and trade, transportation and utilities saw the smallest relative gains, adding a respective 1,700 and 5,000 jobs, for 2.3% improvement rates.

Portland Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	109	9.1%
90	Government	151	12.6%
60	Professional and Business Services	189	15.8%
30	Manufacturing	125	10.4%
40	Trade, Transportation and Utilities	224	18.7%
65	Education and Health Services	183	15.3%
15	Mining, Logging and Construction	78	6.5%
50	Information	27	2.3%
55	Financial Activities	75	6.3%
80	Other Services	39	3.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Portland lost residents during the second year of the pandemic, with its population down roughly 4,500, a 0.2% drop. Meanwhile, the U.S. population rose 0.1%. Looser restrictions, more favorable tax environments and the climate have pushed residents to the Sun Belt of late.

Portland vs. National Population

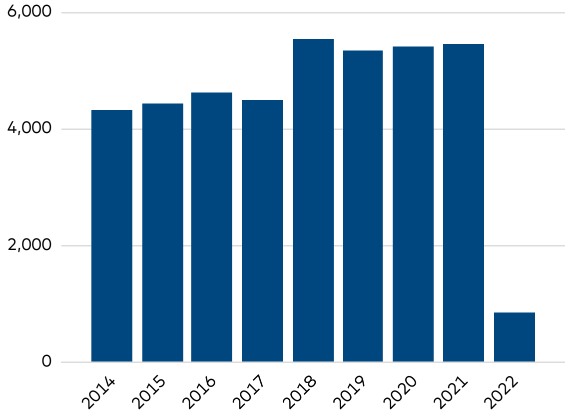
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Portland	2,475,249	2,492,479	2,516,230	2,511,612

Source: U.S. Census

SUPPLY

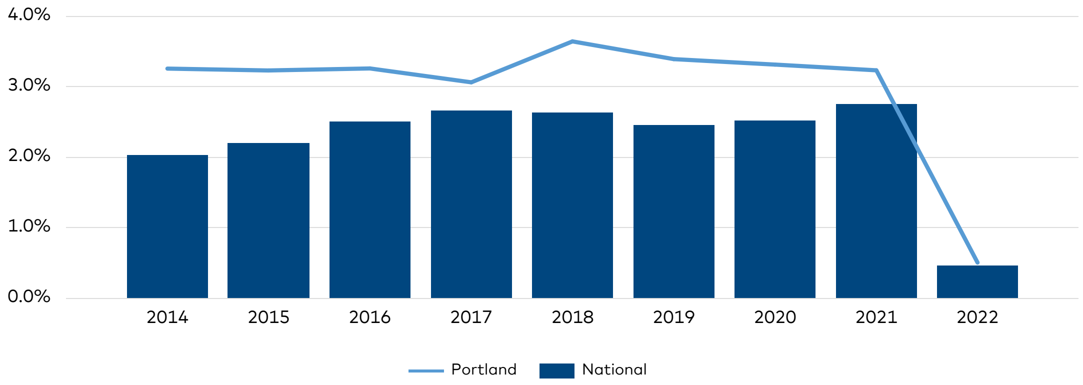
- There were 10,677 units under construction in Portland as of April, with development activity staying strong. Portland added 857 units in the first four months of 2022, representing 0.5% of existing stock, in line with the national figure.
- Portland has established itself as a high-development rental market, with more than 27,000 units coming online since the beginning of 2017. The rate of delivery in the multifamily sector has also stayed consistently above the national figure for the entire past decade.
- Another 38,500 units were in the planning and permitting stages across Portland, pointing to continued inventory expansion, should market conditions hold.
- Although development has been rampant in Portland throughout the past decade, demand has cushioned the influx of new inventory. As a result, the average occupancy rate in stabilized assets stood at 96.0% as of March, 20 basis points higher year-over-year.
- Six submarkets had at least 500 units under construction as of April: Downtown Vancouver (977 units), Gresham (666 units), Southwest Hills (572 units), Kerns/Buckman (545 units), Pearl District (532 units) and Hillside/Northwest (500 units).
- Although Downtown Vancouver led for multifamily development, construction activity is significantly lower in submarkets located north of the Columbia River, where some 24% of the rental pipeline is taking shape.

Portland Completions (as of April 2022)



Source: Yardi Matrix

Portland vs. National Completions as a Percentage of Total Stock (as of April 2022)

