



Yardi® Matrix

Portland's Construction Spree

Multifamily Report Summer 2017

Rent Growth Continues Deceleration

Upper-Scale Supply Reaches Peak

Property Values Hit Post-Bubble High

Market Analysis

Summer 2017

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Strong Development Softens Demand

Anchored by a diversifying economy and fueled by an expanding population, Portland's multifamily market remains strong despite its recent rent growth deceleration. Rents in the metro increased 2.3% year-over-year through May, a far cry from the January 2016 peak of 12.7%, as accelerated development in core submarkets has caught up with demand.

The metro is adding jobs across the board, with construction, financial activities and information recording the largest sector expansions. As the metro's economy continues to thrive and the area adds residents at double the national rate, there is no shortage of large development projects. The 600-key Hyatt Regency Convention Center hotel is expected to generate 950 hospitality jobs upon completion in 2018. Nike is continuing its headquarters expansion, with the sixth building at the Beaverton campus set to break ground this summer. The recent emergence of Portland as an affordable tech and startup alternative to San Francisco has led to corporate relocations and strong employment growth.

Both transaction volume and prices have steadily climbed during this cycle, with \$2.3 billion worth of assets changing hands in 2016 and the average unit trading for more than \$200,000 in the first half of 2017. As rents decelerate to sustainable levels, we expect a growth of 2.5% for 2017.

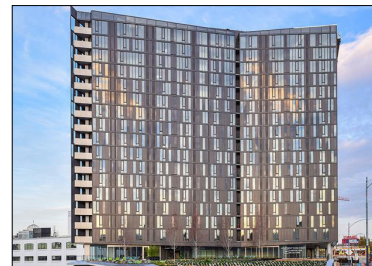
Recent Portland Transactions

LaSalle



City: Beaverton, Ore.
Buyer: Holland Partners
Purchase Price: \$142 MM
Price per Unit: \$250,000

Yard



City: Portland, Ore.
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

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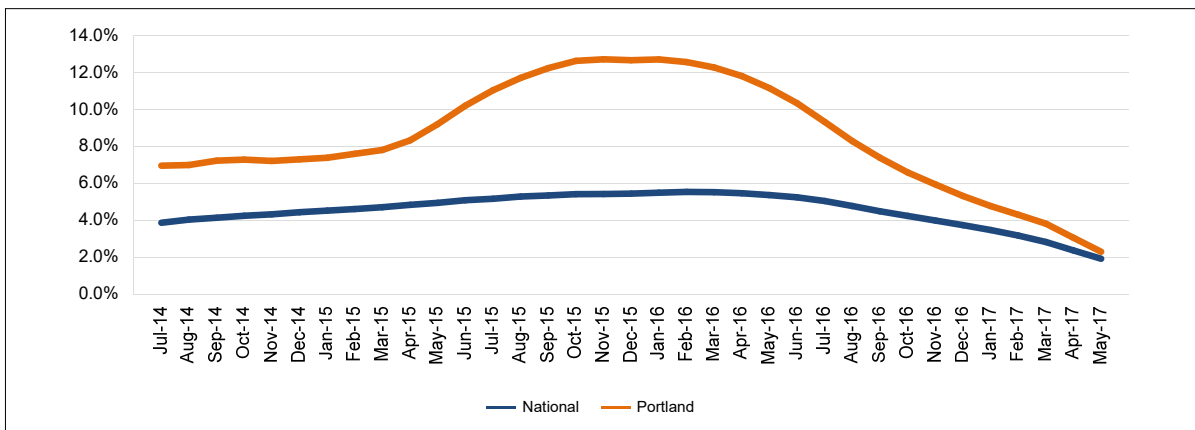
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Rent Trends

