



Yardi® Matrix

Portland's Surge

Multifamily Report Winter 2018

Rent Growth Cools Off

Developers Target Core Areas

Per-Unit Prices Cross the \$200,000 Mark

Market Analysis

Winter 2018

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Adina Marcut

Associate Editor

Oversupply Softens Rent Growth

A wave of new inventory and historically high rents moderated Portland's average rent growth to just 0.8% year-over-year in 2017, 170 basis points below the national rate. However, a healthy job market and strong population gains continued to sustain multifamily demand. The metro added 22,500 jobs in the 12 months ending in October, which kept the unemployment rate at 3.9%.

The mining, logging and construction sector added the highest number of jobs (8,100 positions), followed by the education and health services sector (4,700). Although the construction industry is facing labor shortages at the national level, local projects such as Legacy Health's \$210 million replacement and expansion of its Legacy Emanuel Medical Center and the more than 1.1 million square feet of office space under construction across the metro are helping the sector lead employment growth in Portland.

Investor appetite slowed in 2017, with \$960 million in multifamily properties changing hands, a significant downshift compared to 2016's cycle peak of \$2.4 billion. But even though transaction volume dropped, prices continued to rise, reaching a new cycle high of \$207,300. The metro's multifamily pipeline is robust, with more than 7,000 units underway as of December and another 11,000 in the planning stages. Yardi Matrix forecasts 5,300 deliveries for 2018. As a result, rent growth is expected to stay tepid, at a projected rate of 1.5% in 2018.

Recent Portland Transactions

Centro



City: Hillsboro, Ore.
Buyer: Sequoia Equities
Purchase Price: \$120 MM
Price per Unit: \$250,000

Arbor Heights



City: Tigard, Ore.
Buyer: Security Properties
Purchase Price: \$81 MM
Price per Unit: \$232,758

Jory Trail at the Grove



City: Wilsonville, Ore.
Buyer: LaSalle Investment Management
Purchase Price: \$75 MM
Price per Unit: \$230,709

Savier Street Flats



City: Portland, Ore.
Buyer: Kennedy Wilson
Purchase Price: \$60 MM
Price per Unit: \$335,195

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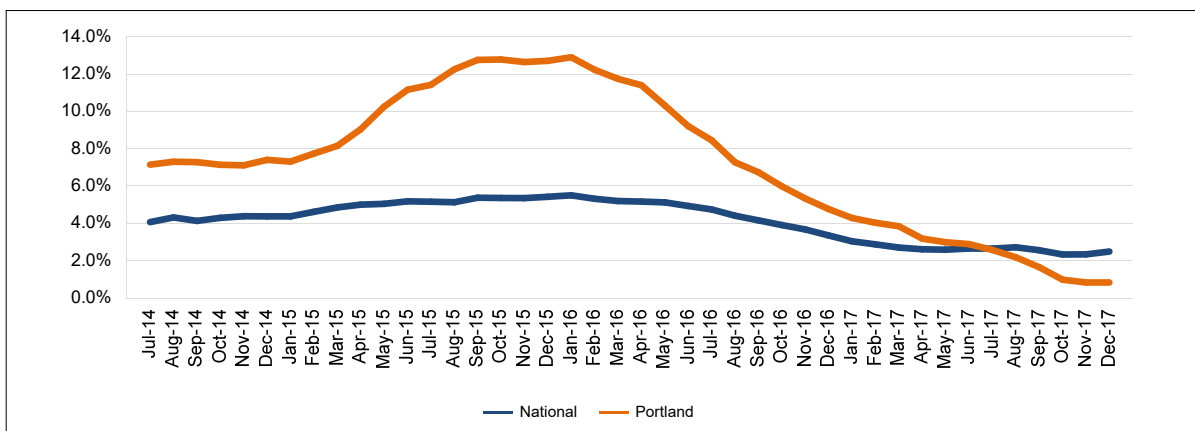
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

