



Yardi® Matrix

Rose City Keeps Its Bloom

Multifamily Report Summer 2018

Rent Growth Stalls Amid Supply Surge

Education, Health Jobs Fuel Demand

Developers Target Upscale Segment

Market Analysis

Summer 2018

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Healthy Demographics Push Up Demand

Portland's strong economy makes it an attractive metro, especially for young professionals looking for high-income jobs. In 2017, the metro added 30,000 people, which coupled with an increased interest from major companies looking to expand or relocate to the area, bolstered multifamily demand. As developers stay focused on the more profitable upscale projects in core submarkets, affordable housing remains an issue.

Education and health services, one of the metro's most important economic drivers, added 14,400 jobs year-over-year through February, for an 8.5% increase. Intense development has led to a sharp expansion of the construction sector, which gained 3,100 new positions. Intel's plan to invest \$100 billion over 30 years continues to solidify Portland as a regional tech hub, maintaining the IT giant's anchor status, alongside other powerhouses such as Kaiser Permanente, Nike or Boeing.

More than 2,000 multifamily units were delivered in metro Portland this year through April, and we expect roughly 4,200 units to come online for the whole of 2018. As a result of accelerated multifamily development, occupancy in stabilized properties dropped to 94.8%, down 120 basis points through March. However, overall demand is expected to remain high and generate a 1.5% rent growth this year.

Recent Portland Transactions

Centro



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

Thorncroft Farms



City: Hillsboro, Ore.
Buyer: MG Properties Group
Purchase Price: \$98 MM
Price per Unit: \$286,764

Amberglen West



City: Hillsboro, Ore.
Buyer: LivCor
Purchase Price: \$95 MM
Price per Unit: \$240,628

Arbor Heights

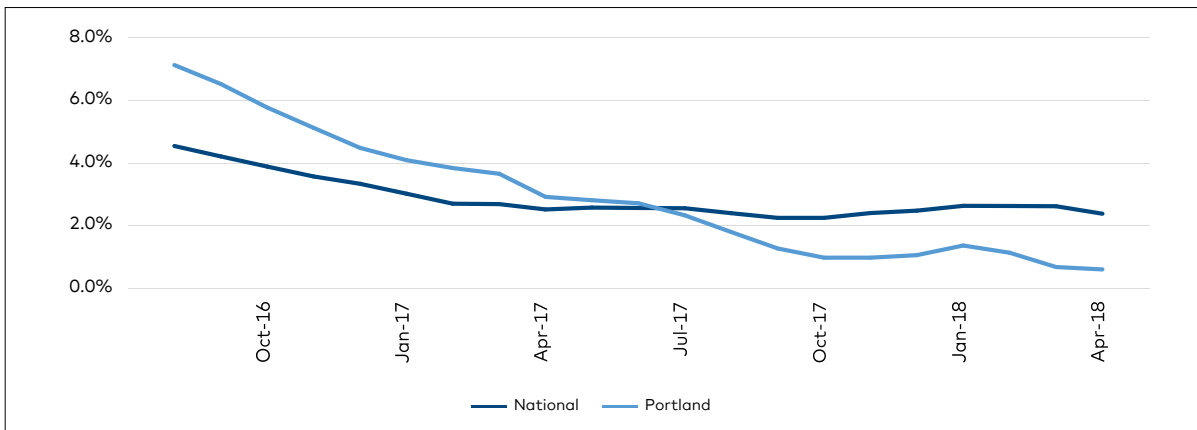


City: Tigard, Ore.
Buyer: Security Properties
Purchase Price: \$81 MM
Price per Unit: \$232,758

