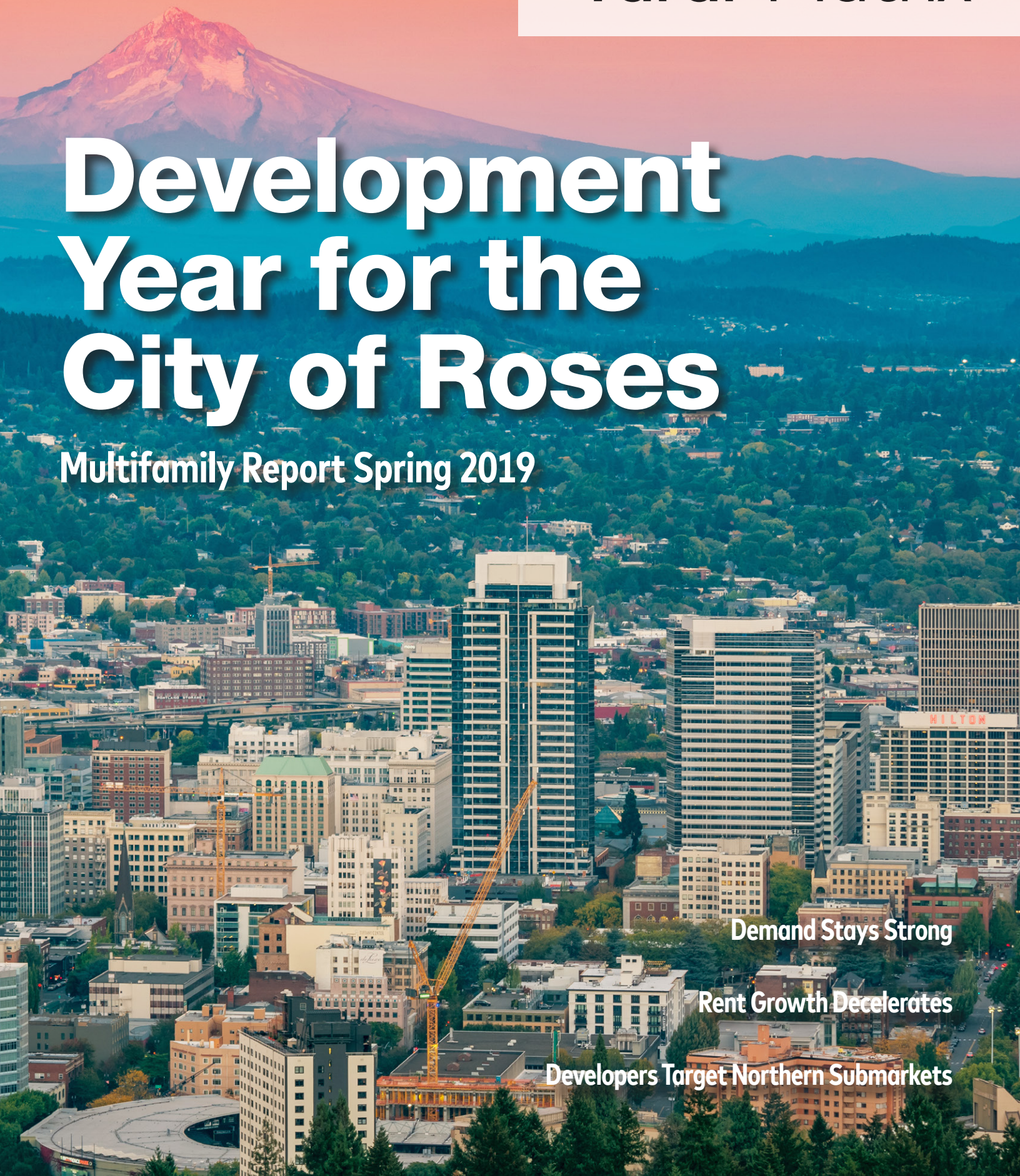
Yardi® Matrix

Development Year for the City of Roses

Multifamily Report Spring 2019



Demand Stays Strong

Rent Growth Decelerates

Developers Target Northern Submarkets

Market Analysis

Spring 2019

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

Rent Growth Cools Off

Backed by solid job growth and in-migration boosted by a healthy quality of living, Portland's multifamily market continues to be strong. With more than 5,000 units coming online in 2018, rents started to cool off, increasing by 1.9% year-over-year through February, below the 3.6% national average.

