



Yardi® Matrix

Portland Finds Its Footing

Multifamily Report Fall 2018

Home Prices Hit New Peak

Deliveries Set to Reach Cycle High

Investors Target Downtown Portland

Market Analysis

Fall 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

Demand for Housing Outpaces Supply

Portland continues to have a healthy multifamily market, due to a strong economy and positive demographics. This year through September, the metro added more than 3,700 units, already exceeding last year's deliveries. Despite the construction spree, occupancy in stabilized properties rose 60 basis points, a sign that demand for rental housing—especially for working-class units—continues to outpace an already surging supply increase.

The metro added roughly 30,000 jobs in the 12 months ending in July, with education and health services (16,000) leading the way, boosted by recently completed projects such as Knight Cancer Institute's \$190 million research facility in Portland's South Waterfront. The 2.9 million square feet of office space underway also spurred construction employment, which rose at the second-fastest rate (7.8% year-over-year), with the addition of 5,500 jobs.

Portland's development pipeline stayed strong, with 9,500 units underway and another 20,000 units in the planning and permitting stages as of September. Investment was also elevated this year, as more than \$909 million in multifamily assets changed hands at an average price per unit of \$280,118. Investors preferred value-add opportunities that offer higher yields, while developers focused on delivering upscale stock in core submarkets such as the Pearl District and Kerns/Buckman.

Recent Portland Transactions

Indigo at Twelve West



City: Portland, Ore.
Buyer: Greystar
Purchase Price: \$206 MM
Price per Unit: \$754,579

Tessera Orenco Station



City: Hillsboro, Ore.
Buyer: Security Properties
Purchase Price: \$85 MM
Price per Unit: \$279,605

Susan Marie



City: Aloha, Ore.
Buyer: Metropolitan Land Group
Purchase Price: \$13 MM
Price per Unit: \$148,315

Ridgecrest Timbers

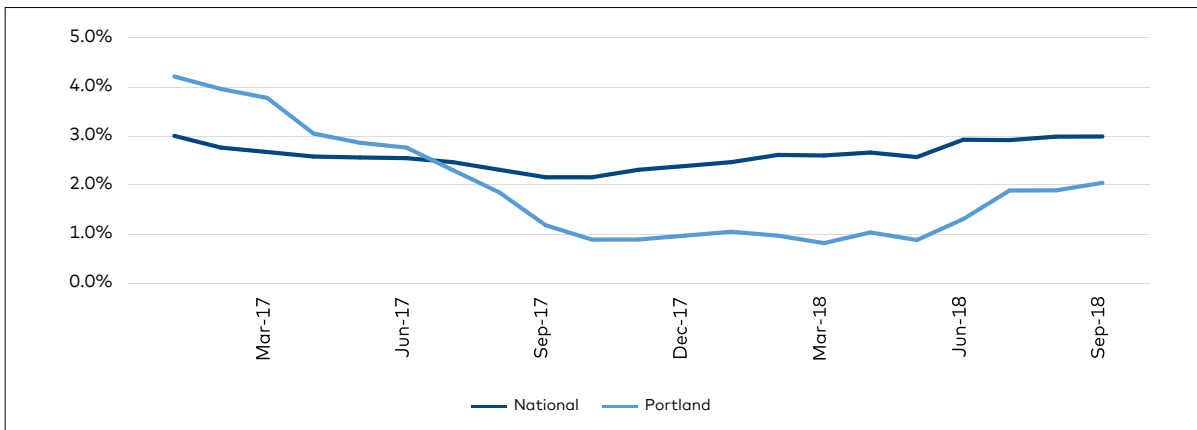


City: Portland, Ore.
Buyer: Post Investment Group
Purchase Price: \$9 MM
Price per Unit: \$89,691

