



Yardi® Matrix

Cooler Temps For Portland Rents

Multifamily Report Fall 2017

**Rent Growth Drops
Below US Average**

**Construction Leads
Employment Gains**

**Transaction Volume
Decreases in 2017**

Market Analysis

Fall 2017

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Job Growth Firm, Rent Growth Totters

Rent growth continues to decelerate, but a healthy economy and rapidly growing population are keeping Portland's multifamily market stable. After reaching a cycle peak of 12.9% in January 2016, rent growth has steadily slowed due to heavy supply, mirroring nationwide trends and reaching 1.7% as of August 2017. Trailing the national growth rate by 70 basis points, Portland's rate is underperforming the U.S. average for the first time since 2013.

Construction is leading employment gains (9,300 positions, 14.3% expansion), with big-brand projects such as Amazon's 855,000-square-foot fulfillment center and Under Armour's new 70,000-square-foot campus reinforcing Portland's diversifying economy. Education and health services (7,700 jobs) and leisure and hospitality (4,300) have also expanded significantly. The metro's strong job growth is pushing up multifamily demand, especially for market-rate apartments.

Nearly 8,400 units were underway as of August, of which some 3,200 units are slated to come online by December, but the pipeline could see further delays due to shortages in the construction workforce. Moreover, a slowdown in development may also occur due to the city's new policy on inclusionary housing, which requires developers to set aside 20% of units as affordable. But this could start boosting demand next year, contributing to short- and medium-term rent growth. We expect rents to increase by 2.5% in 2017.

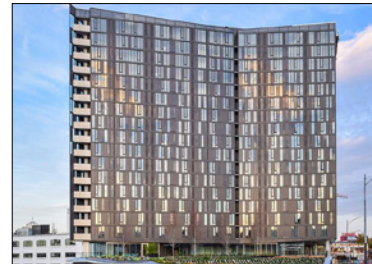
Recent Portland Transactions

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

Eddylene 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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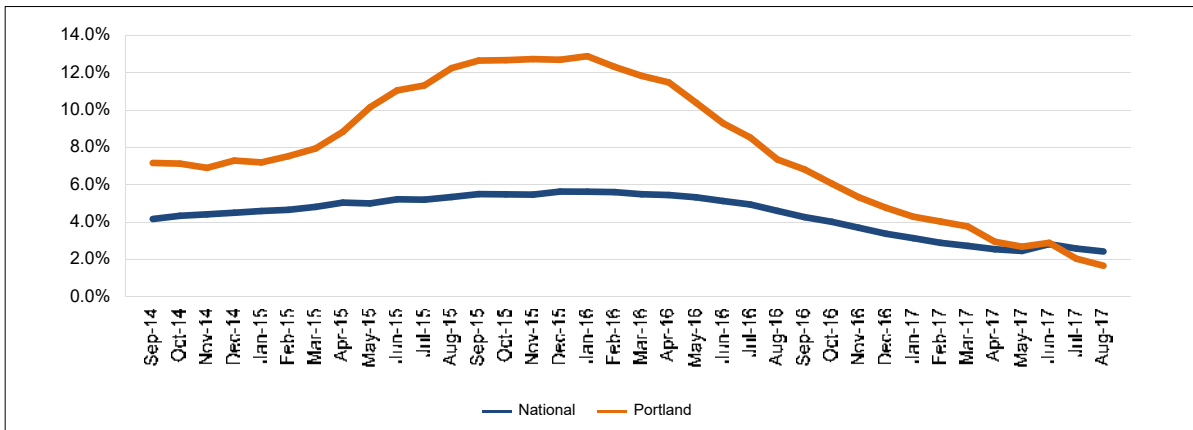
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Rent Trends