Oregon has attracted national attention due to its enaction of statewide rent control limits. The law limits rent increases to 7% plus inflation and capital expenses and applies to properties older than 15 years. Although the immediate impact might be slight, the concern is that it will lead to tighter limits down the road. Economic growth is healthy. The metro added 27,500 positions in 2018, a 2.4% year-over-year employment growth rate. The construction boom taking place in the metro is supported by the office sector, which has more than 2.4 million square feet of space under construction.

With more than 9,320 units underway and some 6,900 units expected to be delivered this year, there are major concerns about oversupply, but a strong occupancy rate is indicating that there is a rapid absorption of new deliveries and demand for housing outpaces supply. The high occupancy rate and steady rent growth are drawing investors to the metro. With demand high, we expect rents to rise 1.9% in 2019.

Recent Portland Transactions

Arbor Creek

City: Beaverton, Ore.
Buyer: Security Properties
Purchase Price: $84 MM
Price per Unit: $191,591

Sygnii

City: Tigard, Ore.
Buyer: Watt Cos.
Purchase Price: $75 MM
Price per Unit: $313,333

Brookside 112

City: Vancouver, Wash.
Buyer: Aukum Group
Purchase Price: $72 MM
Price per Unit: $193,767

Domaine at Villebois

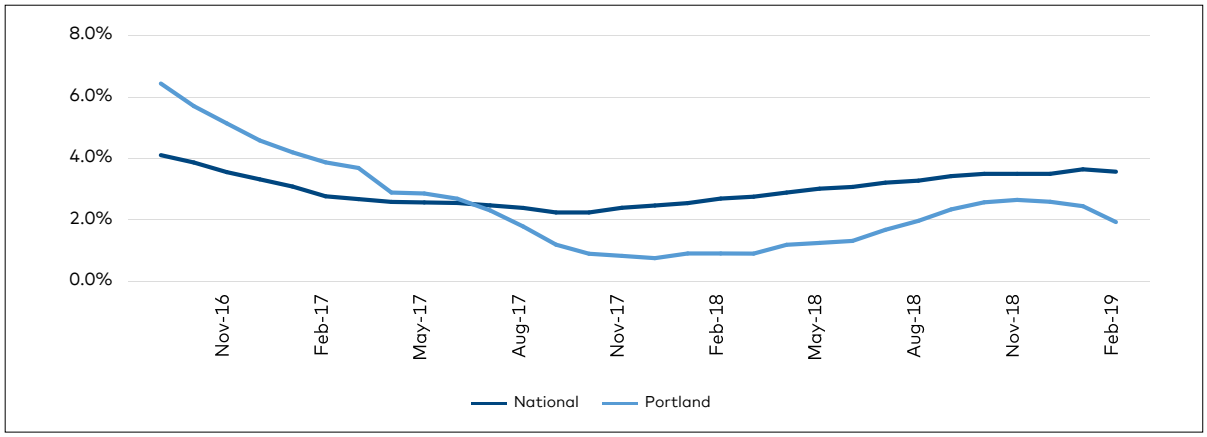
City: Wilsonville, Ore.
Buyer: MG Properties Group
Purchase Price: $70 MM
Price per Unit: $253,650