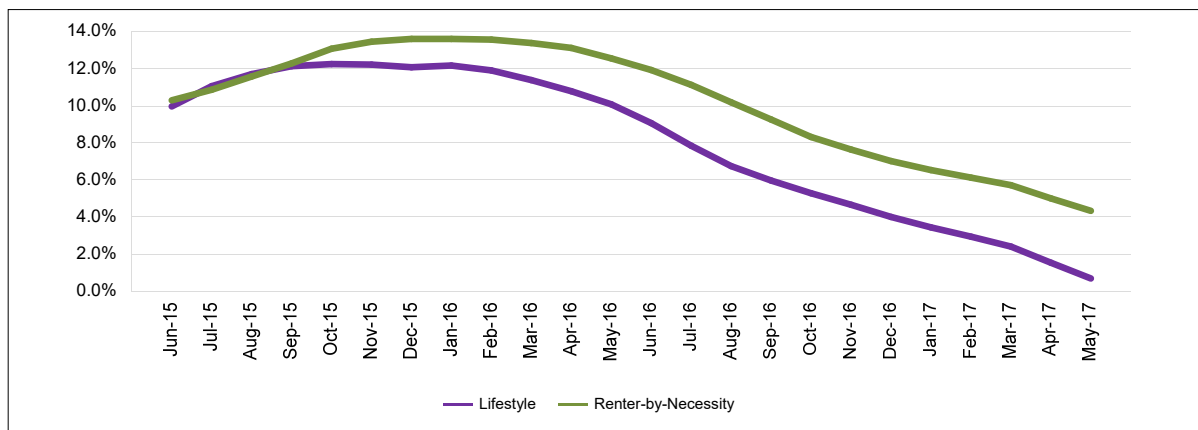
- Rents in Portland rose 2.3% year-over-year through May, reaching \$1,324, just above the \$1,316 national average. Growth has steadily decelerated after the 12.7% cycle high in January 2016, as three years of significant development caught up with housing demand.
- The working-class Renter-by-Necessity segment continues to lead growth, up 4.3% year-over-year. In comparison, the Lifestyle segment rose by only 0.7%. This disparity, which is heavily affecting blue-collar households, has been deepened by the city's housing shortage in core areas and by developers focusing on delivering high-end assets during the fast-paced economic expansion.
- Suburban submarkets outside central Portland are still recording substantial rent gains, with Oregon City (9.7%), Forest Grove (8.5%), Troutdale (7.6%) and Walnut Grove (7.5%) leading the list. Meanwhile, rents in more expensive, core submarkets are contracting due to high levels of new supply. These include PSU/Lovejoy (-5.0%), Downtown Portland (-3.4%), the Pearl District (-1.2%) and Kerns/Buckman (-1.3%).
- Occupancy for stabilized properties was 95.6% as of May, down 100 basis points in one year. However, the strong economy and expanding population should help produce rent growth of 2.5% 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)

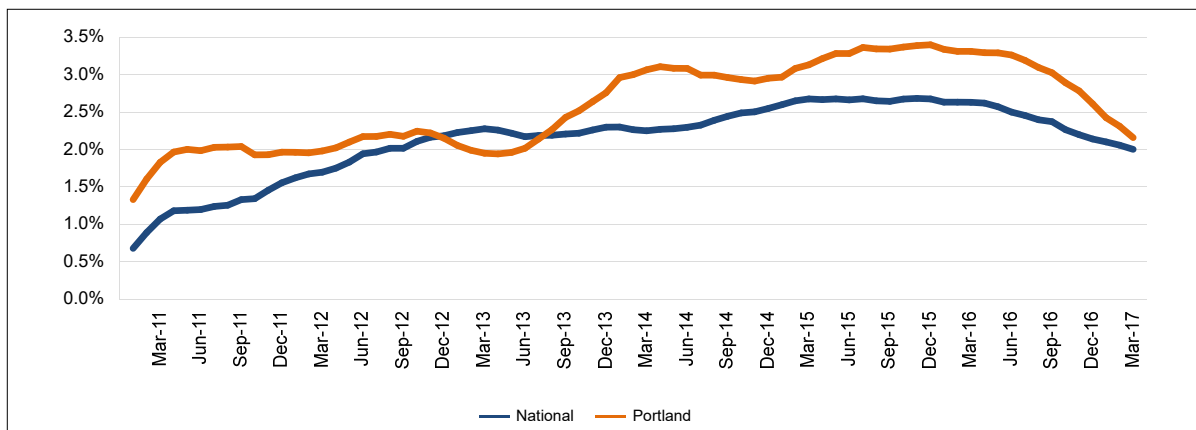


Source: YardiMatrix

Economic Snapshot

- Portland added 22,200 jobs year-over-year through March, a 2.2% growth rate and 20 basis points above the U.S. average. Although employment growth slowed to more sustainable levels in the first half of 2017, the metro continues to outpace the nation. The area's dynamic, diverse and expanding economy pushed the unemployment rate down to 3.4% as of April, a 1.2% decline over the previous 12 months.
- Portland's rapid expansion also translates into a surge in construction jobs, with the sector generating 6,200 positions, equal to a 10.4% year-over-year increase. With the 600-key Hyatt Regency Convention Center project moving forward, the \$224 million hotel is creating some 2,000 construction jobs and is expected to generate 950 hospitality positions when it comes online in 2018.
- After buying the USPS building in the Pearl District, Prosper Portland, a municipal division focused on fostering economic growth and family-wage jobs, is redeveloping the site to add 2,000 housing units, of which 700 will be affordable. The project is expected to generate more than 4,000 jobs.
- Financial activities, professional and business services, and information added a combined 7,700 positions. While the office market had negative absorption in the first quarter, the steady addition of office-using employment keeps developers optimistic. Some 1.5 million square feet of office space is under construction.