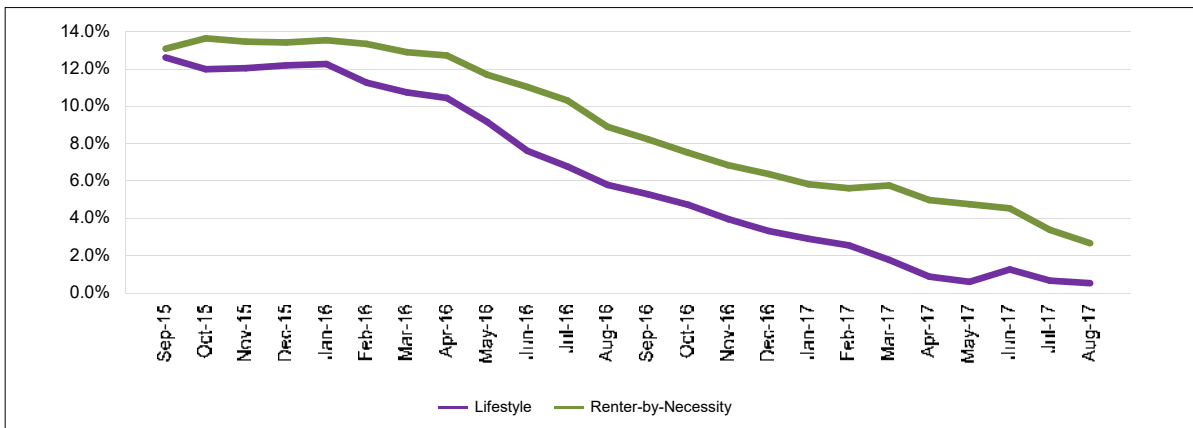
- Portland rents were up 1.7% year-over-year through August, 70 basis points below the U.S. rate as the 10,500 units delivered since 2015 have dampened growth. At \$1,350, rents were just \$2 short of the U.S. average.
- The working-class Renter-by-Necessity segment continues to lead growth, up 2.7% year-over-year through August, to \$1,193. Lifestyle rents increased 0.5%, to \$1,525. This trend, which is apparent across most major U.S. metros, is in part a result of a generalized supply-demand imbalance: While the metro is adding jobs across the field, developers have mainly delivered Lifestyle properties, catering to high-income renters.
- The high level of recent deliveries is taking its toll on central areas, with rents contracting in all core submarkets, including downtown Portland (-4.0%), Kerns/Buckman (-3.6%), PSU/Lovejoy (-3.3%) and Pearl District (-2.6%). Fringe submarkets are leading rent growth, with some of the least expensive recording the largest gains: Forest Grove (12.0%, \$1,049 average rent), Battle Ground (9.0%, \$1,167) and Oregon City (8.2%, \$1,086).
- The occupancy rate for stabilized properties was 95.7% as of July, down 70 basis points in 12 months. However, as completions have slowed down, while the city continues to generate jobs across the board, we expect rents to appreciate by 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)