On the cover: Photo by benedek/iStockphoto.com

Rent Trends

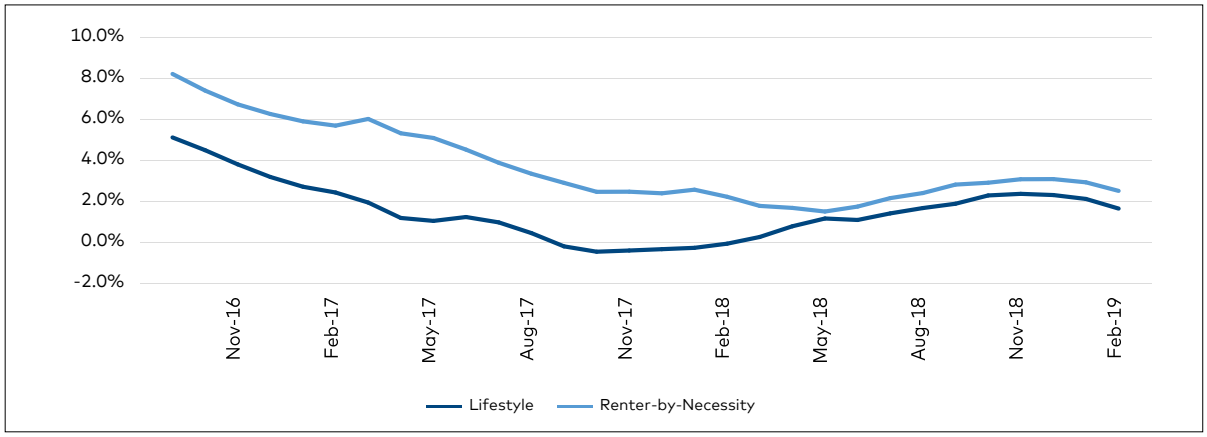
- Rents in Portland have decelerated in recent months. Year-over-year, rents were up 1.9% through February, though down 70 basis points from December. February's rent growth was 170 basis points below the national average, and Portland's $1,382 average rent was below the $1,426 U.S. average. Occupancy for stabilized properties decreased by only 10 basis points year-over-year through January, indicating that demand continues to be strong in the face of an influx of new supply.
- Affordability has been a major issue in Portland, and the working-class Renter-by-Necessity segment led rent gains. RBN properties increased rents by 2.5% year-over-year, to an average of $1,226. Lifestyle units rose 1.7%, to an average of $1,540. With the bulk of deliveries in the upscale segment, the need for RBN assets is likely to remain robust.
- The Pearl District ($1,960) and Downtown Portland ($1,956) had the most expensive rents in the metro, while the Hazeldale (15.1%), Stafford (10.4%), Kelly Creek (7.3%) and Madison South (6.2%) submarkets saw the largest year-over-year increases. Oregon's recently applied statewide rent control limits, which allow a rent growth of 7% plus the rate of inflation (exempting properties less than 15 years old), may further limit rent increases. Yardi Matrix expects Portland rents to rise 1.9% in 2019.

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)