Rent Trends

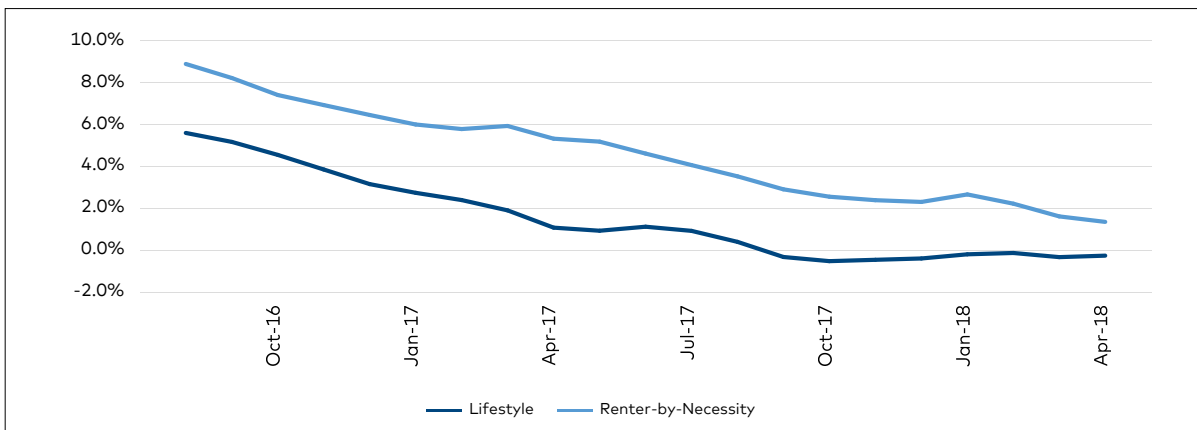
- Rents in metro Portland rose 0.6% year-over-year as of April, well below the 2.4% U.S. rate. The average rent stood at \$1,348, only \$8 more than the same month last year and \$29 below the U.S. average.
- Rents in the working-class Renter-by-Necessity segment rose 1.3% to \$1,202, while Lifestyle rates dropped 0.3%, to \$1,503. A healthy job market coupled with expensive single-family housing and an increase in population have strengthened demand for lower-rated rental units. While developers continue to focus on more cost-effective upscale projects in core submarkets, low-income residents are being forced to seek more affordable options across suburban submarkets.
- Submarkets in the metro's suburban fringes such as Forest Grove (10.6%), Salmon Creek (10.2%) and Kelly Creek (6.7%) saw the largest year-over-year increases. Rents contracted in core submarkets such as the Pearl District (-3.1%), Cully/Roseway (-4.1%) and West Haven (-4.3%).
- Oversupply, combined with expensive rent levels, has led to a drop in the average occupancy rate in stabilized properties, which slid 120 basis points year-over-year through March, to 94.8%. As overall demand should keep supply in check for the foreseeable future, we expect rents to rise at a tepid 1.5% for the year, well below the double-digit growth of several years ago.

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)