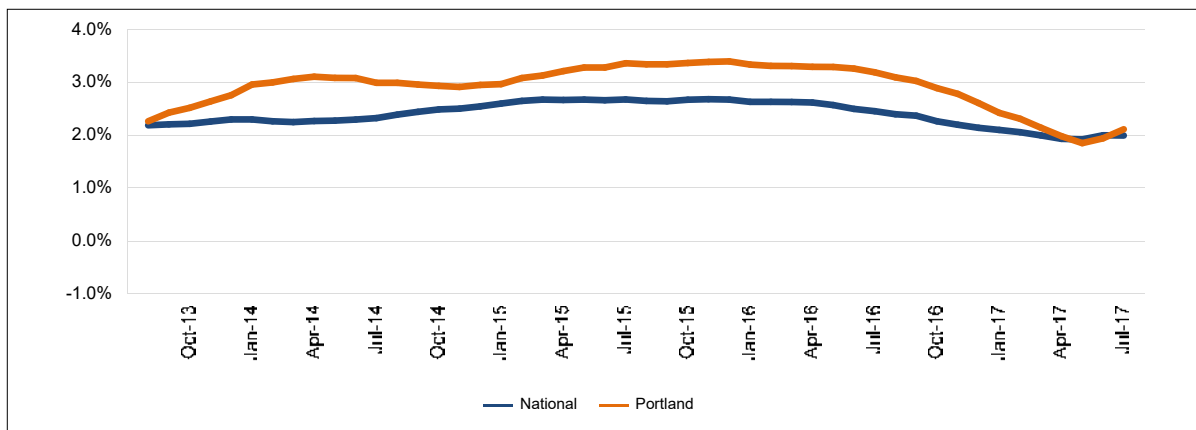


Source: YardiMatrix

Economic Snapshot

- The metro added 30,900 jobs in the 12 months ending in July. This marks a 2.1% expansion, 10 basis points above the U.S. average. Even though construction workforce is insufficient across many U.S. metros, the sector led growth in Portland and accounted for almost one-third of new jobs.
- The city continues to add positions across the board as a relatively low cost of operating business and a growing and diverse workforce are attracting investors. Construction, leisure and hospitality, manufacturing and trade, transportation and utilities added 18,000 positions, boosting demand for affordable apartments and putting pressure on low- and middle-income residents.
- Consistent initiatives of high-profile companies, such as Amazon's 855,000-square-foot facility slated for completion next year, will continue to boost development and generate jobs. The company is expected to add more than 1,500 full-time positions at its new Troutdale facility. Adidas has also expanded its local footprint, having leased 80,000 square feet in Montgomery Park, within a few miles of its North American headquarters. At the same time, Under Armour is moving into a new, 70,000-square-foot campus in Southwest Portland.
- Fueled by an expanding economy, Portland's office pipeline remains strong, with some 1.5 million square feet of space set for delivery in 2018. Just roughly 30% of this space is pre-leased, according to Colliers International.

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	74	6.3%	9,300	14.3%
65	Education and Health Services	167	14.2%	7,700	4.8%
70	Leisure and Hospitality	127	10.8%	4,300	3.5%
30	Manufacturing	126	10.8%	2,300	1.9%
40	Trade, Transportation and Utilities	213	18.2%	2,100	1.0%
60	Professional and Business Services	181	15.4%	2,000	1.1%
90	Government	148	12.6%	1,900	1.3%
55	Financial Activities	70	6.0%	1,400	2.0%
50	Information	25	2.1%	600	2.4%
80	Other Services	41	3.5%	-700	-1.7%

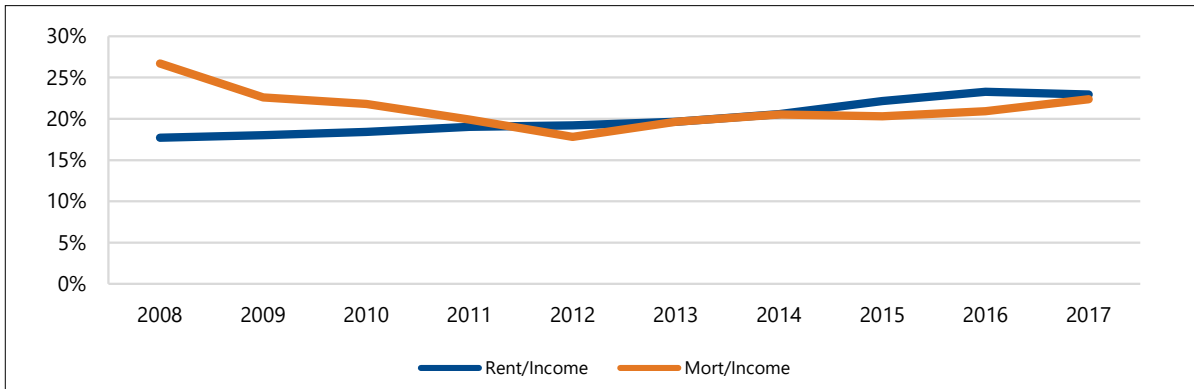
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

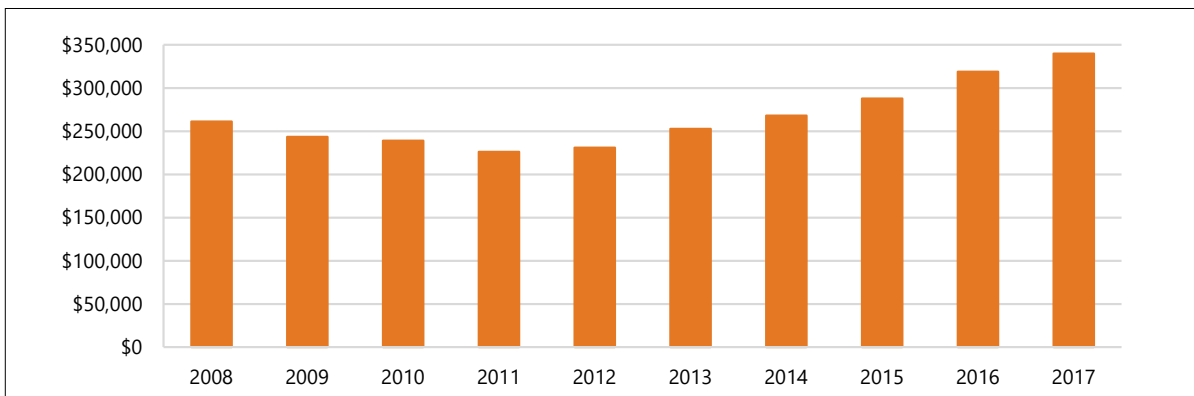
- The median home price in Portland appreciated by 47% since 2012, reaching a new cycle high of \$339,663 in the first half of 2017. However, owning remains slightly more affordable than renting, with the average mortgage payment accounting for 22% of the area's median income. The average Portland rent, at \$1,350 as of August, comprised as much as 23% of income.
- The recently adopted inclusionary housing program has raised concerns among developers, which believe that the number of required affordable units and the few tax incentives will not generate high enough returns to offset costs. Many developers raced to obtain permits before the policy came into effect this February.