Rent Trends

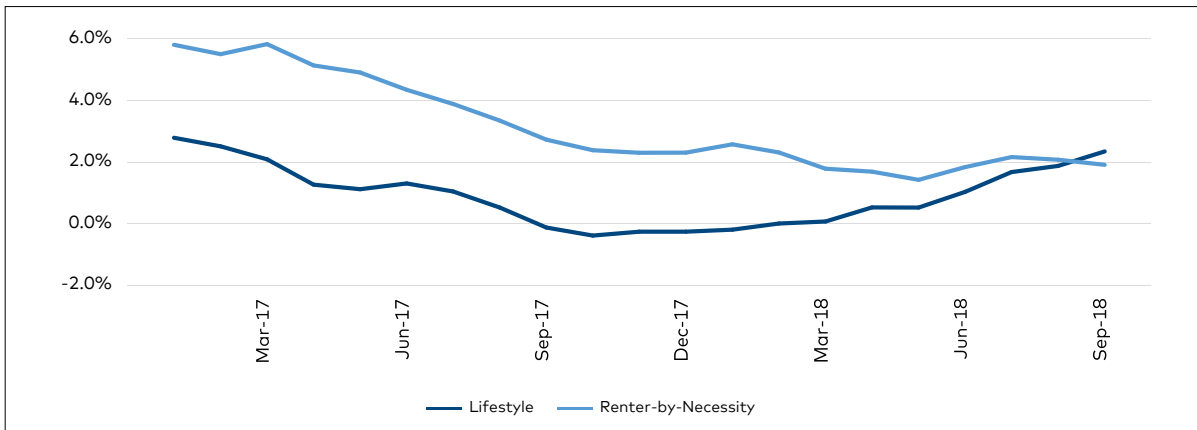
- Rents in Portland rose 2.0% year-over-year through September, 100 basis points below the U.S. growth rate. The average rent stood at \$1,396, only \$16 below the national average.
- Rents in the Lifestyle segment led gains, with rents up 2.3% year-over-year, to an average of \$1,570. Rents in the working-class Renter-by-Necessity segment rose 1.9% to \$1,228. Demand for more affordable options is expected to remain robust, as developers continue to focus on delivering upscale assets that cater to residents earning top wages.
- Suburban submarkets outside the city's core saw the largest year-over-year increases, as the central area continues to price out the average renter. Stafford (up 12.0% year-over-year), Parkrose (up 7.4%), Piedmont (up 7.0%) and Creswell Heights (up 6.5%) led the way for rent growth. Meanwhile, rents contracted in Fairview (-5.5%), Pleasant Valley (-3.7%) and Brentwood/Darlington (-1.4%). Downtown Portland commanded the highest rents (\$2,087).
- Although more than 3,700 units came online through September, the occupancy rate for stabilized properties crossed the 96% mark, a sign that demand for new apartment units remains robust.

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)