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	66	5.7%	6,200	10.4%
65	Education and Health Services	170	14.7%	3,900	2.3%
55	Financial Activities	70	6.1%	3,800	5.7%
60	Professional and Business Services	177	15.3%	3,000	1.7%
90	Government	158	13.7%	2,600	1.7%
40	Trade, Transportation and Utilities	209	18.1%	2,300	1.1%
70	Leisure and Hospitality	116	10.0%	1,200	1.0%
50	Information	26	2.3%	900	3.6%
80	Other Services	42	3.6%	700	1.7%
30	Manufacturing	121	10.5%	-2,400	-1.9%

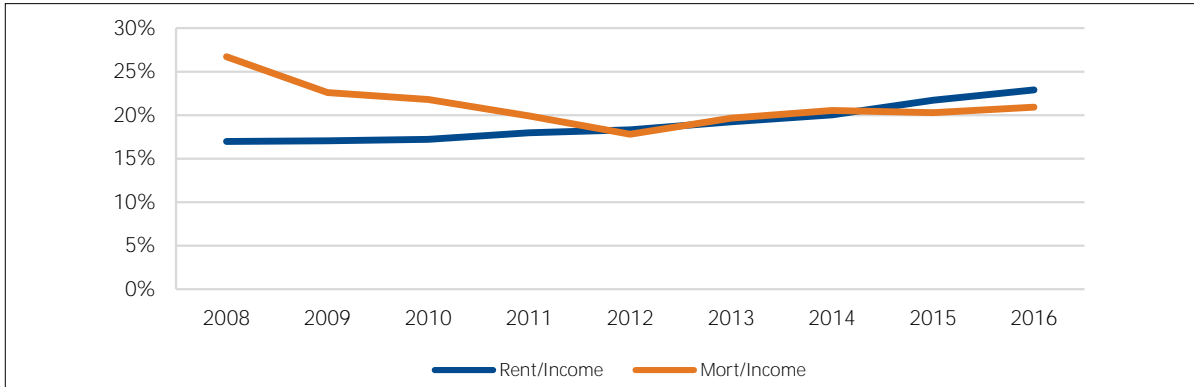
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

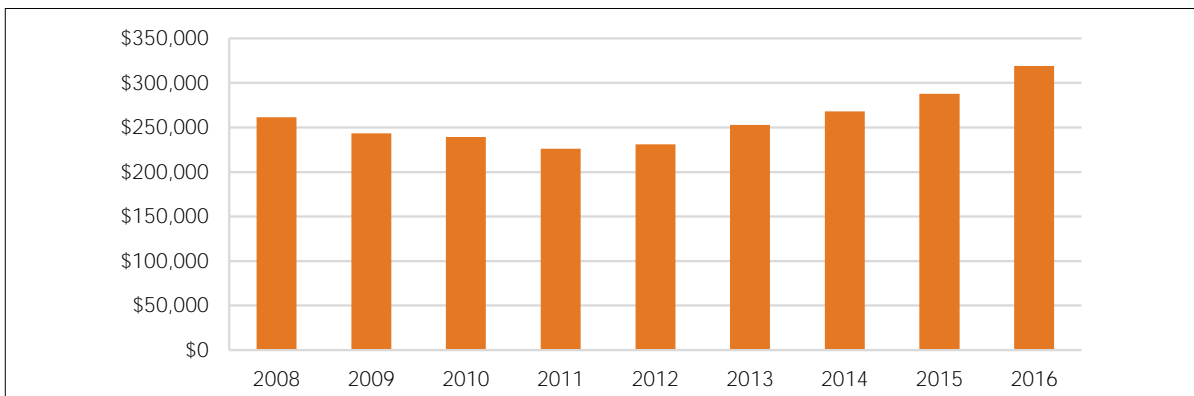
- Portland median home prices have been climbing steadily since 2011, peaking at almost \$320,000 in 2016. As both home prices and rents are on the rise, the city's affordability issues continue to impact blue-collar households. A recently adopted inclusionary housing program attempts to address this problem by requiring new development to set aside 20% of units for households making less than 80% of median income. However, the measure applies to projects approved after February 2017, and is unlikely to produce immediate effects.
- Owning continues to be more affordable than renting in Portland. The average mortgage payment accounted for 21% of the metro's median income, while the average rent of \$1,324 accounted for 23%.