Portland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Portland Median Home Price



Source: Moody's Analytics

Population

- From 2012 to 2016, Portland's population grew by 6.0%, more than double the 2.9% national average. The metro added 40,000 residents in 2016, outpacing the 0.7% national growth rate by 100 basis points.

Portland vs. National Population

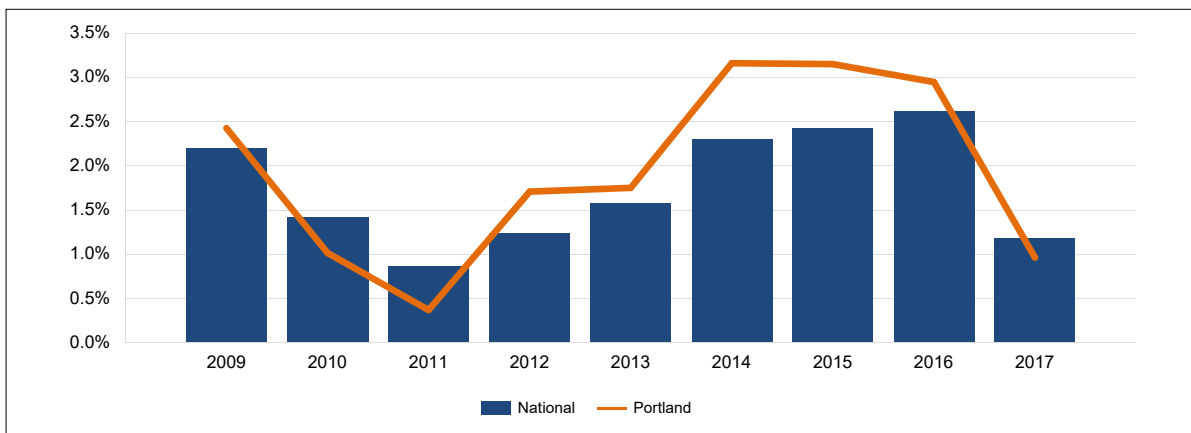
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Portland Metro	2,288,142	2,312,503	2,346,192	2,384,807	2,424,955

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

Supply

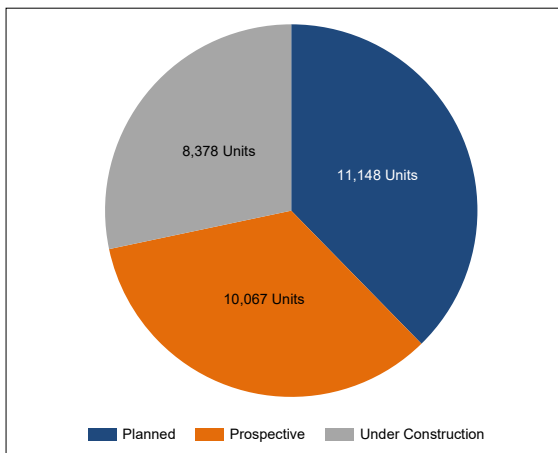
- Roughly 1,200 units came online this year through August, marking a slowdown after three years of intense construction activity, with 12,600 units delivered between 2014 and 2016. However, as an additional 3,220 units are slated for completion by December, deliveries in Portland are likely to reach the level of previous years by the end of the last quarter.
- More than 8,300 units were under construction as of August, with an additional 21,000 units in different stages of development. Although rents are dropping in central areas, developers continue to concentrate on core submarkets, a destination preferred by Millennials seeking walkable and transit-oriented residential options. As of August, Hillside/Northwest, Kerns/Buckman and Pearl District had 3,200 units under construction, accounting for more than one-third of the total pipeline.
- Developers are betting on core submarkets on the longer run, with the largest projects—scheduled to come online in 2018—being located in central areas. The list includes two Cairn Pacific developments in Hillside/Northwest—the 385-unit Slabtown Blocks 294/295 and the 220-unit Raleigh Street Block 294—as well as 1430 NW Glisan, a 243-unit community developed by Holland Partners in Pearl District.