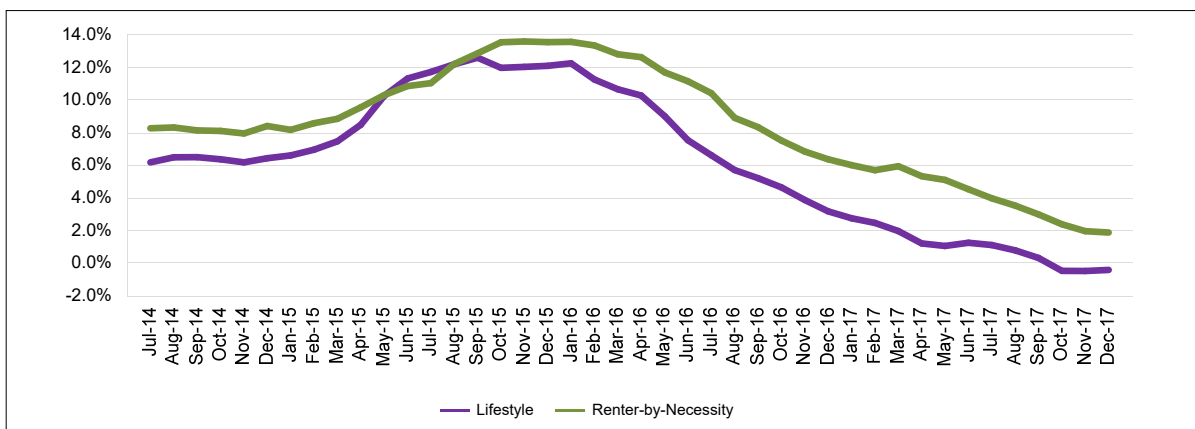
- Rents in Portland rose 0.8% year-over-year in 2017, 170 basis points below the national average. A combination of oversupply and expensive rent levels has softened rent appreciation in the metro. As a result, the average occupancy rate in stabilized properties dropped by 70 basis points year-over-year, to 95.3% as of November. Rents decreased to an average of \$1,331, \$28 below the \$1,359 national figure.
- Rents in the upscale Lifestyle segment dropped by 0.4%, to an average of \$1,486, while the Renter-by-Necessity segment appreciated by 1.9% during the same period, reaching an average of \$1,190.
- The most substantial rent growth was spread among suburban submarkets such as Forest Grove (11.5%), Fairview (7.8%), Orchards (7.4%) and Salmon Creek (7.1%). Submarkets situated in or near the market's core saw significant rent slides: Cully/Roseway (-6.5%), Piedmont (-5%) and PSU/Lovejoy (-4.5%). Downtown Portland has the most expensive rents, with an average monthly rate of \$2,017, while Cully/Roseway is at the opposite end of the spectrum, with an average rent of \$986.
- With the oversupply trend expected to continue this year, rent growth is likely to decelerate, as well. Yardi Matrix forecasts a 1.5% rent growth in 2018.

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)