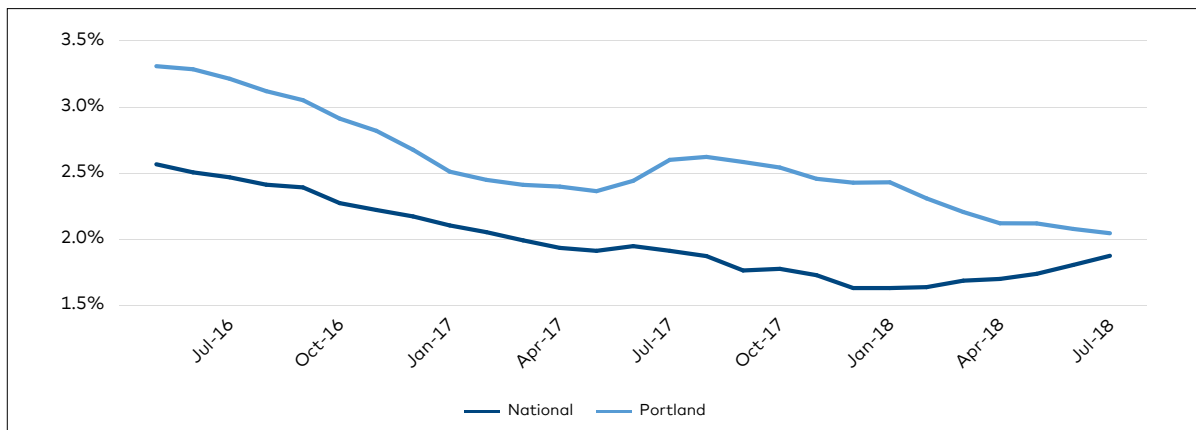


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in July, Portland added nearly 30,000 jobs, a 2.1% year-over-year increase, 20 basis points above the national rate. The relatively low cost of living encourages tech enterprises and startups to expand in the area. As a result, the unemployment rate slid to 3.8%, just below the 3.9% national rate.
- Job growth was led by the education and health services sector, which added 16,000 jobs through the interval, more than half of the total positions gained by the metro's economy. The sector also saw the largest year-over-year increase—9.8%. The \$190 million Knight Cancer Research Building project was recently completed and offers 320,000 square feet of research space in Portland's South Waterfront. The only sector that lost jobs was the government, which registered 9,100 job layoffs.
- Construction added jobs at the second-fastest rate through July (5,500 positions, up 7.8% year-over-year). With roughly 2.9 million square feet of office space and 9,500 rental units under construction as of September, that trend is likely to continue. The largest commercial project underway was the Nike World Headquarters—Serena Williams Building, a 1+ million-square-foot campus near Beaverton, Ore. Upon completion in 2019, the development will span the length of nearly three city blocks and will be among the athletic manufacturer's largest structures.

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	180	15.0%	16,000	9.8%
40	Trade, Transportation and Utilities	223	18.5%	7,000	3.2%
15	Mining, Logging and Construction	76	6.3%	5,500	7.8%
30	Manufacturing	130	10.8%	5,500	4.4%
70	Leisure and Hospitality	131	10.9%	4,100	3.2%
80	Other Services	43	3.6%	1,000	2.4%
55	Financial Activities	72	6.0%	400	0.6%
50	Information	26	2.2%	100	0.4%
60	Professional and Business Services	182	15.1%	-600	-0.3%
90	Government	141	11.7%	-9,100	-6.1%

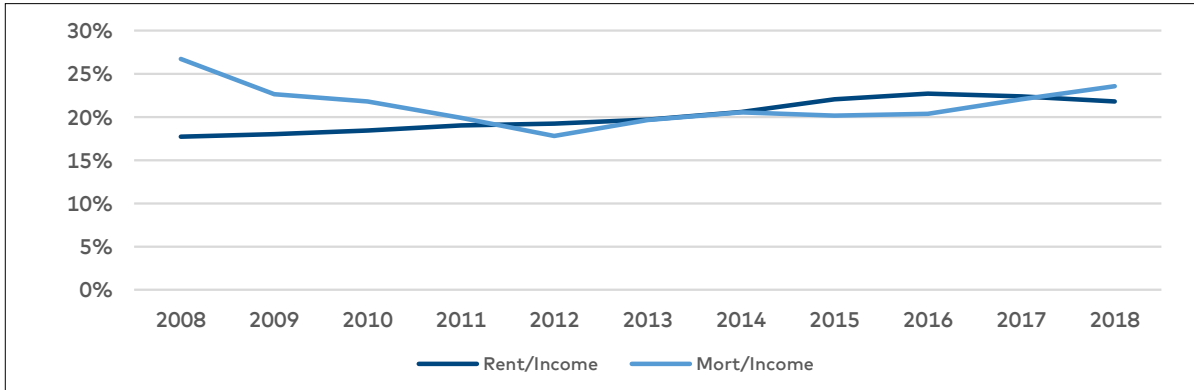
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

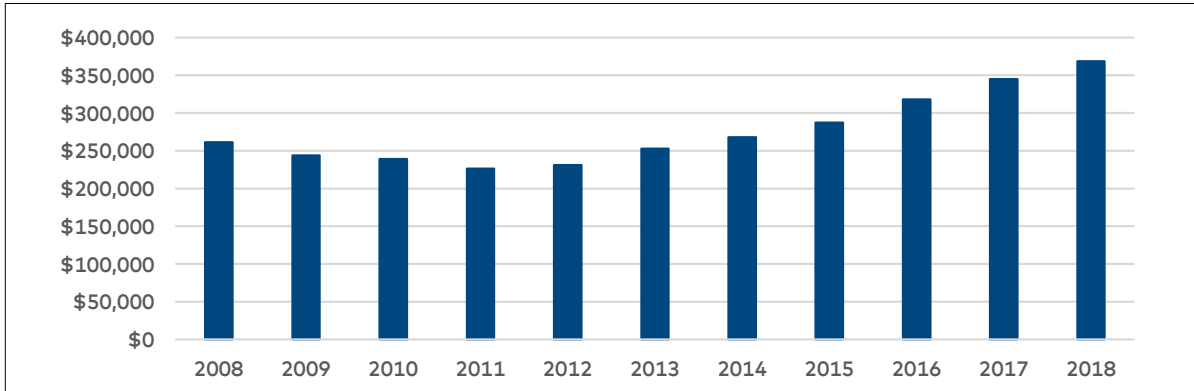
- The median home price in Portland rose 6.8%, reaching a new cycle high of \$368,491. At \$1,396, renting has become the less costly option, accounting for 22% of the median income, whereas the average mortgage payment comprised 24%. Since 2013, the median home price has risen 45.8%.
- Portland continues to be among the least affordable metros in the country, with Multnomah, Washington and Clackamas counties lacking the necessary stock of affordable housing required for households earning less than 50% of the median family income.