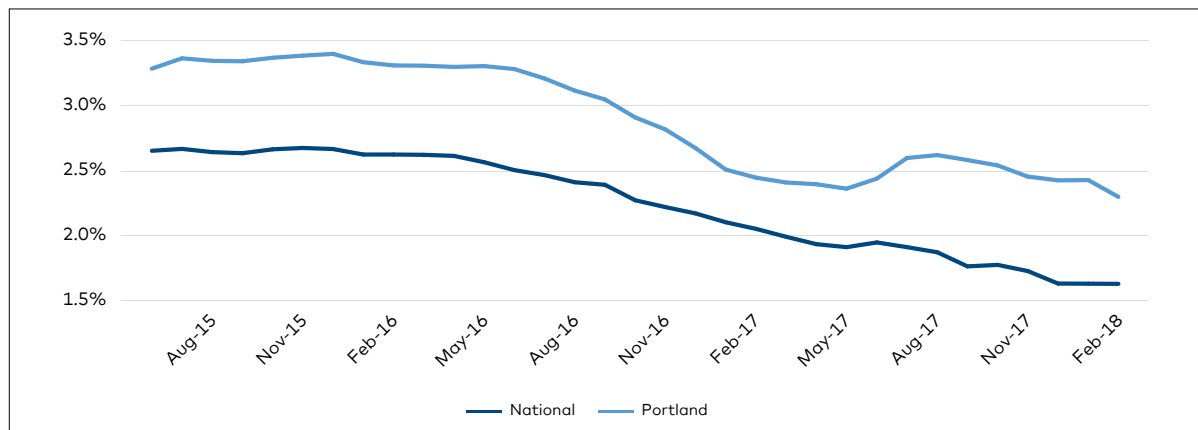


Source: YardiMatrix

Economic Snapshot

- Portland added 20,500 jobs in the 12 months ending in February, for a 2.3% increase. The metro's accelerated employment growth has exceeded the national rate by 70 basis points, while the unemployment rate stayed at 4.1%. Due to increased investor appetite and major companies expanding in the area, housing demand is expected to remain fairly strong across the region, although supply is steadily catching up.
- Education and health services and mining, logging and construction led job job growth. Together, the two sectors added 17,500 jobs year-over-year through February. Education and health services alone generated 14,400 positions for a solid 8.4% expansion. These numbers mirror the area's potential for economic growth, due to a skilled workforce and steady development appetite.
- Portland's office sector remains very strong, with roughly 1 million square feet of space under construction, nearly 40% of which is already preleased. Two-thirds of the office space underway is located in the CBD and the remaining third is in suburban areas, according to Colliers International. The metro's technology market is expected to continue strengthening its fundamentals, as Intel—one of the city's largest employers—remains committed to developing its Portland-area operations, solidifying the city's tech hub status.

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	%
65	Education and Health Services	184	15.6%	14,400	8.5%
15	Mining, Logging and Construction	68	5.8%	3,100	4.8%
30	Manufacturing	124	10.5%	2,800	2.3%
80	Other Services	43	3.7%	2,200	5.4%
70	Leisure and Hospitality	119	10.1%	2,100	1.8%
55	Financial Activities	71	6.0%	1,800	2.6%
40	Trade, Transportation and Utilities	214	18.2%	1,800	0.8%
50	Information	25	2.1%	-700	-2.7%
60	Professional and Business Services	176	15.0%	-1,600	-0.9%
90	Government	152	12.9%	-5,400	-3.4%

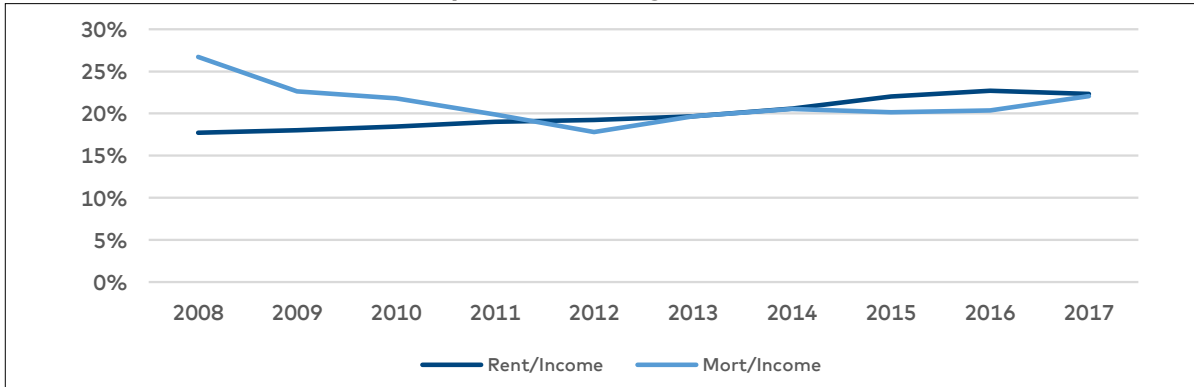
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