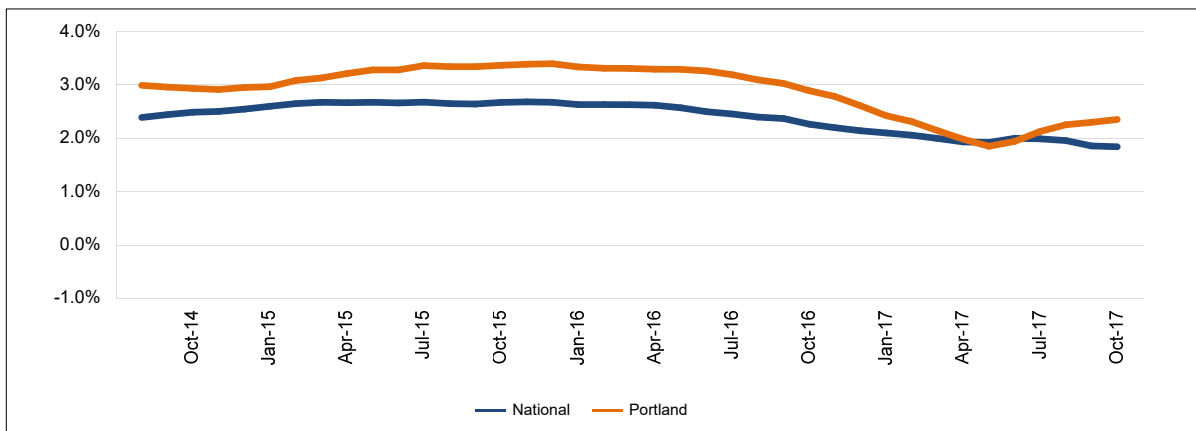


Source: YardiMatrix

Economic Snapshot

- Portland added 22,500 jobs in the 12 months ending in October, a 2.4% year-over-year increase, 60 basis points above the national growth rate. The new positions kept unemployment at 3.9% in October, indicating a strong economic growth for the metro.
- Growth was led by the mining, logging and construction sector, which added more than a third of the total number of jobs (8,100), followed by education and health services (4,700) and professional and business services (4,500). More and more companies are relocating to or expanding in the metro, due to a highly educated workforce and a relatively low cost of operating business. Legacy Health broke ground on a \$210 million replacement and expansion of its Legacy Emanuel Medical Center campus, which calls for 340,000 square feet of space, including a new 260,000-square-foot building and 80,000 square feet of remodeled space.
- With more than 1.1 million square feet of office space scheduled for delivery this year, vacancy is likely to suffer an uptick for the first time in five years. Improvement has been significant for the local office market throughout the cycle, leading national institutional investors to continue to be active in the market, generating an office transaction volume of about \$1 billion in 2017. With net absorption positive due to leases such as Adidas' recent 80,000-square-foot agreement at Montgomery Park, vacancy for Class A/A+ space has stayed below 9%.

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 | 75 | 6.3% | 8,100 | 12.2% |
| 65 | Education and Health Services | 175 | 14.8% | 4,700 | 2.8% |
| 60 | Professional and Business Services | 182 | 15.4% | 4,500 | 2.5% |
| 30 | Manufacturing | 127 | 10.7% | 4,400 | 3.6% |
| 40 | Trade, Transportation and Utilities | 214 | 18.1% | 2,200 | 1.0% |
| 70 | Leisure and Hospitality | 120 | 10.2% | 1,400 | 1.2% |
| 55 | Financial Activities | 70 | 5.9% | 1,200 | 1.7% |
| 50 | Information | 25 | 2.1% | -800 | -3.1% |
| 80 | Other Services | 41 | 3.5% | -1,300 | -3.1% |
| 90 | Government | 154 | 13.0% | -1,900 | -1.2% |

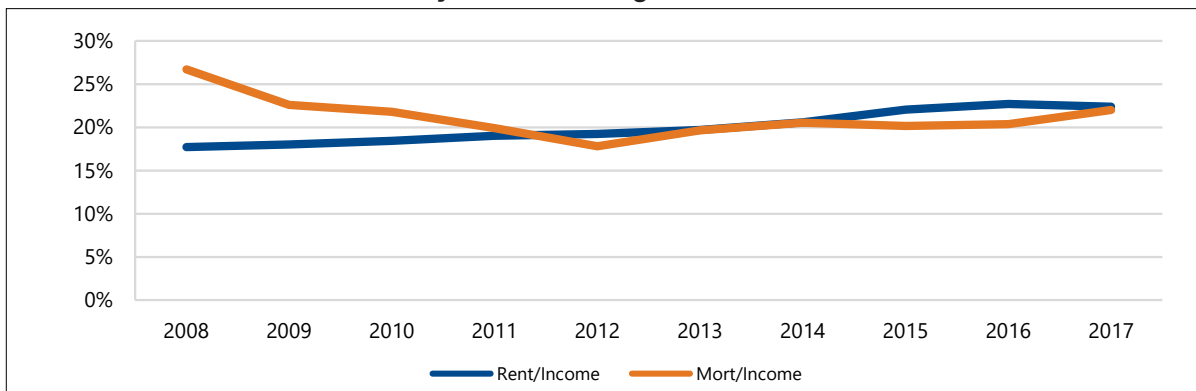
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