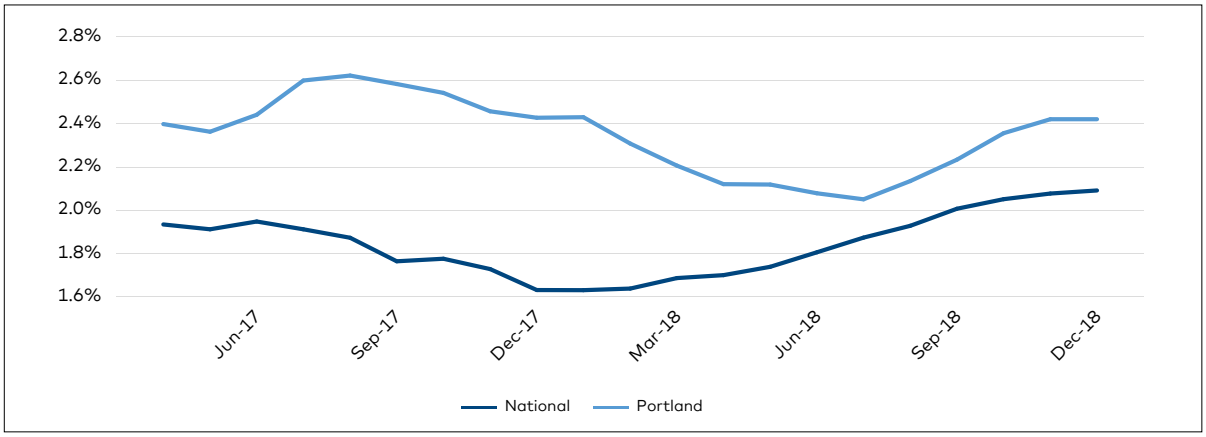


Source: YardiMatrix

Economic Snapshot

- The metro added 27,500 jobs, a 2.4% year-over-year increase through December, outperforming the U.S. average by 30 basis points. Portland's employment market is generally healthy, as unemployment was at 3.8% as of February.
- While the education and health services sector led growth, having added 14,700 jobs, the mining, logging and construction sector saw the largest year-over-year increase—8.8% as of December.
- Commercial real estate starts are providing a boost to construction, with both multifamily and office segments having strong development pipelines. Roughly 1.5 million square feet of office space was delivered in the metro last year, with 1.4 million square feet in the CBD area, according to Cushman & Wakefield. With more than 2.4 million square feet of office space underway, the metro shows no sign of slowing down. Nike's World Headquarters-Serena Williams Building is the largest development underway; it will add more than 1 million square feet of space in Beaverton, Ore., upon completion this year.
- Tech companies have been adding jobs, including Genentech, Palo Alto Software and Act-on-Software, while recently announced changes in taxation policies are expected to further boost employment.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	189	15.5%	14,700	8.4%
30	Manufacturing	131	10.7%	6,300	5.0%
15	Mining, Logging and Construction	74	6.1%	6,000	8.8%
70	Leisure and Hospitality	126	10.3%	3,800	3.1%
80	Other Services	45	3.7%	2,900	6.9%
40	Trade, Transportation and Utilities	225	18.4%	1,900	0.9%
55	Financial Activities	72	5.9%	500	0.7%
50	Information	26	2.1%	300	1.2%
60	Professional and Business Services	178	14.6%	-3,800	-2.1%
90	Government	154	12.6%	-5,100	-3.2%

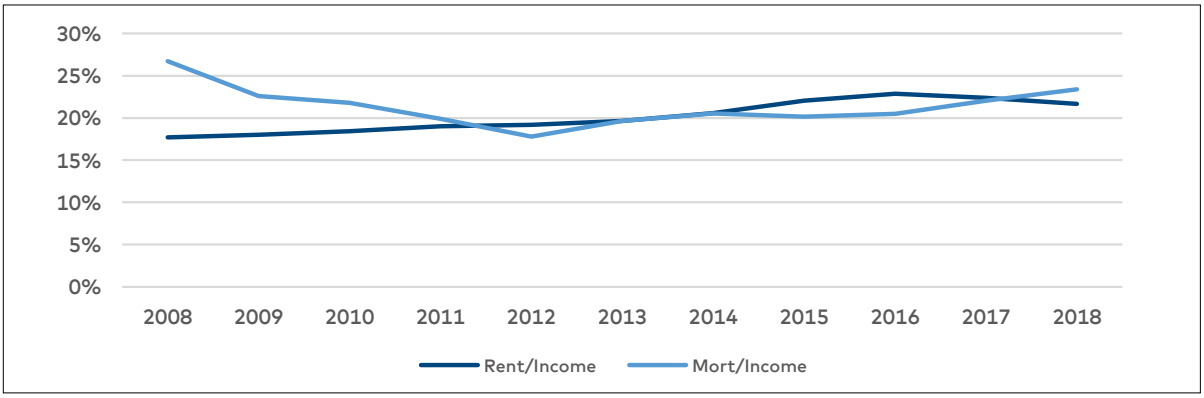
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

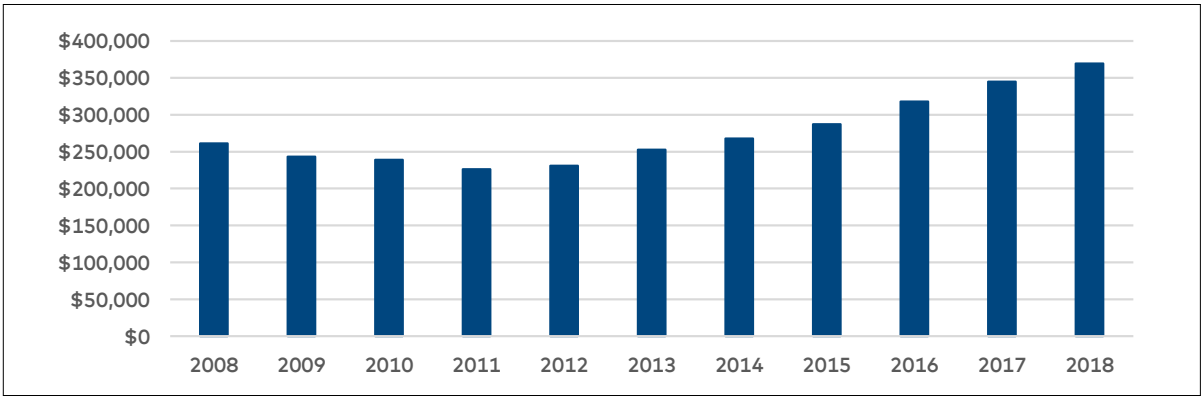
- Portland's median home price rose to $369,638 in 2018, a new cycle peak. At $1,382, rents constitute 22% of resident income, while owning rose to a 23% share in 2018.
- After the city council approved the inclusionary policy in an effort to provide low-income housing, developers found it difficult to cover rising construction costs, cutting the number of multifamily permits considerably. The demand for the first affordable- to middle-income buyers has been weaker than expected. As a result, the city is adjusting the program by reducing prices and offering additional financial assistance to entice more buyers.