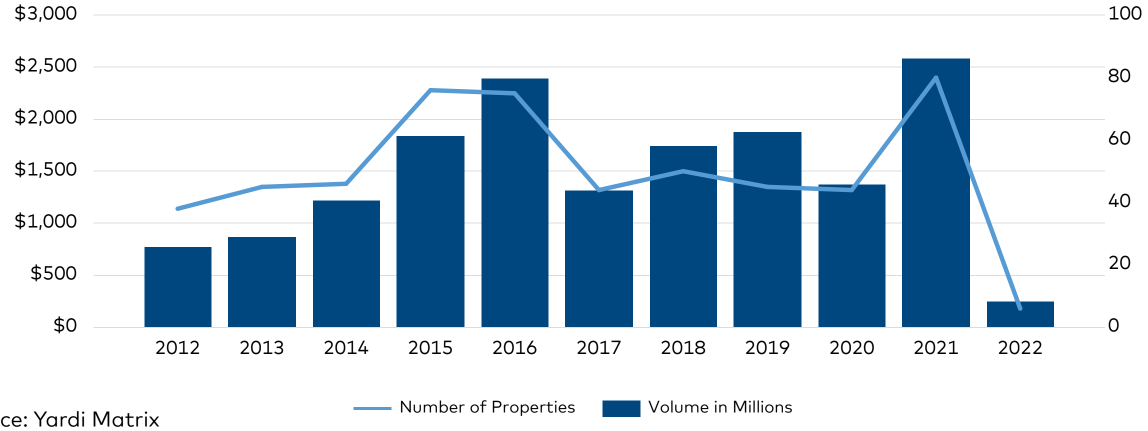


Source: Yardi Matrix

TRANSACTIONS

- Portland multifamily sales started the year with $247 million through April, hot off a historic 2021, when investment totaled just under $2.6 billion.
- Property values in Portland have risen for the better part of the past decade, with per-unit prices in the metro reaching $267,445 in 2021, significantly above the $192,489 national average. In 2022, values continued to rise, though on a smaller sample size, with the average crossing the $300,000-mark in the first four months of. Apart from a quick downtick in 2020, Portland's price per unit has consistently increased, although deal distribution has favored the Renter-by-Necessity segment—63% of deals completed since the start of 2020 involved these assets.
- Investment activity has been solid on both banks of the Columbia River in the 12 months ending in April—Greenway ($192 million), Kerns/Buckman ($183 million) and Walnut Grove ($182 million) led for sheer dollar volume.

Portland Sales Volume and Number of Properties Sold (as of April 2022)



Source: Yardi Matrix

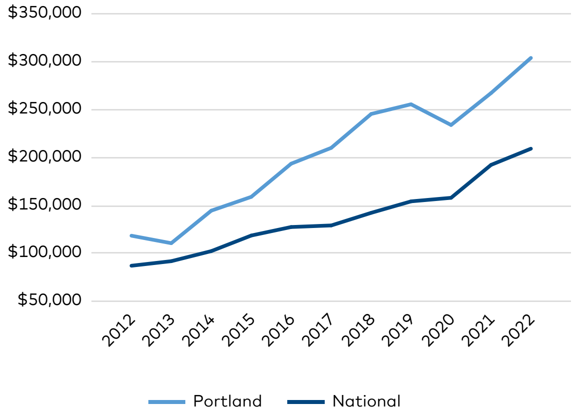
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Greenway	192
Kerns/Buckman	183
Walnut Grove	182
Milwaukie/Gladstone	127
Tigard	121
Orchards	120
Beaverton	117

Source: Yardi Matrix

[1] From May 2021 to April 2022

Portland vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MHN MULTI-HOUSING **NEWS**

What Makes Portland a Sought-After Multifamily Market?

By Adriana Marinescu

Portland has been attracting residents and investors alike for years, thanks to its high quality of life and low cost of doing business compared to other coastal metros. In 2022's first quarter, the metro's multifamily market continued to see strong performance, with rent growth being supported by high occupancy rates. Cushman & Wakefield Director of Multifamily Insights Sam Tenenbaum explains what attracts multifamily investors to this West Coast metro.

What sets this metro apart from other coastal markets?

One of the main differentiating factors is the cost of living. Most West Coast metros are synonymous with high prices—rents in San Francisco are nearly double the national average, and rents in Seattle average nearly $500 more per month than the broader United States. Meanwhile, Portland's rents and sale prices are more in line with the broader U.S., one of the key drivers of the market's success over the past decade.

Multifamily fundamentals improved significantly last year in the metro. Do you expect this trend to continue this year?

Portland's apartment market should remain strong. Very little is in the construction pipeline, which will mean occupancies are likely to remain high. Today, there are about 5,000 units under construction, reflecting the lowest rate since 2012. While the market's healthy fundamentals are likely to spur additional development, construction costs and delivery timelines continue to increase, allowing occupancies to remain higher for longer.

Which Portland neighborhoods are the most sought-after and why?

There are several neighborhoods that are attractive to renters and investors. On the west side, the Silicon Forest of Beaverton and Hillsboro, powered by major employers Nike and Intel, boast thousands of employees, many of whom want to live closer to work and who moved out of downtown Portland during the pandemic.

The South Waterfront is on the heels—developers have flocked to the neighborhood in recent years thanks to the growth at Oregon Health and Science University.

To what extent is rising inflation causing concern among investors?