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



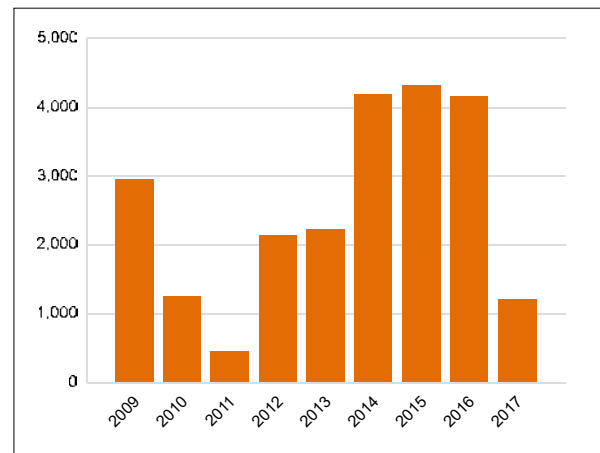
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

Portland Completions (as of August 2017)

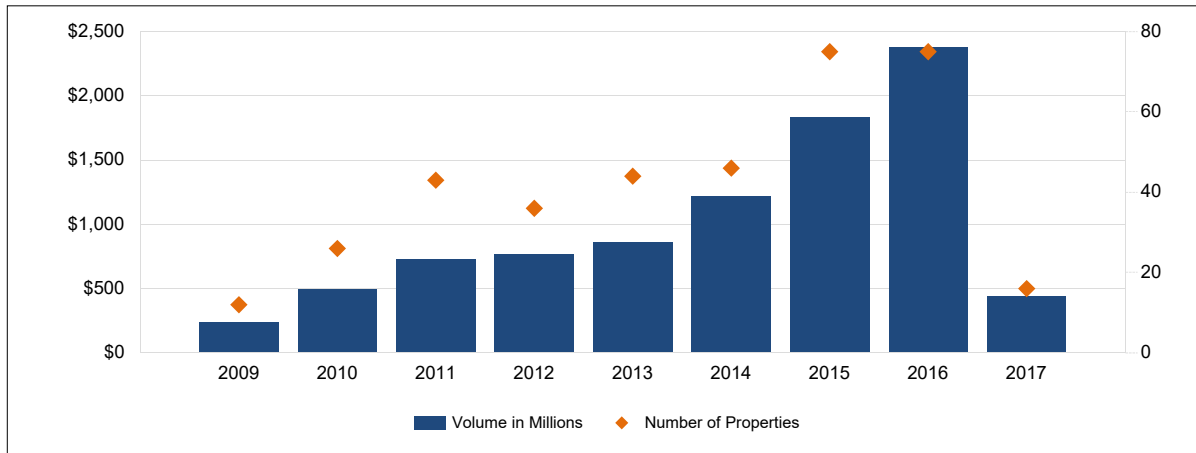


Source: YardiMatrix

Investment Transactions

- About \$440 million in multifamily assets changed hands in Portland this year through July. This marks a significant decrease in transaction volume from 2016's cycle high of \$2.4 billion.
- Portland per-unit prices rose slightly this year through July, reaching \$200,000, well above the \$133,537 U.S. average. Investor appetite in the 12 months ending in July was focused on suburban areas situated west and south of Portland's city limits, the list of submarkets including Tualatin (\$277 million), Beaverton (\$148 million), Tanasbourne (\$151 million) and Wilsonville (\$120 million).
- LaSalle Investment Management's \$75 million acquisition of the 324-unit Jory Trail at the Grove in Wilsonville was the largest sale of 2017's first seven months. M&C Properties sold the asset in July for \$230,709 per unit. The community was 96.5% occupied as of August.

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



Source: YardiMatrix

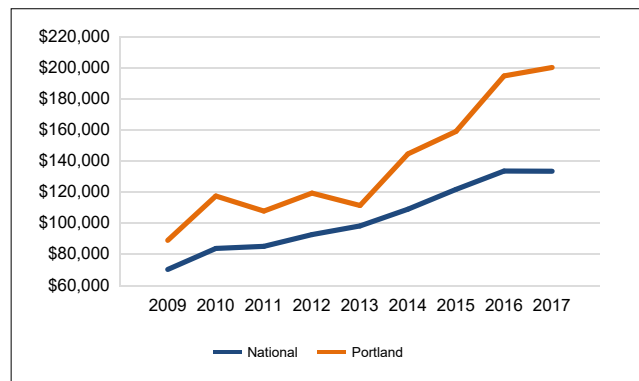
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Tualatin	277
Walnut Grove	175
Kerns/Buckman	166
Tanasbourne	151
Beaverton	148
Wilsonville	120
Westlake	107
Greenway	96