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 added 30,066 residents in 2017 and is likely to continue this trend due to the metro's strong economy and positive demographics.
- Since 2012, the metro's population grew by 7.4%, double the national rate.

Portland vs. National Population

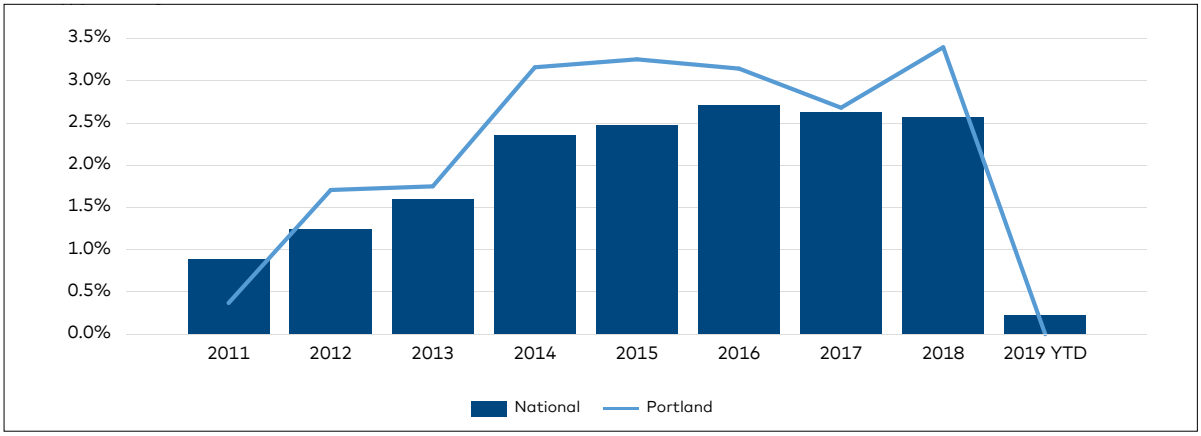
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Portland Metro	2,309,289	2,342,444	2,382,181	2,423,102	2,453,168

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

Supply

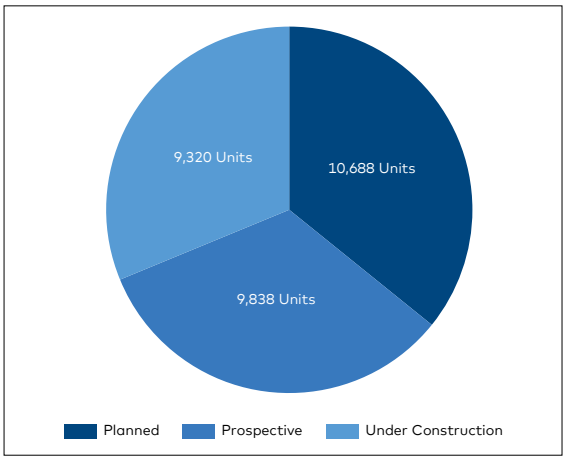
- Portland's multifamily pipeline has been robust in recent years, and that is expected to continue. More than 9,000 units are under construction, with some 6,900 units likely to be delivered this year. Although construction is expected to decrease as new permits for multifamily development are hitting the cycle low after the inclusionary housing passed in 2017, demand for housing remains robust—especially for affordable units.
- Roughly 5,100 units were completed in 2018, a major increase from the 3,887 units delivered in 2017. Despite the large amount of new supply, occupancy for stabilized properties increased by only 10 basis points compared to last year—95.3% as of January, indicating that demand remains strong, keeping up with the consistent incoming inventory.
- Most projects are geared toward the northern area of Portland. The Kerns/Buckman and Piedmont submarkets are the busiest, with more than 2,500 units currently under construction. Killian Pacific's Goat Blocks, a 347-unit community in the Kerns/Buckman submarket, was the largest project in the metro.

