



MULTIFAMILY REPORT

Portland's Ups and Downs

February 2023



Short-Term Rent Growth Turns Negative

Construction Starts Double in 2022

Transaction Volume Lags 2021

PORTLAND MULTIFAMILY



Limited Inventory Keeps Rents Afloat

The softening trend that seized the national multifamily market at the start of fall 2022 also engulfed Portland, but the metro's performance remained healthy. While short-term rent growth turned negative—down 0.2% on a trailing three-month basis in December and on par with the national rate—annual rent growth posted a solid 7.2% increase, 100 basis points above the U.S. average. The occupancy rate in stabilized properties signaled a tight rental market, settling at 95.7% in November following a 40-basis-point dip over the course of one year.

Portland's unemployment rate rose to 4.0% as of November, trailing the U.S. average (3.6%) but ahead of the state (4.4%), according to data from the Bureau of Labor Statistics. The employment market expanded 5.5% in the 12 months ending in October, surpassing the U.S. figure by 140 basis points. In September, the metro recovered all the jobs lost during the pandemic, but recovery has been uneven, with sectors such as leisure and hospitality still lagging pre-pandemic levels. Still, the sector trailed only education and health services for jobs added.

Developers delivered 4,973 units in 2022 and had 11,628 units underway. Interesting prospects come from the number of construction starts in 2022, which was more than double the volume of the prior year. Meanwhile, investment volume amounted to \$1.6 billion, with the average price per unit up 7.9% to \$287,557.

Market Analysis | February 2023

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc

Senior Associate Editor

Recent Portland Transactions

One Jefferson Parkway



City: Lake Oswego, Ore.
Buyer: Abacus Capital Group
Purchase Price: \$124 MM
Price per Unit: \$357,349

The Timbers at Tualatin



City: Tualatin, Ore.
Buyer: Pacific Urban Investors
Purchase Price: \$97 MM
Price per Unit: \$321,667

Avery at Orenco Station



City: Hillsboro, Ore.
Buyer: Pacific Urban Investors
Purchase Price: \$96 MM
Price per Unit: \$364,394

Aspire Columbia Ridge

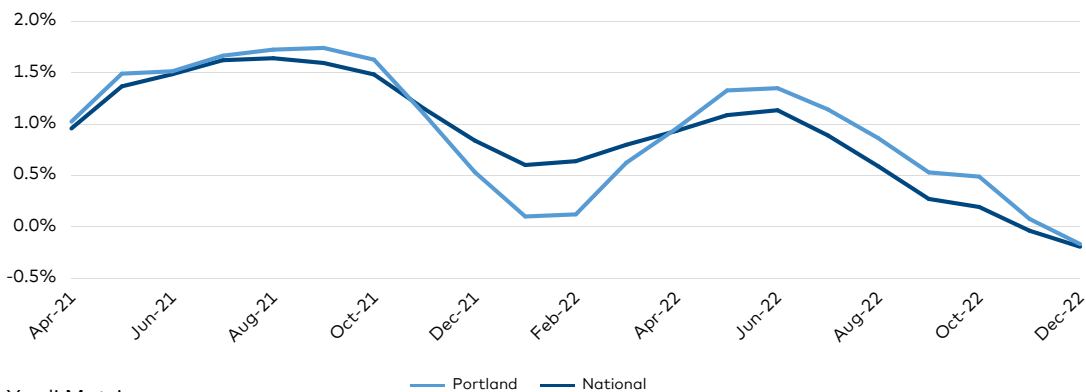


City: Portland, Ore.
Buyer: Clear Capital
Purchase Price: \$36 MM
Price per Unit: \$251,736