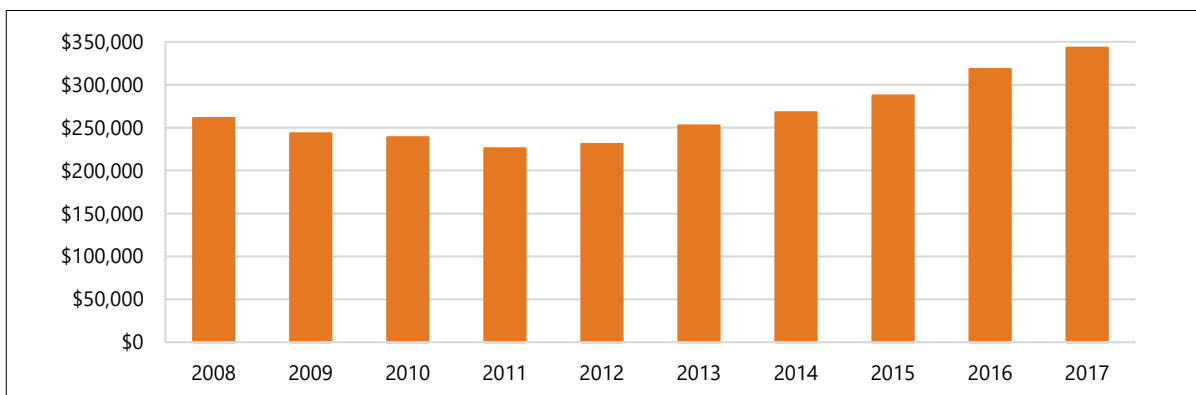
- In 2017, the median home price in Portland reached a new cycle high of \$343,332, a 49% increase compared to 2012, when the market bottomed out. The average mortgage and the average rent (\$1,331) each accounted for 22% of the area's median income.
- Affordability continues to be an issue in the metro. However, local authorities are making efforts to moderate this growing concern. As a result, Brock 45, the largest apartment project of the past 50 years, financed with low-income housing tax credits, broke ground at the beginning of this year. Situated in the Lloyd District, the community will provide 240 units for low-income residents. The building is slated to open in late 2019.

Portland Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Portland Median Home Price



Source: Moody's Analytics

Population

- The metro's population has grown rapidly, with the addition of more than 40,000 residents since 2012.
- Portland's population rose at a 1.7% rate in 2016, 100 basis points higher than the national average.

Portland vs. National Population

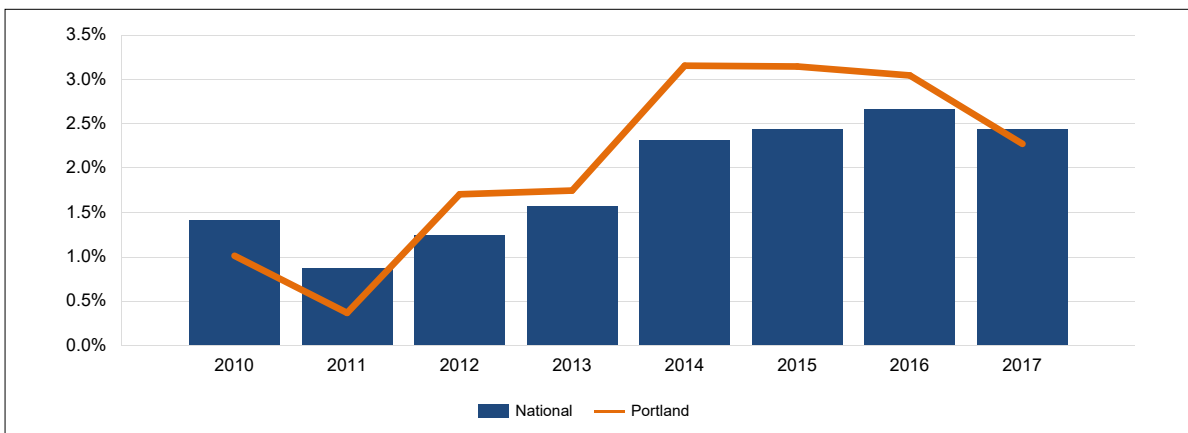
| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------|-------------|-------------|-------------|-------------|-------------|
| National | 313,998,379 | 316,204,908 | 318,563,456 | 320,896,618 | 323,127,513 |
| Portland Metro | 2,288,142 | 2,312,503 | 2,346,192 | 2,384,807 | 2,424,955 |