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 137,000 residents in the last five years, a 6.0% increase, which is more than double the national average.
- The metro added 40,000 people in 2016 alone, a 1.7% expansion.

Portland vs. National Population

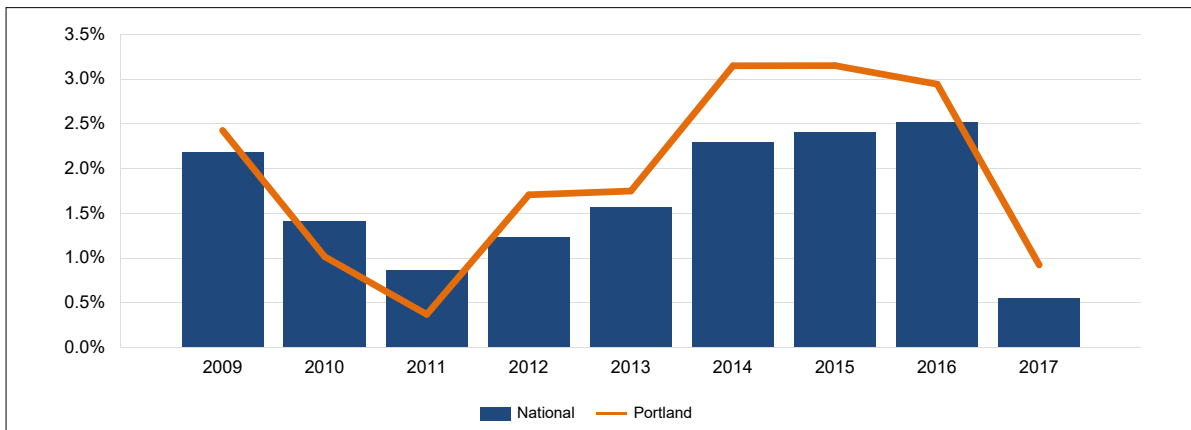
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Portland Metro	2,288,142	2,312,503	2,346,192	2,384,807	2,424,955

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

Supply

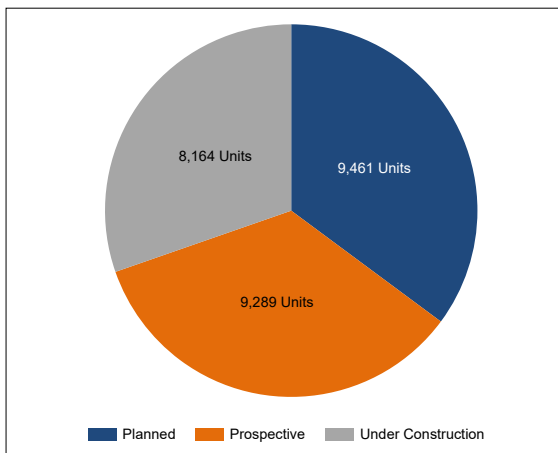
- With Portland's population growth boosting demand, roughly 1,200 units came online in the first five months of 2017, and Yardi Matrix forecasts 5,200 completions in total this year. More than 13,500 units have been delivered since 2014, a third of which are Class A assets located within three miles of downtown.
- There were more than 8,000 units under construction in Portland as of May, almost 70% of which are slated to come online this year. The current pipeline is responding to the ongoing demand trend concentrated on core areas, with roughly half of units under construction being located in submarkets close to downtown, including the Pearl District (1,045 units), Kerns/Buckman (1,041) and Hillside/Northwest (1,013).
- Portland's recently adopted Inclusionary Housing Program could affect the pipeline composition in the long run as developers are likely to revise plans to accommodate the changes. However, immediate effects are unlikely: There are 27,000 units in different stages of development, the vast majority of which are not subject to the new regulations, as most developers chose to apply for permits prior to the February deadline.
- Amberglen West in Hillsboro has the largest community under construction as of May. The 396-unit, high-end community is scheduled to be finished in August, and is 58% pre-leased, according to Yardi Matrix.