Source: YardiMatrix

¹ From August 2016 to July 2017

Portland vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



CBRE Brokers Sale
Of \$56M Portland
Community



Portland Historic Office
Buildings Change Hands



JLL-Backed REIT
Pays \$75M in Portland

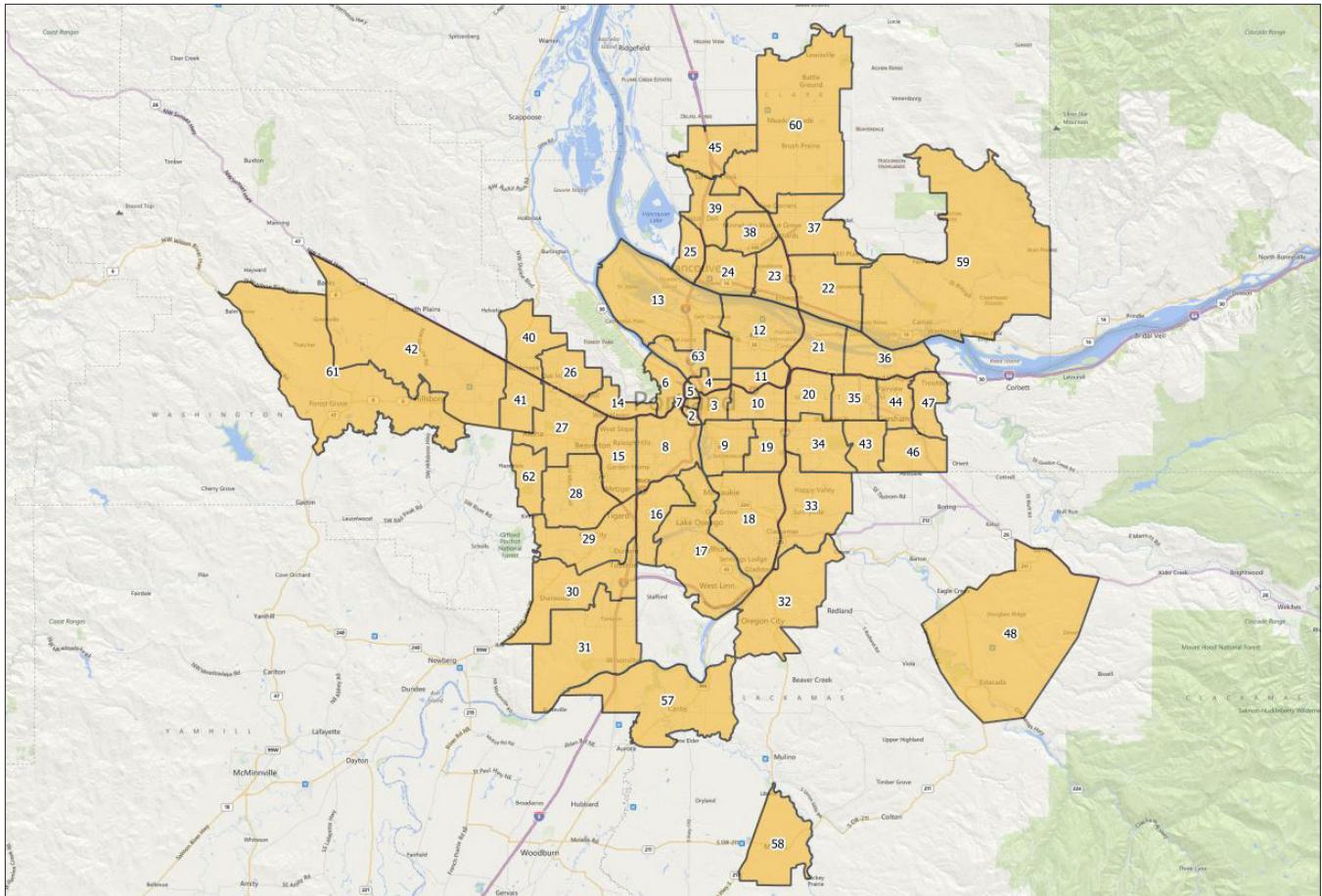


Gramor Unveils Images
Of In-Progress
Waterfront Development

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Portland Submarkets



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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