Portland vs. National Completions as a Percentage of Total Stock (as of February 2019)



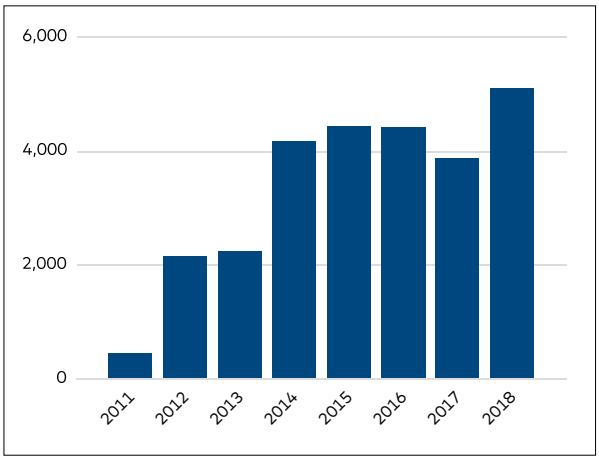
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Portland Completions (as of February 2019)

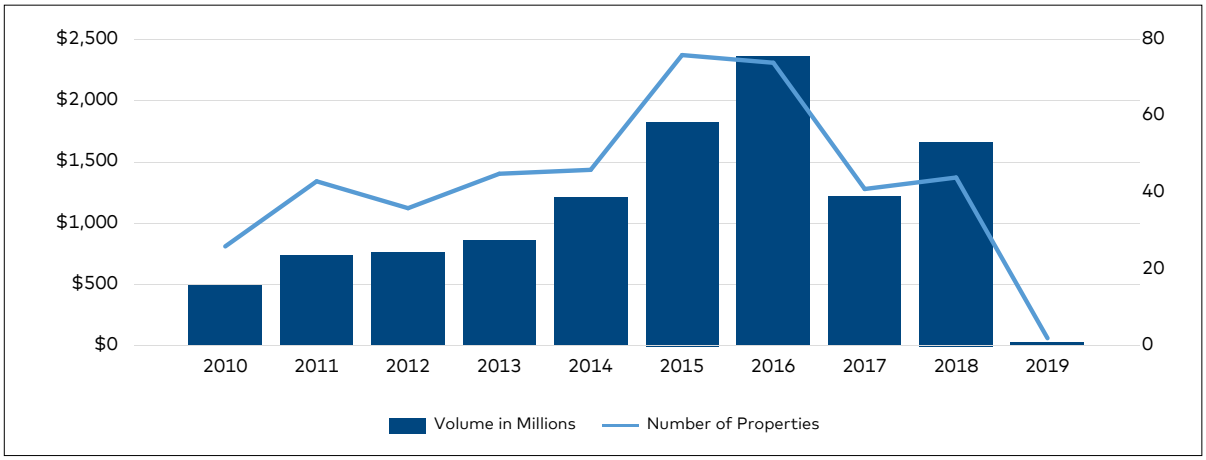


Source: YardiMatrix

Transactions

- Only two multifamily properties totaling about $30 million sold in the metro in the first two months of 2019. Despite the shaky start of the year, investors remain attracted to the area, due to the metro's solid fundamentals and prospects for growth. Transaction volume has been inconsistent in recent years, peaking at $2.4 billion in 2016, while $1.7 billion in properties was sold in 2018.
- Per-unit prices reached a new peak at $248,792 in 2018. As of February, Downtown Portland had attracted the most capital with more than $206 million in assets traded, followed by submarkets south of the core: Greenway ($133 million), Milwaukie/Gladstone ($112 million) and Beaverton ($105 million).
- Greystar's acquisition of Indigo at Twelve West was the largest deal. Gerding Edlen Development sold the asset for $206 million, or $754,579 per unit, also the highest per-unit price in the current cycle.