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



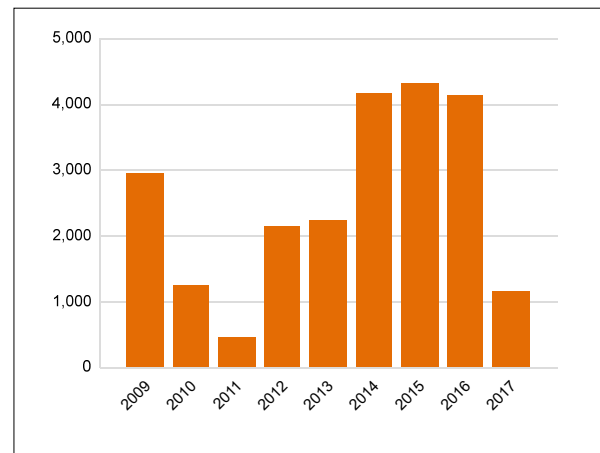
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Portland Completions (as of May 2017)

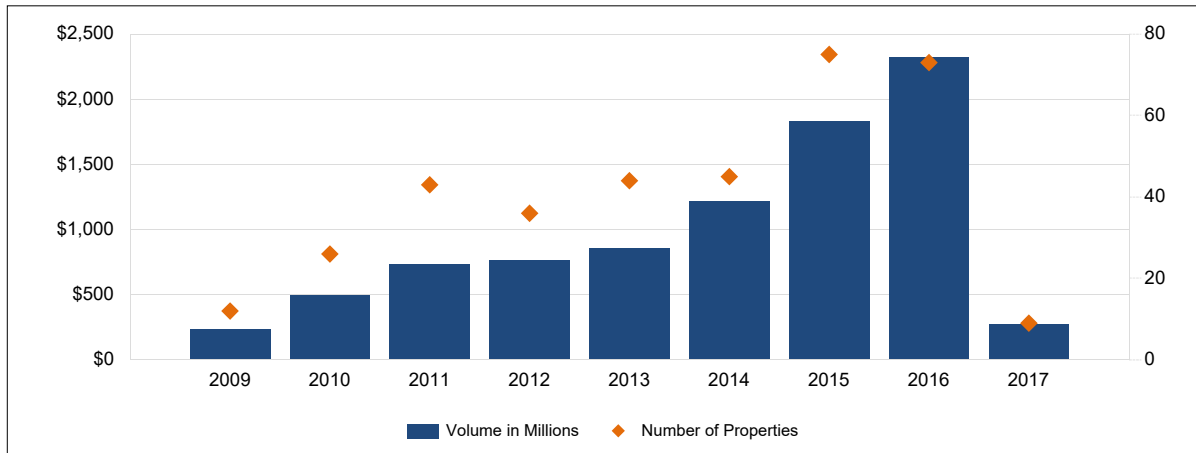


Source: YardiMatrix

Transactions

- Roughly \$270 million worth of multifamily assets changed hands in Portland this year through May, marking a deceleration after seven consecutive years of cycle peaks. Investors are drawn by the city's strong economy and rapidly growing population. Some \$2.3 billion traded last year, a 26% increase from 2015.
- Investor interest is mainly focused in suburban areas west of Portland's city limits, as well as in submarkets close to downtown. Relatively new, highly amenitized properties are attracting solid capital injections, with more than 30 Lifestyle assets trading in the last six quarters. At the same time, value-add opportunities continue to take the lion's share of transactions, as private investors target well-located Class B and C properties to improve.
- Increased investment activity is pushing per-unit prices up, with the average surpassing \$200,000 in the first half of 2017, well above the \$130,839 national average.

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



Source: YardiMatrix

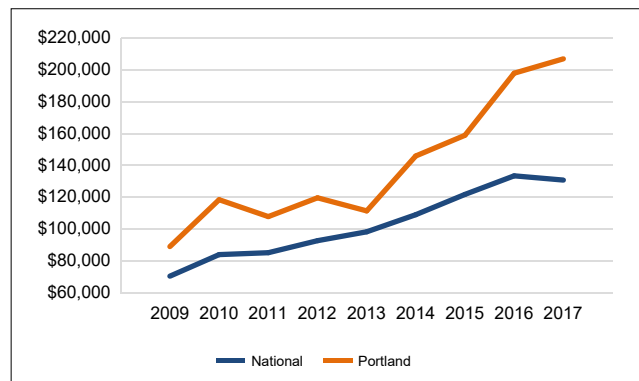
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Tualatin	254
Walnut Grove	175
Kerns/Buckman	166
Beaverton	155
Tanasbourne	151
PSU/Lovejoy	108
Westlake	107
Greenway	96