RENT TRENDS

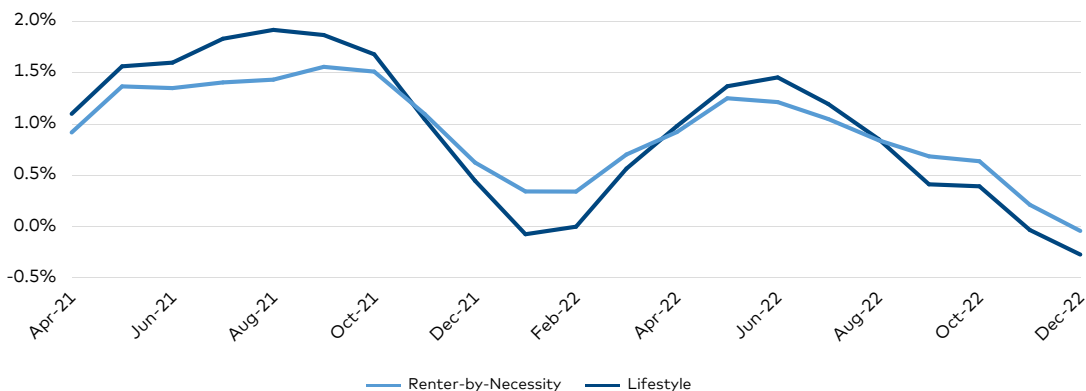
- ▶ Portland rent growth turned negative in December, with rates down 0.2% on a trailing three-month (T3) basis, on par with the national rate. On an annual basis, rents in the metro rose 7.2% to \$1,770, 100 basis points above the U.S. figure, which stood at \$1,715 as of December. The moderating trend in rent performance that began in September will most likely continue into 2023.
- ▶ Lifestyle rents declined 0.3% on a T3 basis through December, to \$1,944, while rents in the working-class Renter-by-Necessity segment remained flat, at \$1,579. The occupancy rate in stabilized properties reflects slowing demand, posting a 40-basis-point drop year-over-year as of November. However, at 95.7%, the rental market still remains relatively tight. The drop in occupancy was nearly even across property segments—the RBN rate stood at 96.3% following a 40-basis-point decline, and Lifestyle occupancy fell 50 basis points to 95.2% in November.
- ▶ Of the 57 submarkets tracked by Yardi Matrix, 12 posted double-digit annual rent increases. Moreover, the average asking rent rose above the \$2,000 mark in eight submarkets. The most-sought-after areas were Lake Oswego (7.7% to \$2,398), Pearl District (1.4% to \$2,143), Downtown Vancouver (8.9% to \$2,074) and Downtown Portland (2.6% to \$2,069).
- ▶ The SFR market posted the fifth-largest annual rent growth among Yardi Matrix's top 30 metros, up 10.3% year-over-year as of December, while the occupancy rate marked a 1.0% decrease.

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

- ▶ Portland's economy posted a robust performance in 2022, with its unemployment rate below the 4.0% mark after starting the year at 4.4%, preliminary BLS data shows. Meanwhile, Oregon's unemployment clocked in at 4.4% in November, and the U.S. rate was 3.6%.
- ▶ The employment market posted a 5.5% expansion, or 64,300 jobs, in the 12 months ending in October, 140 basis points above the national rate. By the start of the fourth quarter, the metro had recovered the jobs lost during the pandemic, but growth has been uneven across segments. Manufacturing posted remarkable performance (8,600 jobs), thanks to robust semiconductor research and manufacturing that takes place in the metro. But job gains were led by education and health services (12,700 jobs). The sector will remain robust, boosted by the recently started \$650 million expansion of OHSU Hospital on Marquam Hill, slated for completion in 2026.
- ▶ Leisure and hospitality added 10,100 jobs during the period, but still lagged pre-pandemic levels and is anticipated to make a full recovery no sooner than 2024. Moreover, the American Hotel & Lodging Association reports that 2022 travel revenue is expected to trail 2019 figures by 17% for business purposes and by 3.5% for leisure purposes.

Portland Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	192	15.2%
70	Leisure and Hospitality	120	9.5%
30	Manufacturing	133	10.6%
60	Professional and Business Services	198	15.7%
15	Mining, Logging and Construction	87	6.9%
90	Government	158	12.5%
55	Financial Activities	78	6.2%
80	Other Services	42	3.3%
40	Trade, Transportation and Utilities	226	17.9%
50	Information	28	2.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Following the robust 1.0% demographic expansion during the first year of the pandemic, Portland's population decreased by 0.2%, or 4,618 residents, in 2021.
- ▶ Last year, the U.S. population increased by 0.1%.