Portland Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

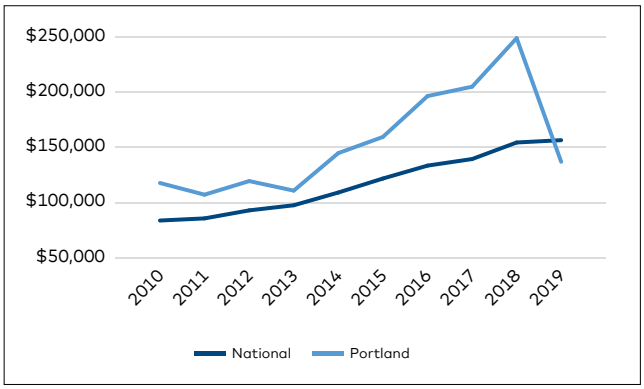
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Portland	206
Greenway	133
Milwaukie/Gladstone	112
Beaverton	105
Hillsboro	85
Orchards	72
Wilsonville	70
Lloyd/Irvington	66

Source: YardiMatrix

[1] From March 2018 to February 2019

Portland vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Luxury Asset Sells for $58M

The 182-unit rental building was completed in 2017 by Fore Property Co. and is located in the Southwest Hills submarket.

Portland Tower Receives $97M Loan

The 348-unit rental community taking shape in the heart of the city's CBD is being developed by Alamo Manhattan. HFF arranged the financing on behalf of the developer.

Goldman Sachs Affiliate Acquires Portland-Area Asset

The 240-unit community located in Camas, Wash., marks Goldman Sachs Asset Management Private Real Estate's 23rd multifamily investment in the U.S.

Bridge Housing Tops Out $84M Affordable Project

A housing development named for Vera Katz, an inspiring local leader, is nearing completion in Portland. It will offer much-needed rental housing to low-income families and homeless military veterans.

2 Microunit Multifamily Assets Change Hands

Wilshire Capital Partners paid $23.4 million for two communities located in Seattle and Portland, Ore. CBRE negotiated the deal on behalf of the seller, East To West Capital.

Alliance Residential Opens Portland Community

The developer broke ground on the 147-unit Class A project, known as Broadstone Reveal, in mid-2017, with BMO Harris Bank providing construction financing.