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

Supply

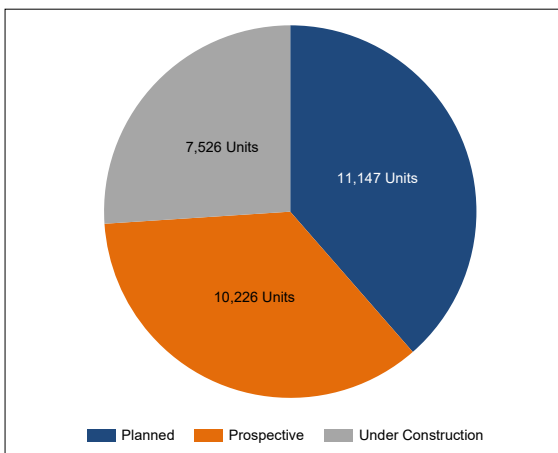
- Some 3,000 units came online in 2017, more than a third of which are Class A assets located in downtown Portland. That's 2.3% of existing housing stock, placing the metro below the national average (2.4%) for the first time since 2011.
- Despite a 24% decrease in deliveries compared to 2016, population gains and strong job growth are expected to maintain demand at elevated levels, especially for market-rate housing. Metrowide, there were more than 7,000 units under construction as of December 2017, while another 21,000 were in the planning and permitting stages.
- Deliveries were spread throughout the metro, with nearly all submarkets receiving new inventory. Developers continue to focus on core submarkets, with Kerns/Buckman having the largest number of units under construction (986), followed by Pearl District (843). Hillside/Northwest had 811 units under way, including the metro's largest project. Developed by Cairn Pacific, Slabtown Blocks 294/295 is a 385-unit community slated for completion in July 2018.
- Yardi Matrix forecasts 5,300 deliveries for 2018, adding 3.7% to stock.

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



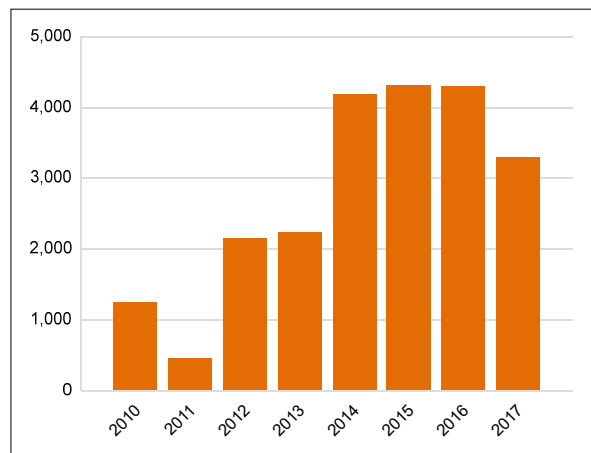
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

Portland Completions (as of December 2017)