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

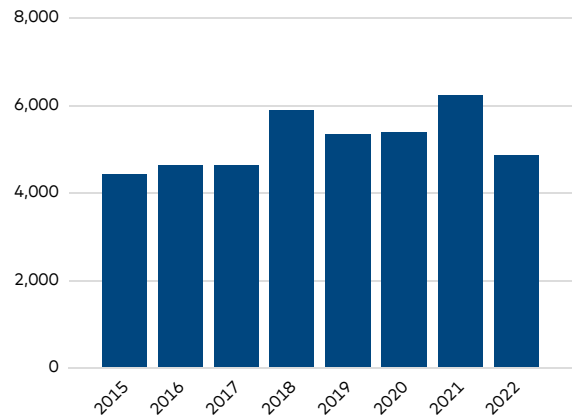
SUPPLY

- ▶ Portland's multifamily inventory added 4,973 units in 2022, accounting for 2.8% of existing stock. While this total trails previous years, it was 70 basis points higher than the U.S. rate. The limited stock expansion will likely help keep rent growth in check. Rates already began moderating in the fall and will likely continue to decline this year.
- ▶ Of the units that came online through December, 80% were in upscale Lifestyle properties and roughly 18% were units in fully affordable communities.
- ▶ Developers had 11,628 units under construction as of December, of which 7,443 units started construction in 2022—more than double the volume of construction starts recorded in 2021 (3,454 units). This puts Portland in fourth place among Yardi Matrix's top 30 metros by number of construction starts in 2022, behind San Jose, Las Vegas and Indianapolis. The metro showcased a progressive slowdown in construction activity, with starts decreasing from quarter to quarter. Another 31,000 units were in the planning and permitting stages.
- ▶ Construction was spotty across the map, with 39 of the 57 submarkets tracked by Yardi Matrix

having at least 50 units underway. Mill Plain (774 units) and Creswell Heights (710 units) led in the number of units under construction, while Gresham (562 units) led in deliveries.

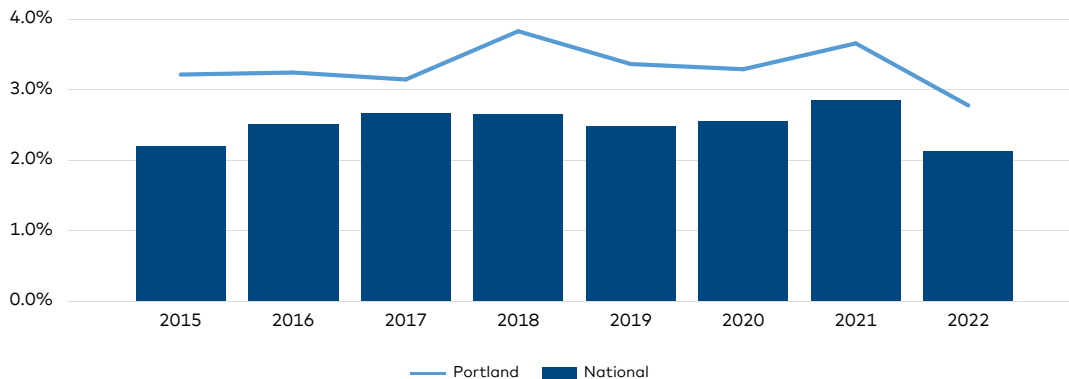
- ▶ The largest project delivered in 2022 was West End District in Beaverton, a 424-unit community owned by Urban Form Development. The property includes 32,000 square feet of retail space.