Top 10 Multifamily Completions In the Pacific Northwest

By Roxana Baiceanu

MULTI-HOUSING NEWS

data by Yardi® Matrix

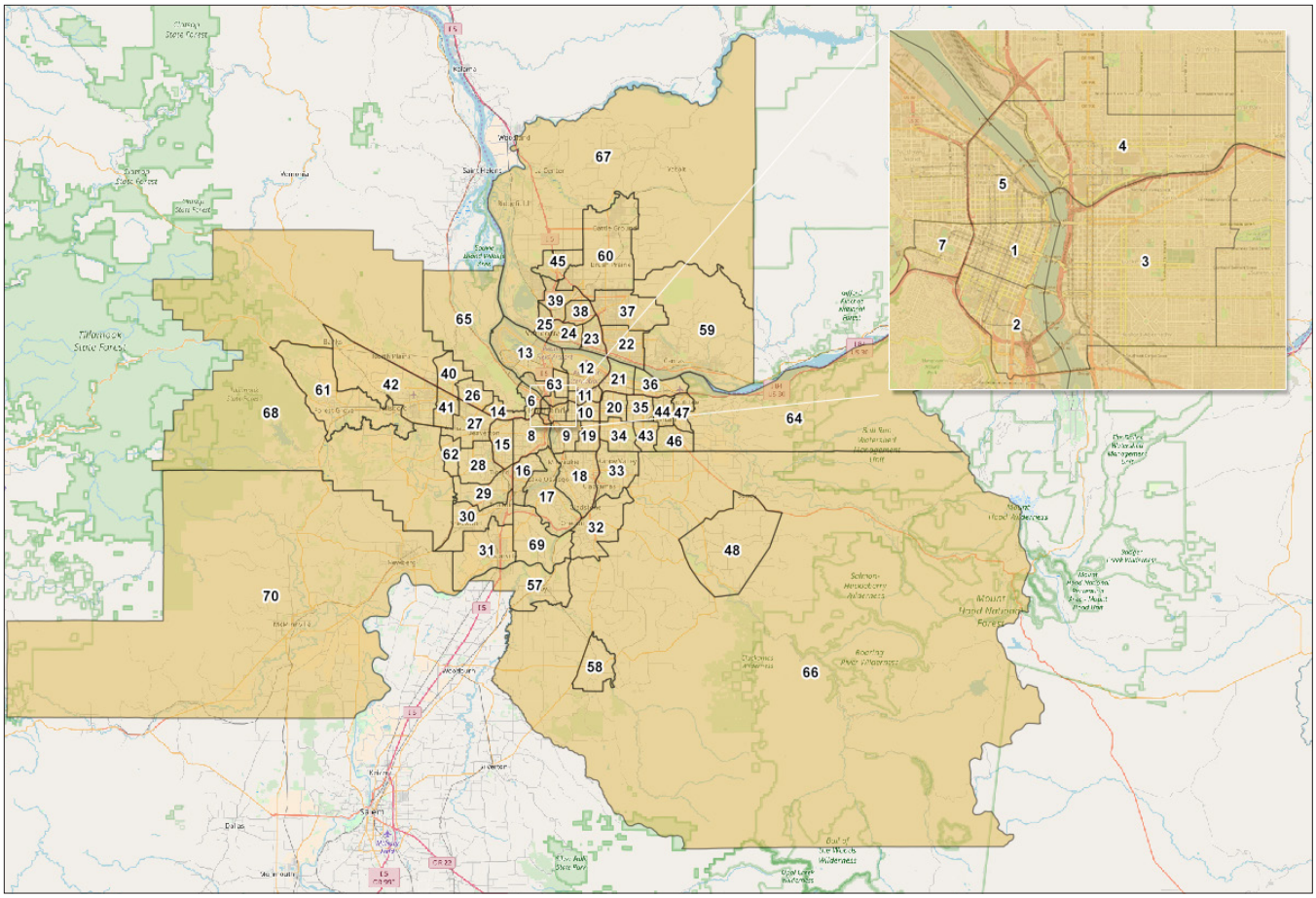
Demand for residential units in the Pacific Northwest's main metros, Seattle and Portland, was strong in 2018 and is expected to hold throughout 2019 as the area continues to add jobs. Known for the quality of living and affordable housing costs compared to other West Coast tech hubs, the two cities have been attracting a large number of young professionals.

Property Name	Units	Address	City	Completion Date
Kiara	460	111 Terry Ave. N.	Seattle	11/9/2018
McKenzie	450	2202 Eighth Ave.	Seattle	7/27/2018
Sitka	384	1255 Harrison St.	Seattle	1/3/2019
Assembly 118	359	4200 S. Othello St.	Seattle	4/30/2018
Airmark	358	229 Andover Park E.	Tukwila	6/8/2018
Arrive	344	2116 Fourth Ave.	Seattle	2/22/2019
West Edge	340	1430 Second Ave.	Seattle	5/4/2018
Highland Crossing	332	11806 N.E. 122nd Ave.	Vancouver	4/12/2018
Broadstone Saxton	325	520 Terry Ave.	Seattle	3/22/2019
Southside by Vintage	298	125 S.W. 112th St.	Seattle	2/22/2019

HIGHLAND CROSSING–VANCOUVER, WASH.

The 332-unit community at 11806 N.E. 122nd Ave. in Vancouver, Wash., was the largest multifamily asset to be completed in the Portland metro area during the past 12 months. The developer, IDM, secured a $30 million construction loan in 2017, which it refinanced one year later via a $50.6 million Fannie Mae loan with CBRE Capital Markets. The asset encompasses one- to three-bedroom units ranging from 569 to 1,310 square feet, which can be rented at an average of $1,431 per month. Less than one year after it opened, Highland Crossing was 94 percent occupied.

Portland Submarkets



Area #	Submarket
1	Downtown Portland
2	PSU/Lovejoy
3	Kerns/Buckman
4	Rock Creek
5	Pearl District
6	Hillside/Northwest
7	Goose Hollow
8	Southwest Hills
9	Brooklyn/Moreland
10	Laurelhurst
11	Madison South
12	Cully/Rosewway
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 #	Submarket
22	Mill Plain
23	McLoughlin
24	Fort Vancouver
25	Downtown Vancouver
26	Oak Hills
27	Beaverton
28	Greenway
29	Tigard
30	Tualitin
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	Hillsboroug

Area #	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 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.

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President
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