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's population rose 1.2% last year, 50 basis points above the national growth rate. The metro added more than 30,000 residents.
- In the past five years, the metro's population rose by nearly 168,000 residents.

Portland vs. National Population

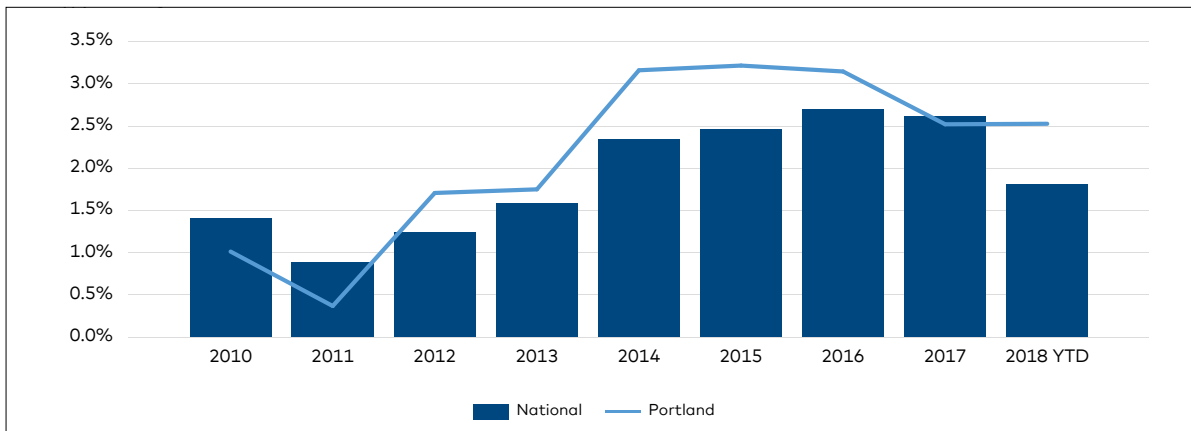
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Portland Metro	2,309,289	2,342,444	2,382,181	2,423,102	2,453,168

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

Supply

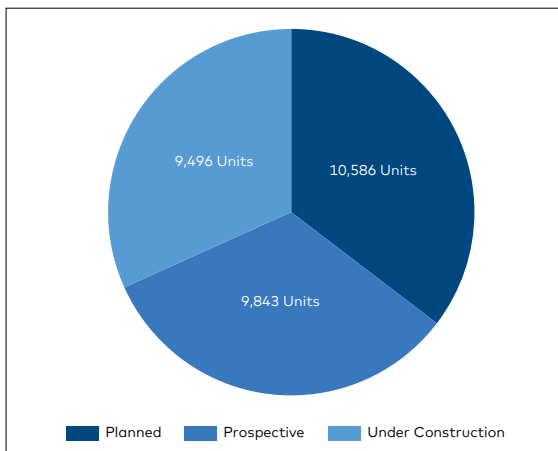
- More than 3,700 units came online in Portland year-to-date through September, accounting for 2.5% of total stock, 70 basis points above the national average.
- Nearly 30,000 units were in different stages of development, 9,400 of which were under construction. The bulk of those units is being built in core submarkets. Kerns/Buckman (1,166 units), the Pearl District (965 units) and PSU/Lovejoy (875 units) continue to lead the way. The development pipeline is expected to remain strong in the upcoming months, as developers are concentrating on adding units to capitalize on elevated rent levels.
- The largest project slated to be completed this year is Cairn Pacific's The Carson, a 380-unit community in the Hillside/Northwest submarket. Upon completion, the property will include roughly 20,000 square feet of retail space.
- Portland's average occupancy rate in stabilized properties rose 30 basis points year-over-year to 96.1%. Despite a recent construction spree, demand can still moderate elevated inventory growth.