Source: YardiMatrix

¹ From June 2016 to May 2017

Portland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Mixed-Use Project Opens
In Downtown Portland



Amazon to Open
First Oregon Facility



BlueVolt Relocates
Portland HQ

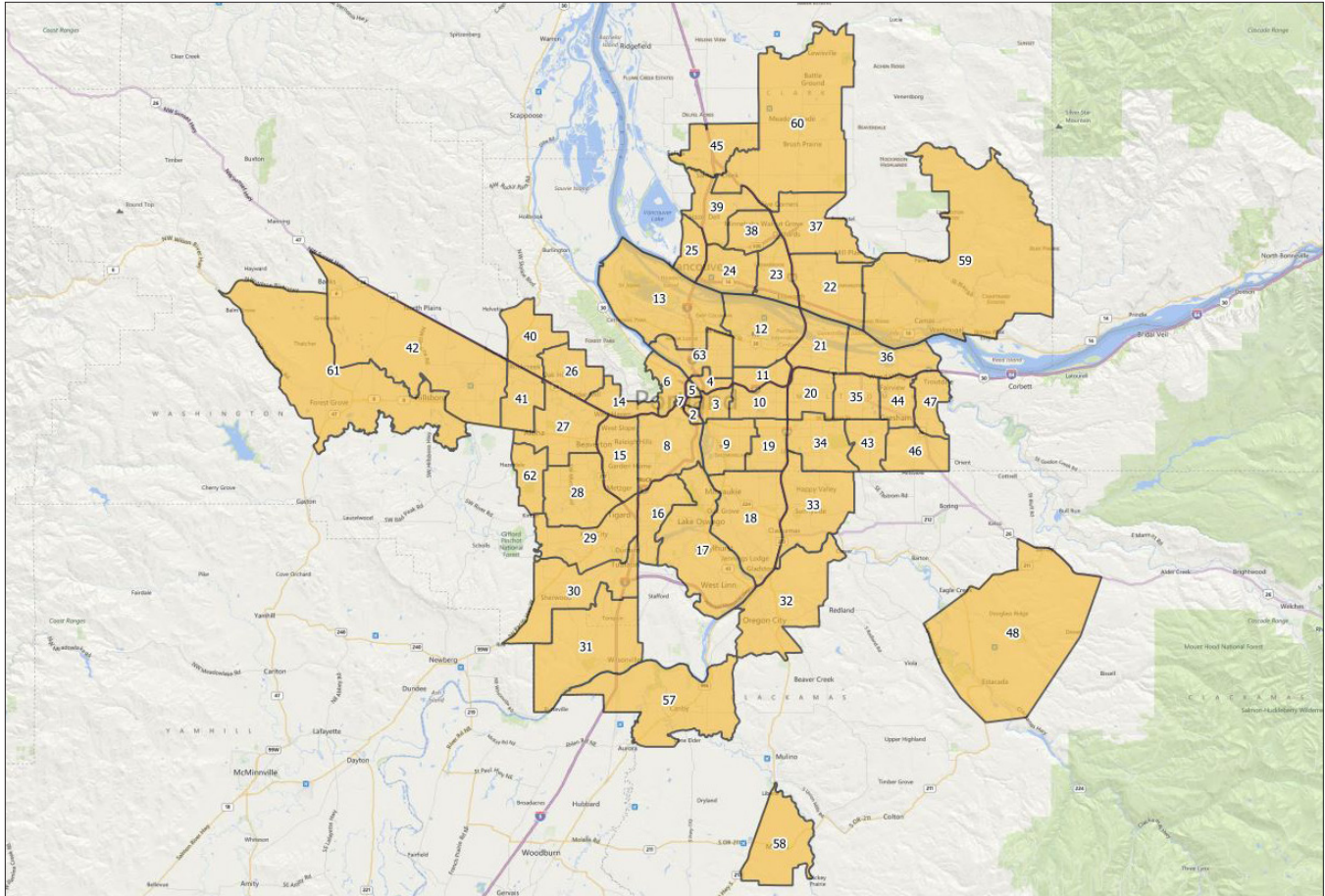


Full Steam Ahead
For Vancouver
Waterfront Project

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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

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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