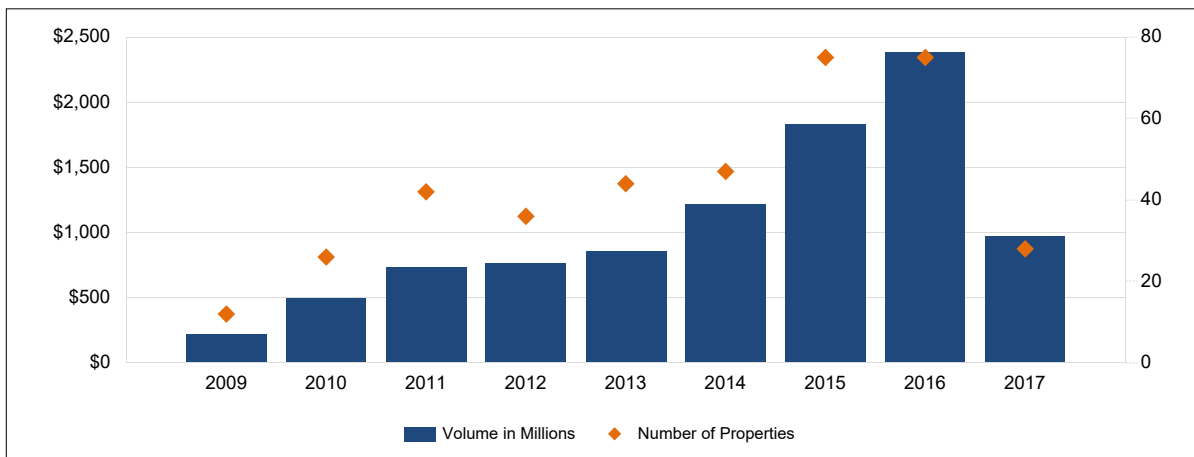


Source: YardiMatrix

Transactions

- Roughly \$960 million in multifamily properties changed hands in Portland in 2017, a major decrease compared to the cycle peak of \$2.4 billion recorded in 2016.
- Stabilized properties in Portland’s core submarkets are netting acquisition yields below the 5% mark, roughly in line with major West Coast metros. Despite the drop in sales volume, prices continued to rise, reaching \$207,300, a new cycle high, which equates to almost double the value recorded in 2013.
- Investor appetite was focused mostly on the western and southern ends of the metro: Tanasbourne (\$120 million), Tigard (\$81 million), Hillside/Northwest (\$80 million) and Wilsonville (\$75 million). Sequoia Equities ended the year with the \$120 million acquisition of Centro, a 480-unit community in Hillsboro, Ore., from Heitman. That’s equivalent to a per-unit price of \$250,000. The property was 91.0% occupied as of December.

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



Source: YardiMatrix

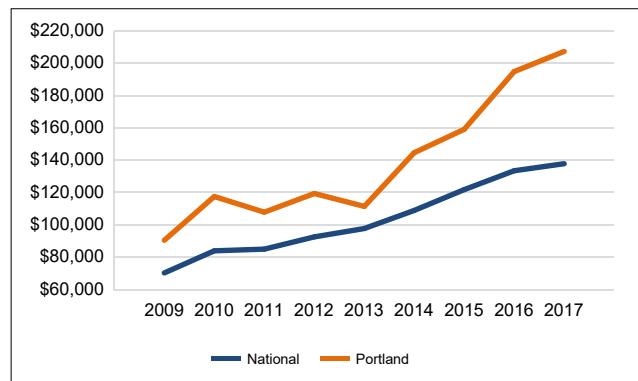
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|---------------------|---------------|
| Tanasbourne | 120 |
| Tigard | 81 |
| Hillside/Northwest | 80 |
| Wilsonville | 75 |
| Milwaukie/Gladstone | 58 |
| Rock Creek | 53 |
| Walnut Grove | 53 |
| Kelly Creek | 51 |

Source: YardiMatrix

¹ From January to December 2017

Portland vs. National Sales Price per Unit



Source: YardiMatrix

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Portland's Tallest
Office Tower
Changes Hands