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



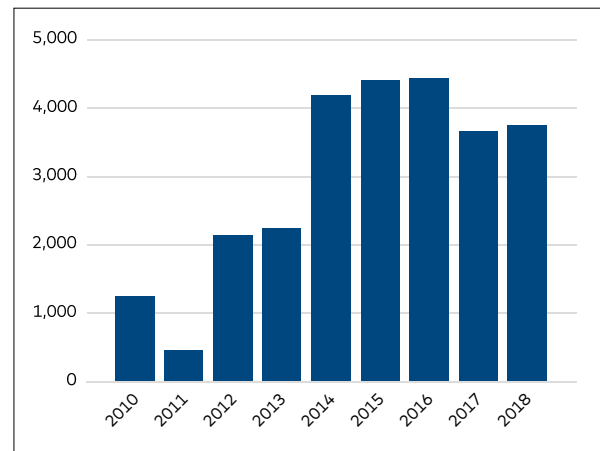
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Portland Completions (as of September 2018)

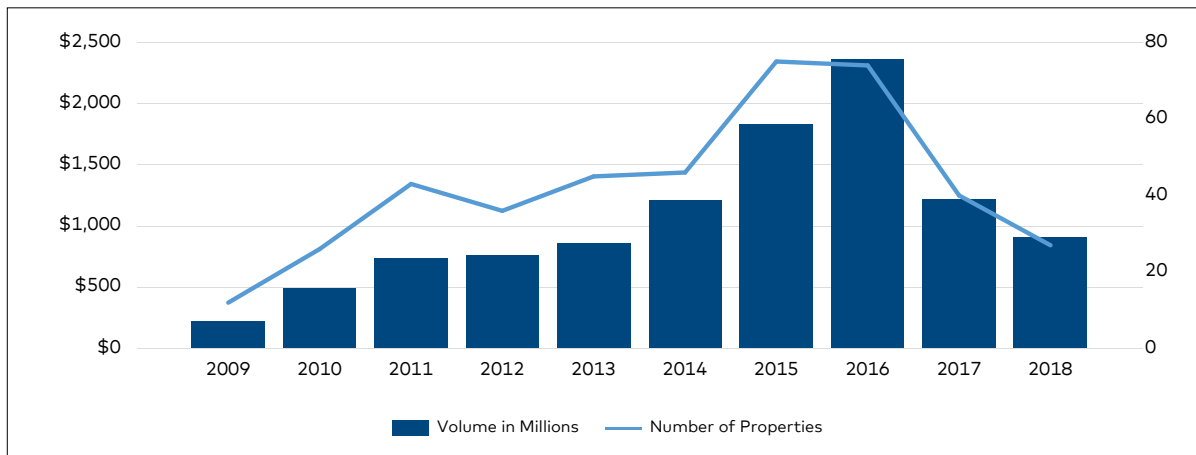


Source: YardiMatrix

Transactions

- Roughly 27 transactions totaling \$909 million were completed in Portland year-to-date through September. Per-unit prices reached \$280,118, nearly double the national average. The metro continues to attract international and domestic investors, which are drawn by a strong economy and a constant population growth.
- Acquisition yields in the area remain compressed, hovering in the low-4% range for Class A assets.
- Investor appetite was focused on Renter-by-Necessity assets, with 16 properties trading at an average per-unit price of \$196,879. The metro's most targeted areas were located in its urban core and northern half: Downtown Portland (\$206 million), Tanasbourne (\$193 million), Hillside/Northwest (\$141 million) and Tigard (\$119 million) led investment activity over the 12 months ending in September.