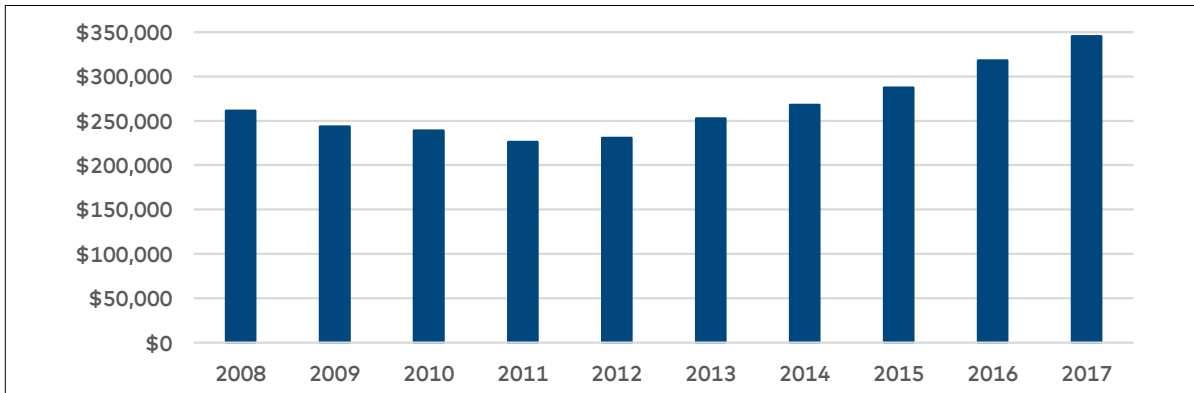
- Portland's median home value rose 8.5% to \$345,288 last year, the highest value recorded this cycle. After a significant tumble at the start of the cycle, home prices rebounded to a point where mortgage payments equate to as much as renting, both at 22% of the area's median income.
- Affordability issues continue to affect the metro's housing market. In an effort to curb the problem, the city council approved an inclusionary zoning policy in 2016, which requires apartment and condo developers with projects larger than 20 units to reserve 20% of units for households earning less than 80% of the area median income. The measure applies to projects approved after February 2017.

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 added more than 30,000 residents last year for a 1.2% expansion, 50 basis points above the national growth rate.
- Portland's population rose by 7.3% since 2012, almost double the 3.8% U.S. figure.

Portland vs. National Population

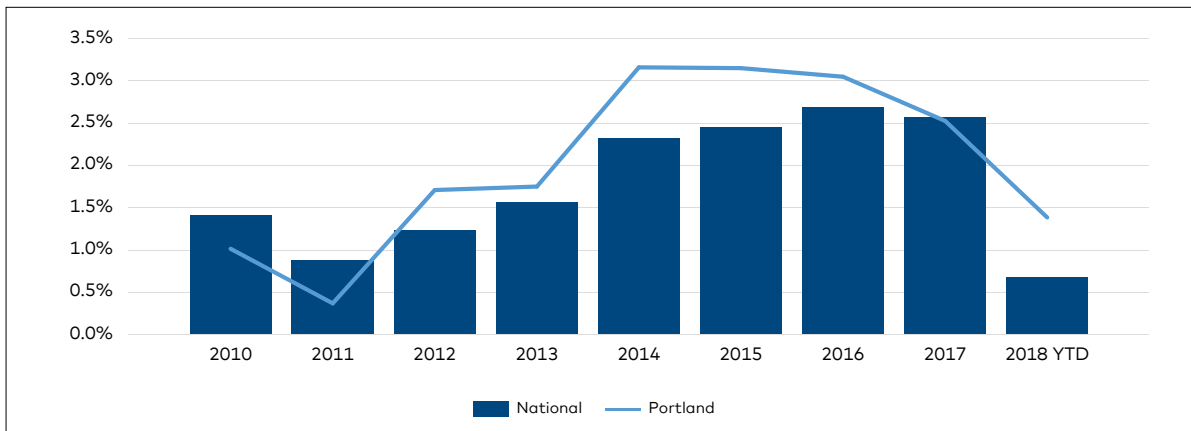
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Portland Metro	2,309,289	2,342,444	2,382,181	2,423,102	2,453,168