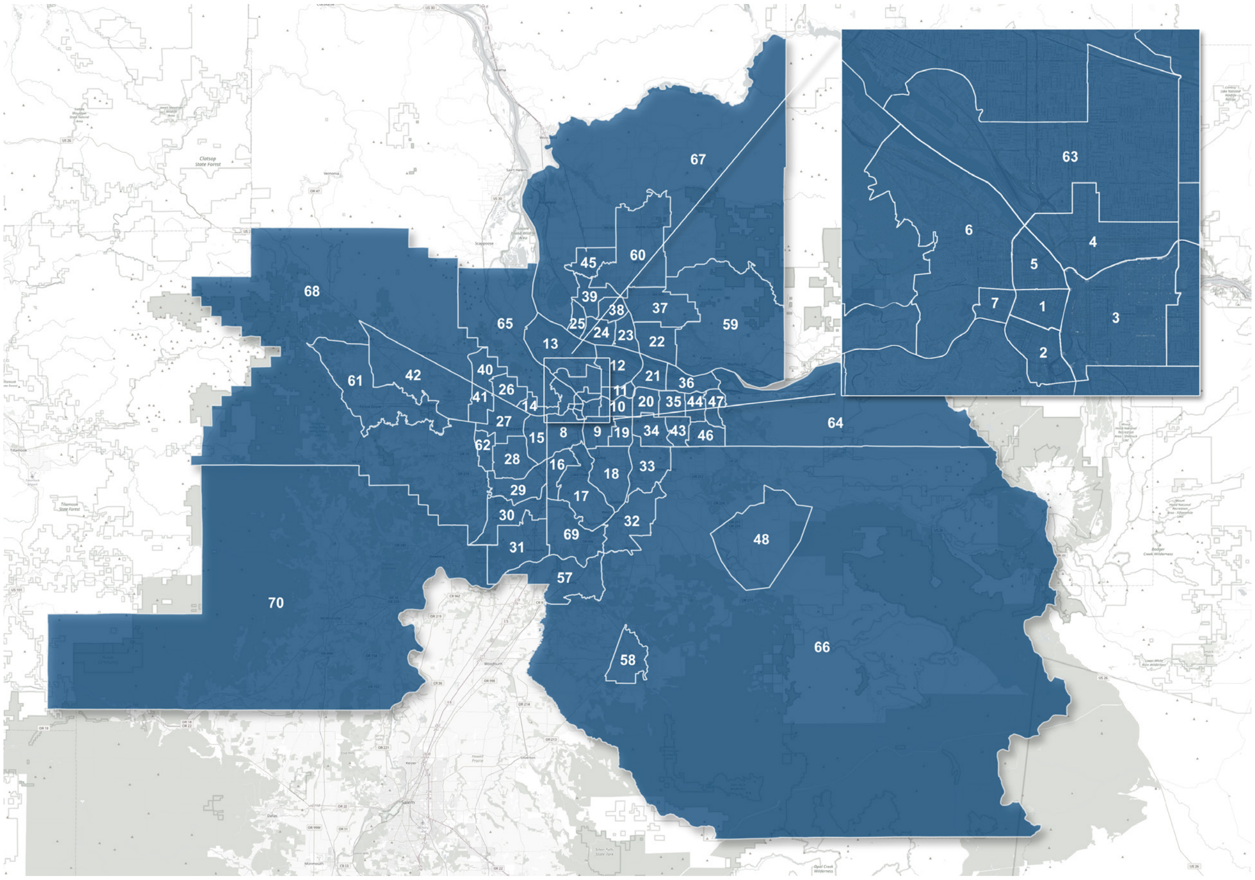
With landlords' ability to reprice leases every year, inflation hasn't been much of a concern. Rather, rising interest rates have certainly created consternation. Buyers, specifically high-leverage ones, are likely to become more selective in this environment-absent repricing.

What does the future hold for Portland's multifamily market in 2022?

Ultimately, the fundamentals of the market remain incredibly healthy. While the market likely won't repeat 2021's record-setting performance, Portland's multifamily market should see above-trend growth through 2022.

(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/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
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
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

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 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 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, 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.

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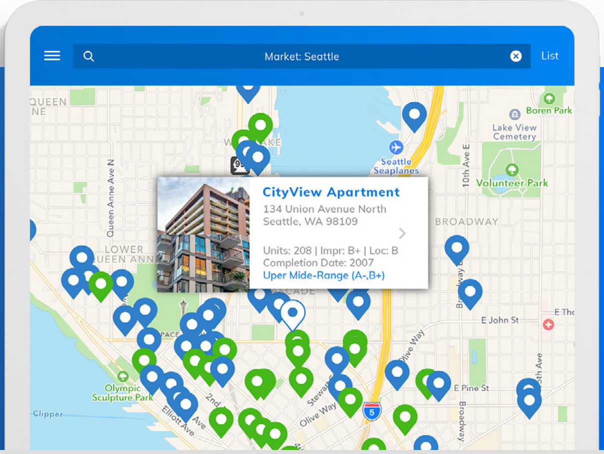
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



CityView Apartment
134 Union Avenue North
Seattle, WA 98109
Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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