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



Source: YardiMatrix

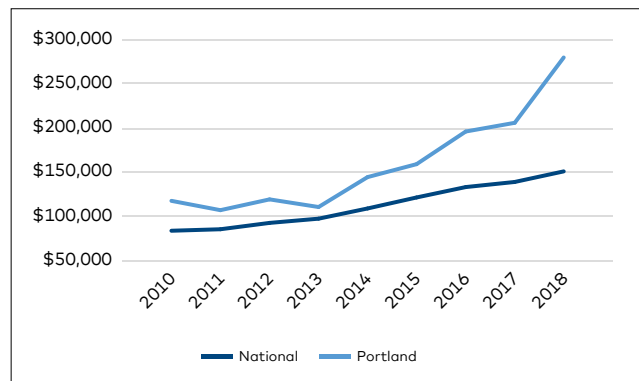
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Downtown Portland	206
Tanasbourne	193
Hillside/Northwest	141
Tigard	119
Hillsboro	85
St Johns/University Park	77
Lloyd/Irvington	66
Pearl District	54

Source: YardiMatrix

¹ From October 2017 to September 2018

Portland vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:



CapitaLand Acquires \$835M Portfolio

The properties include 16 communities located within the metropolitan areas of Seattle; Portland, Ore.; Los Angeles; and Denver. This marks the firm's entrance into the U.S. multifamily market.



CBRE Arranges Sale of OR Community

Phil Oester, Joe Nydahl and Josh McDonald brokered the transaction, representing the seller, Marathon Management.



Strategic Student & Housing Trust Acquires \$92M Portland Asset

The 286-unit Courtyard at Mt. Tabor marks the REIT's fourth acquisition in the senior housing sector since entering the market in February.



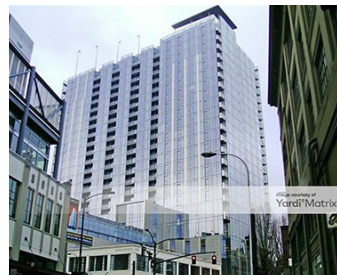
Security Properties Buys \$85M Portland Asset

The buyers plan to upgrade common areas and unit interiors at the pet-friendly community, which was 92.8 percent occupied as of July.



Trion Properties Grows Portland Portfolio

The company acquired Springbrook Gardens, an 84-unit community located in the Aloha submarket, for \$11 million.



Greystar Acquires 273-Unit Portland Community

Indigo at Twelve West is a LEED Platinum-certified mixed-use community in the West End submarket. The property also includes 10,000 square feet of retail and 86,000 square feet of creative office space.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

Top 10 Largest Multifamily Conversions in the Pacific Northwest



By Corina Stef

data by
Yardi® Matrix

The area recorded a high number of adaptive reuse projects that transformed hotels into affordable multifamily communities, breathing new life into historic buildings. Some of the structures served military purposes during World War II.

Adaptive reuse continues to be a growing trend in high-density markets, contributing to the revitalization of the urban landscape and creating new opportunities for businesses and residents. Seattle and Portland—the largest metros in the Pacific Northwest—have recorded strong population gains in recent years, which has led to a rise in household formation and a need for additional low-income housing.

Property Name	City	Units	Stories	Property Quality	Location Quality	Completion Date
Addison on Fourth	Seattle	254	9	C-	B-	07/01/2013
The Frye	Seattle	234	10	C-	B-	01/01/1970
The Josephinum	Seattle	221	14	C-	B+	01/01/1991
Lowell Emerson	Seattle	196	8 and 10	C	B	01/01/1950
Winthrop	Tacoma	194	12	C-	B	01/01/1975
Estate Building	Portland	191	5	C-	B	01/01/2008
South Block	Salem	179	4	B+	B-	12/15/2016
Madrona Studios	Portland	176	4	C-	B-	03/29/2010
Mark on 8th	Seattle	174	7	A-	B	05/03/2016
The Senator	Yakima	161	2 and 3	C	C-	01/01/1977