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

Supply

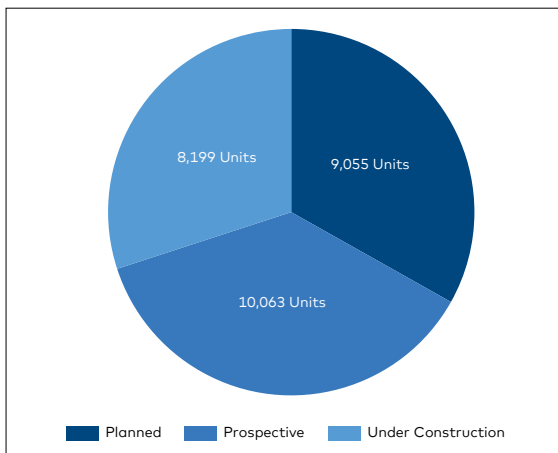
- Roughly 2,000 units came online in the first four months of 2018, mostly Class A units in the Kerns/Buckman (763 units), Pearl District (392 units) and Battle Ground (332 units) submarkets. Completions are expected to exceed 2017's total deliveries, which add up to 3,647 units, as we expect more than 4,200 apartments to be delivered for the year, just under 2015's cycle peak of 4,300 units.
- Nearly 8,200 units were underway in Portland as of April, while an additional 19,000 units were in the planning and permitting stages. Occupancy in stabilized properties was at 94.8% as of March, down 120 basis points year-over-year. That's roughly on par with the nationwide occupancy trend of regression to the mean.
- Development is concentrated in core submarkets such as the Pearl District (1,182 units), Hillside/Northwest (985 units), PSU/Lovejoy (767 units) and Lloyd/Irvington (753 units), which collectively accounted for nearly half of all units underway as of April. The largest project under construction was Core Spaces' The Collective on 4th, a 488,000-square-foot mixed-use building in downtown Portland. Upon completion in mid-2019, the community is slated to add 417 units to the PSU/Lovejoy submarket.

Portland vs. National Completions as a Percentage of Total Stock (as of April 2018)



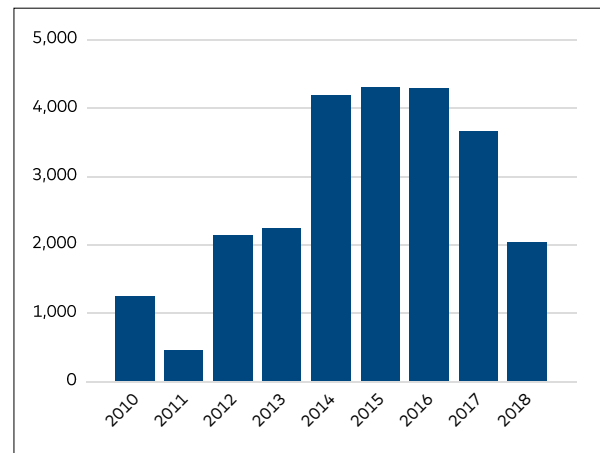
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Portland Completions (as of April 2018)