Portland Completions (as of December 2022)



Source: Yardi Matrix

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

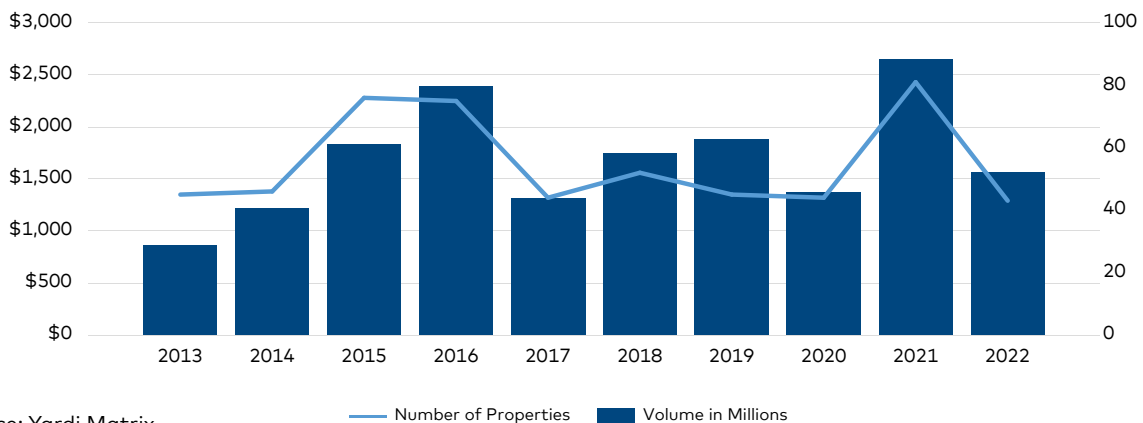


Source: Yardi Matrix

TRANSACTIONS

- ▶ Portland saw \$1.6 billion in multifamily sales in 2022, far below the \$2.6 billion recorded in 2021. Still, by quarter, investment activity was not impacted by the economic challenges, as the highest sales volume was recorded during the fourth quarter, when \$647 million in multifamily properties traded.
- ▶ Investor preference was geared toward value-add opportunities, as 60% of deals involved Renter-by-Necessity assets. Per-unit prices continued to climb, up 7.9% year-over-year in December, to \$287,557, leading the \$215,719 U.S. average.
- ▶ In five submarkets the sales volume surpassed the \$100 million mark, led by Tualatin (\$158 million) and Beaverton (\$151 million). Last year's largest transaction was Security Properties' sale of One Jefferson Parkway. The 347-unit property was acquired by Abacus Capital Group for \$124 million, or \$357,349 per unit.

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



Source: Yardi Matrix

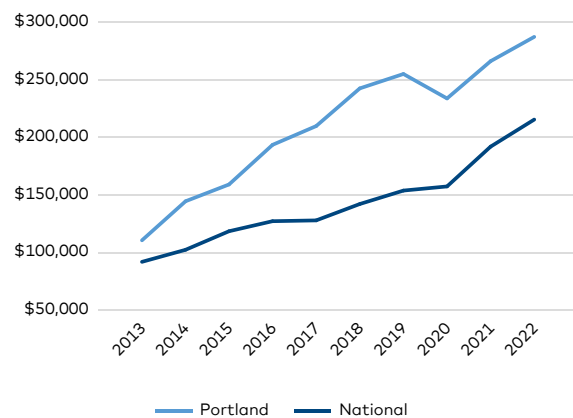
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Tualatin	158
Beaverton	151
Tanasbourne	144
Westlake	124
Mill Plain	114
Hillsboro	96
Walnut Grove	84