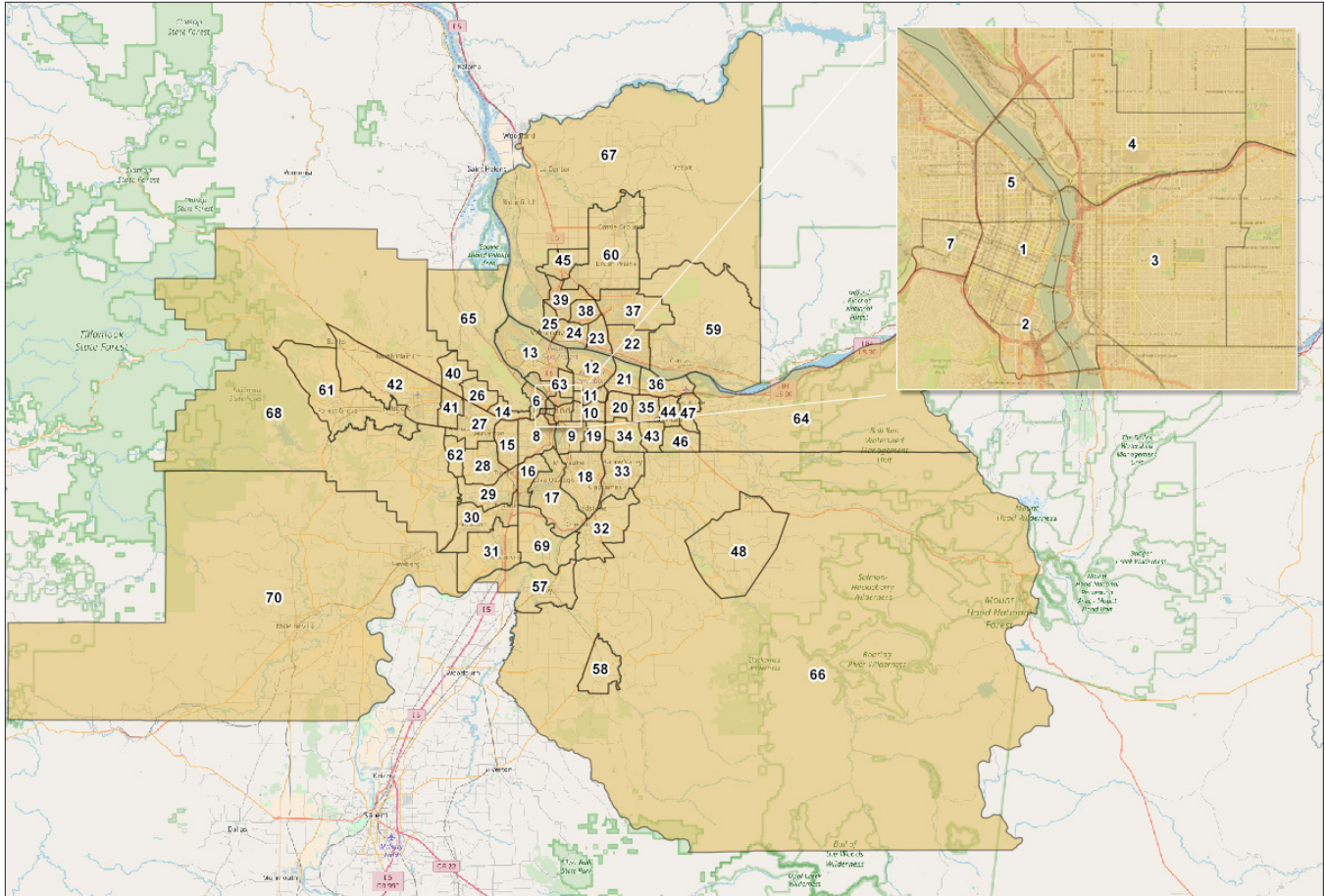
ESTATE BUILDING IN PORTLAND, OR

The second building on the list converted, owned and managed by Central City Concern is Estate Building, a 191-unit affordable community in Portland. Located at 225 N.W. Couch St., the property was previously known as Estate Hotel. At the time it was built in 1914, the development was among Portland’s first concrete-frame structures.

Following a conversion in 2007 funded through the Low-Income Housing Tax Credit program, the building now offers 164 single-room occupancy units for individuals recovering or transitioning from correctional facilities. Two other stories, comprising 36 new units, were added in 2007. The owner replaced the building’s systems, upgraded the seismic resistance and added a common area for residents.



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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

800.866.1144
YardiMatrix.com



Energized for Tomorrow

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2018 Yardi Systems, Inc. All Rights Reserved.