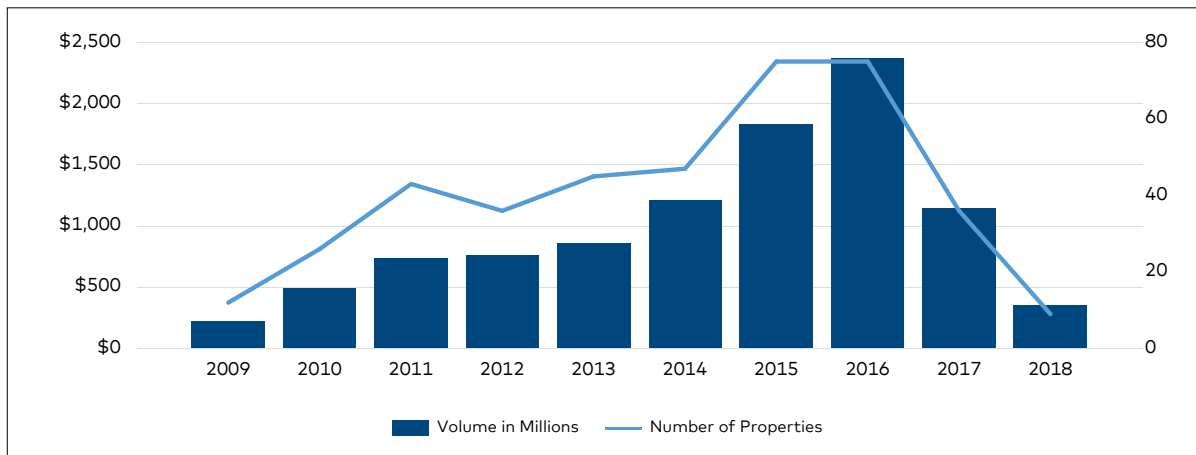


Source: YardiMatrix

Transactions

- Sales were sluggish out of the gate in 2018, with roughly \$357 million in assets trading as of April. The average price per unit reached a new cycle high of \$284,647, well above the national average of \$146,694, as property values continued their climb. While assets in the CBD remain popular, low acquisition yields are diverting attention to the higher returns of value-add assets in the suburbs, where first-year yields range between the high 5% and the low 6% ranges.
- Despite the drop in sales volume, investment has stayed elevated in some pockets over the 12 months ending in April, especially in submarkets such as Tanasbourne (\$313 million), Hillside/Northwest (\$141 million) and Tigard (\$81 million). MG Properties Group's \$97.5 million acquisition of Throncroft Farms was the largest transaction through that interval. Berkshire Property Advisors sold the 340-unit asset in Hillsboro, Ore., for \$286,765 per unit. At the time of the sale, the property was 91.8% occupied.

Portland Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

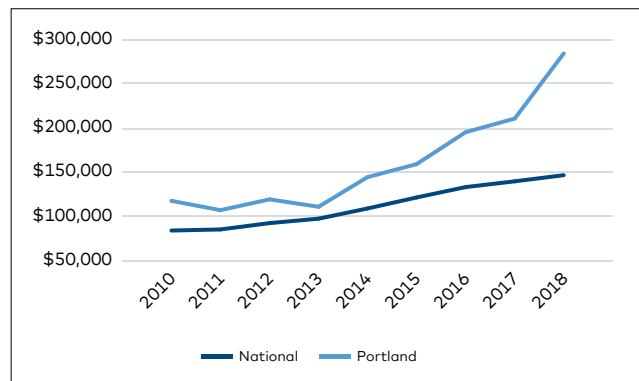
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Tanasbourne	313
Hillside/Northwest	141
Tigard	81
Pearl District	77
Wilsonville	75
St Johns/University Park	68
Milwaukie/Gladstone	64
Rock Creek	53

Source: YardiMatrix

¹ From May 2017 to April 2018

Portland vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



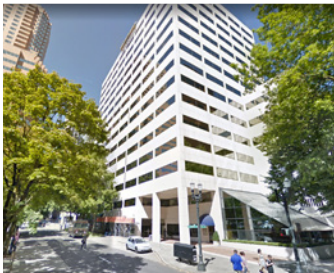
Security Properties Snags \$81M OR Community

In a joint venture with Cigna Investment Management, the company purchased Arbor Heights, a 348-unit Class A garden-style community. This purchase marks the partners' fourth acquisition.



CBRE Arranges \$55M Portland Asset Sale

Joe Nydahl, Phil Oester and Josh McDonald of CBRE's Northwest Multi-family Institutional Investment division worked on behalf of the seller of the 149-unit, mid-rise property, of which 38 apartments are affordable.



HFF Secures \$47M Loan for OR Luxury Property

Ira Virden, Mark Erland and Matt Benson of the company's equity placement team worked on behalf of the developer to secure the loan.



Kennedy Wilson Sells \$422M Portfolio

The six communities comprise a total of 2,199 units and are located across California, Nevada, Washington and Oregon.