CBRE Arranges Portland
Community Sale



Specht Wraps Industrial
Record-Setter in Portland

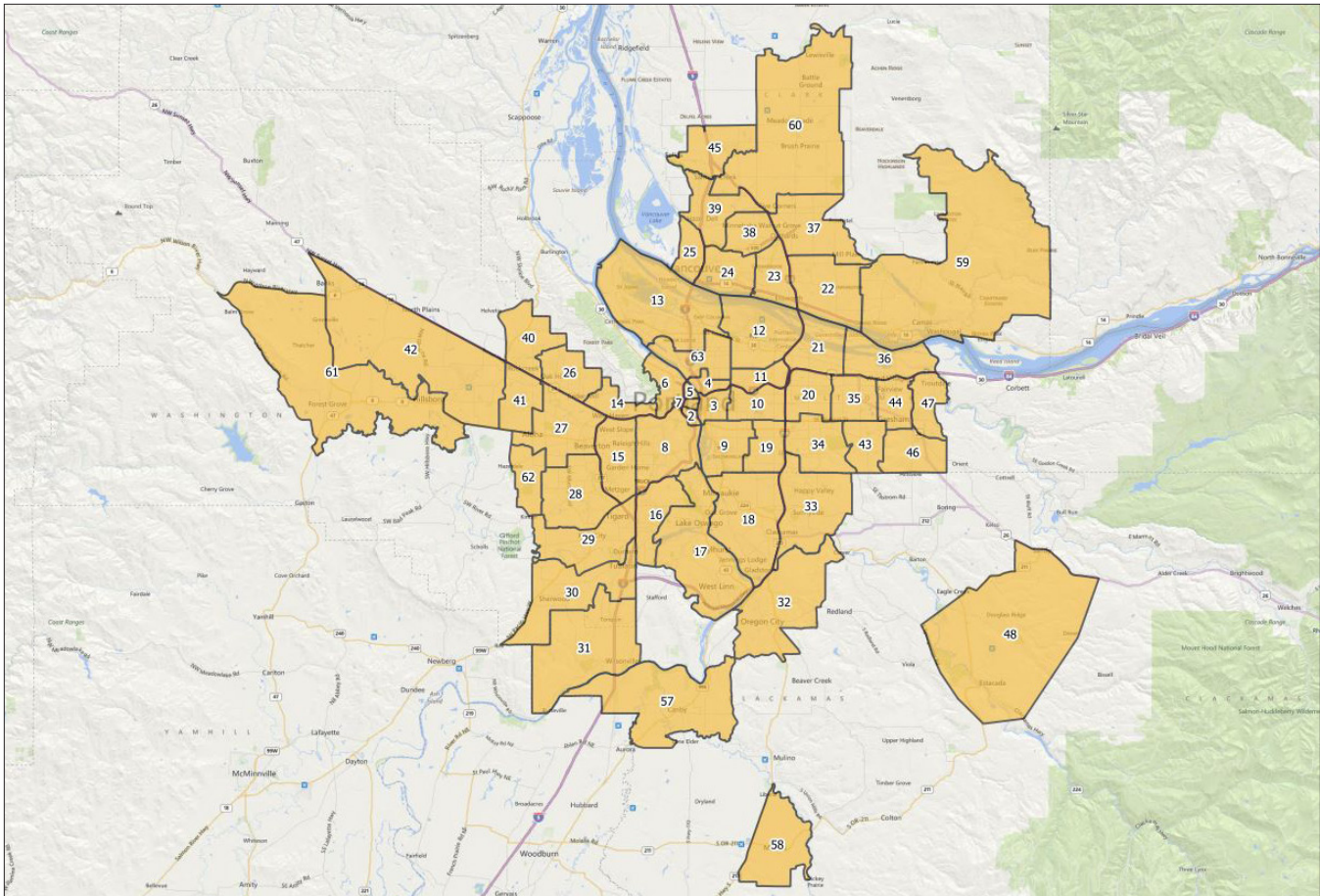


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Portland Submarkets



| 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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