Source: Yardi Matrix

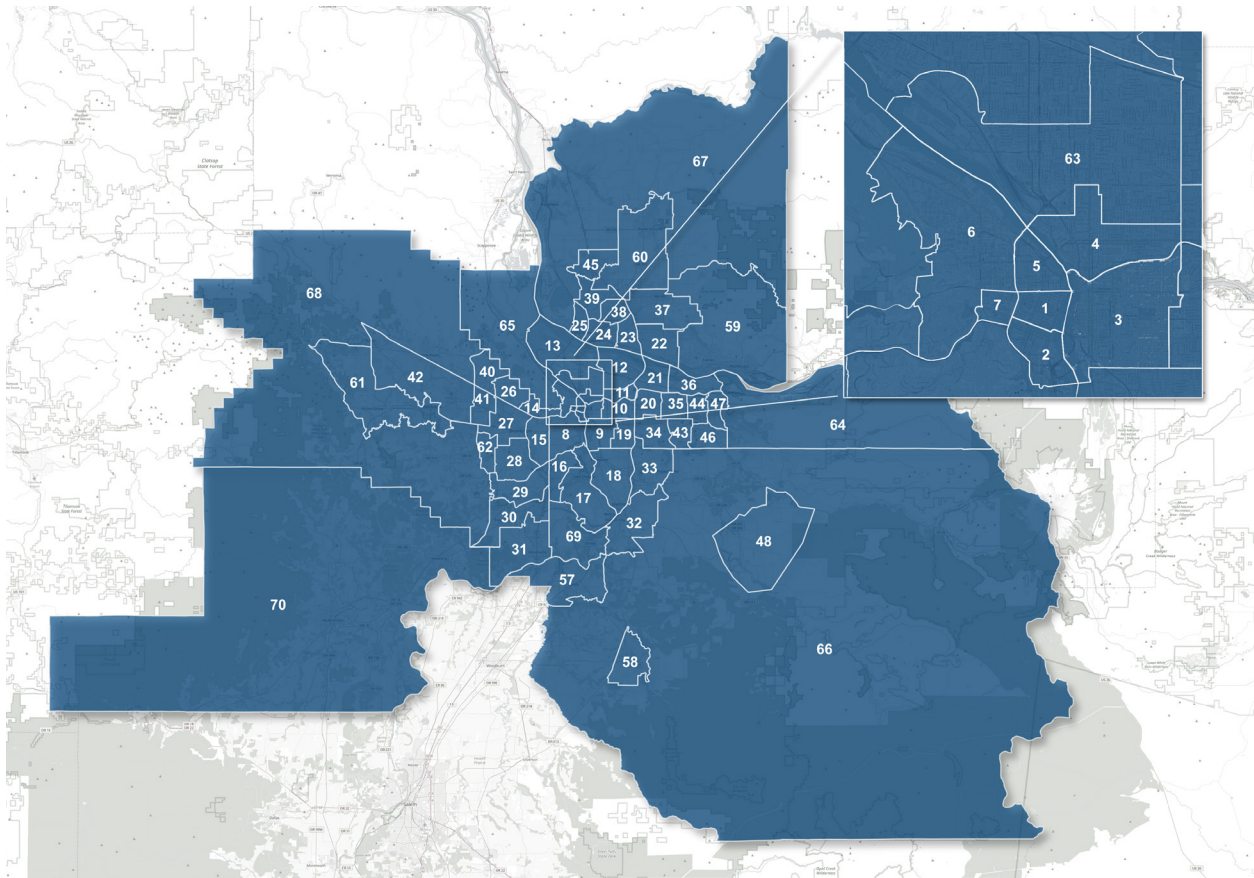
¹ From January 2022 to December 2022

Portland vs. National Sales Price per Unit



Source: Yardi Matrix

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/Roseway
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

Area No.	Submarket
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

Area No.	Submarket
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.



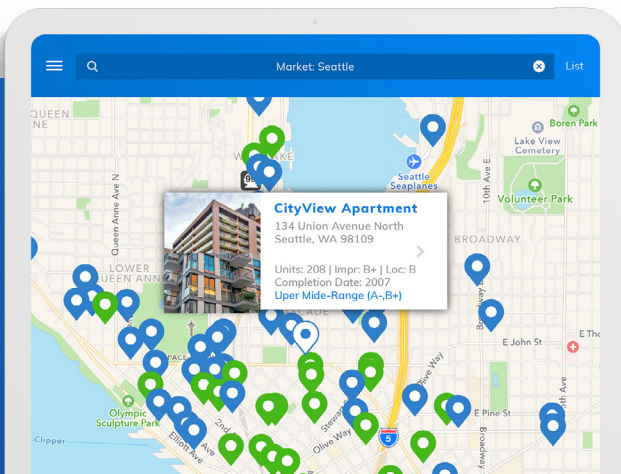
Yardi® Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- 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



Yardi Matrix Multifamily
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