Trion Properties Acquires 3 OR Communities

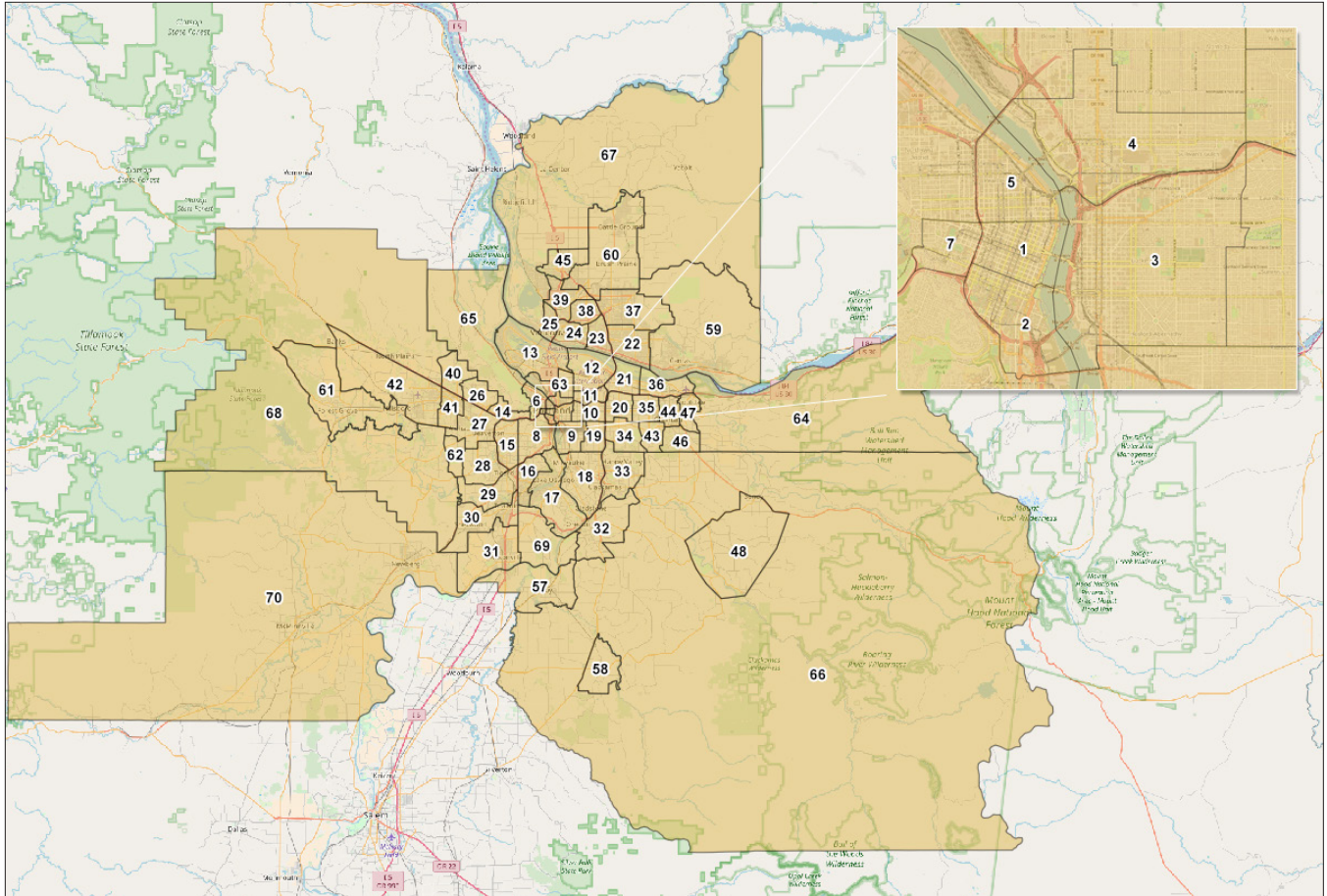
The properties in the transaction include Center Square, Menlo Square and Maple Tree, totaling 174 units. Trion plans to complete strategic value-add upgrades at the communities.



Portland Luxury Community Opens Doors

Mill Creek's Modera Belmont broke ground in May 2016 and features 200 units and more than 10,000 square feet of retail space.

Portland Submarkets



Area #	Submarket
1	Downtown Po
2	PSU/Lovejoy
3	Kerns/Buckm
4	Rock Creek
5	Pearl Distr
6	Hillside/No
7	Goose Hollo
8	Southwest H
9	Brooklyn/Mo
10	Laurelhurst
11	Madison Sou
12	Cully/Rosew
13	St Johns/Un
14	West Haven
15	Raleigh Hil
16	Raleigh Hil
17	Lake Oswego
18	Milwaukie/G
19	Brentwood/D
20	Hazelwood
21	Parkrose

Area #	Submarket
22	Mill Plain
23	McLoughlin
24	Fort Vancou
25	Downtown Va
26	Oak Hills
27	Beaverton
28	Greenway
29	Tigard
30	Tualitin
31	Wilsonville
32	Oregon City
33	Happy Valle
34	Pleasant Va
35	Wilkes
36	Fairview
37	Orchards
38	Walnut Grov
39	Hazel Dell
40	Rock Creek
41	Tanasbourne
42	Hillsboroug

Area #	Submarket
43	Hollybrook
44	Gresham
45	Salmon Cree
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 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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President
Fogelman Properties

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