

A panoramic view of the Portland, Oregon skyline. In the foreground, a river flows past a park area with many pink cherry blossom trees in full bloom. A pedestrian bridge spans across the river. The middle ground is filled with various city buildings, including a prominent red brick building and a large glass skyscraper. The background shows more city buildings and a forested hillside under a clear sky.

Yardi® Matrix

Portland Braces For Delivery Wave

Multifamily Report Summer 2019

Development Slated for Cycle Peak

Investment Shifts Down a Gear

Rent Growth Cools Off

Market Analysis

Summer 2019

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Rent Growth Slips, Strong Supply Lingers

Portland's stable economy, backed by a diverse business climate, continues to attract renters. Nonetheless, due to last year's development cycle high in the context of dampening employment gains, year-over-year rent growth slowed down to 1.2% as of May. Even so, demand for workforce housing remains relatively robust.

The metro added 21,800 jobs in the 12 months ending in March, a 1.8% year-over-year increase, with education and health services leading growth (6,100 jobs). Meanwhile, manufacturing gained 4,500 positions and Intel's campus expansion in Hillsboro is set to further boost employment. The company is planning a multibillion-dollar facility estimated to employ 1,750 people. Despite labor shortages and rising development costs, the construction segment recorded the largest year-over-year increase through March, adding 2,800 positions for a 4.0% expansion.

While Oregon's new rent control law could impact Portland's fundamentals in the longer run, transactions were the first to feel the pinch going into 2019, with only \$143 million in multifamily assets trading this year through May. With 6,900 units slated for completion in 2019, we expect the average Portland rent to rise 1.9% this year, one of the lowest rates among major U.S. metros.

Recent Portland Transactions

Stevens Creek



City: Happy Valley, Ore.
Buyer: GMC Properties
Purchase Price: \$38 MM
Price per Unit: \$273,750

Creekside Village



City: Vancouver, Wash.
Buyer: Pathfinder Partners
Purchase Price: \$28 MM
Price per Unit: \$212,283

Somerset Terrace



City: Vancouver, Wash.
Buyer: Vista Investment Group
Purchase Price: \$16 MM
Price per Unit: \$170,526

Westfal

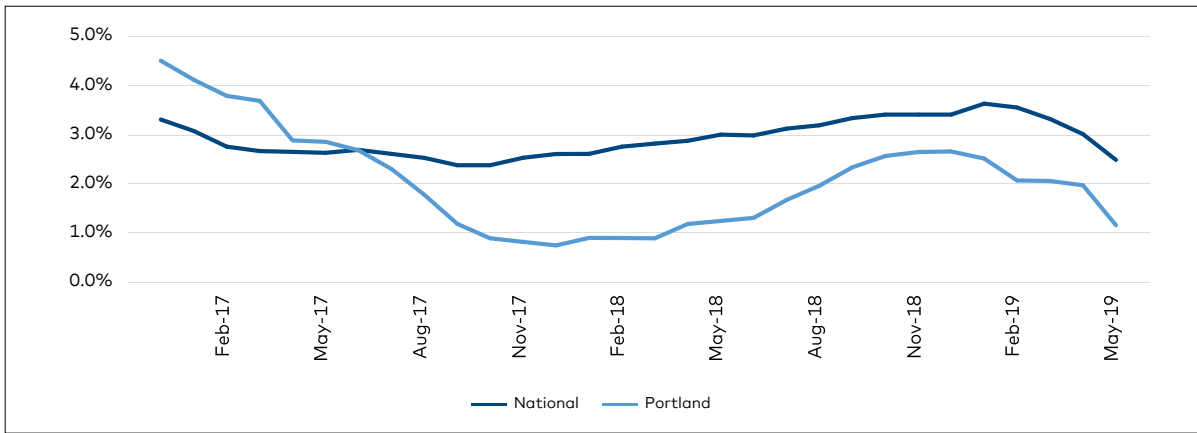


City: Portland, Ore.
Buyer: Cooper Street Capital
Purchase Price: \$10 MM
Price per Unit: \$178,571

Rent Trends

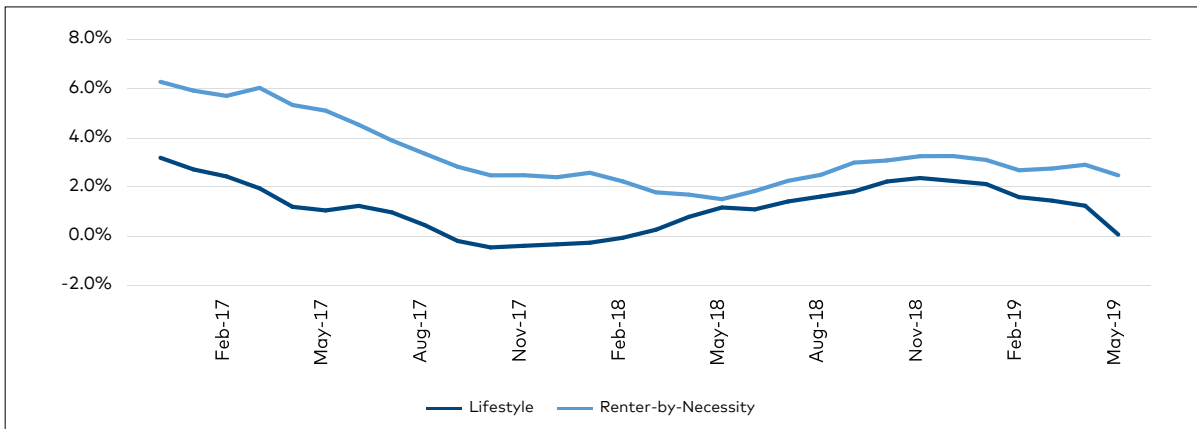
- Rents in the metro rose 1.2% year-over-year through May, less than half the 2.5% U.S. average. Portland's average rent stood at \$1,402, almost on par with the \$1,442 national figure. While the metro recorded strong rent gains during the better part of this cycle, a consistent pipeline over the past five years has finally caught up with demand, putting pressure on rent growth.
- Nonetheless, on a trailing three-month basis, Portland—together with Nashville, Phoenix and Las Vegas—recorded the second-highest growth rate as of May (0.5%), only trailing Seattle (0.6%).
- With most recent deliveries and projects underway being upscale, workforce housing demand has pushed the average working-class Renter-by-Necessity rate up 2.5%, to \$1,243. Meanwhile, the average Lifestyle rate rose only 0.1%, reaching \$1,563. In the 12 months ending in May, rents contracted or were flat across one-third of Portland's submarkets, especially expensive ones, including downtown Portland (-1.0% to \$1,980), the Pearl District (-1.0% to \$1,969) and PSU/Lovejoy (-3.0% to \$1,648).
- With the addition of 5,096 units last year, Portland's occupancy rate in stabilized assets dropped 30 basis points over 12 months, to 95.2% as of April. Considering the metro's consistent pipeline, we expect the average Portland rent to rise just 1.9% this year.

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)

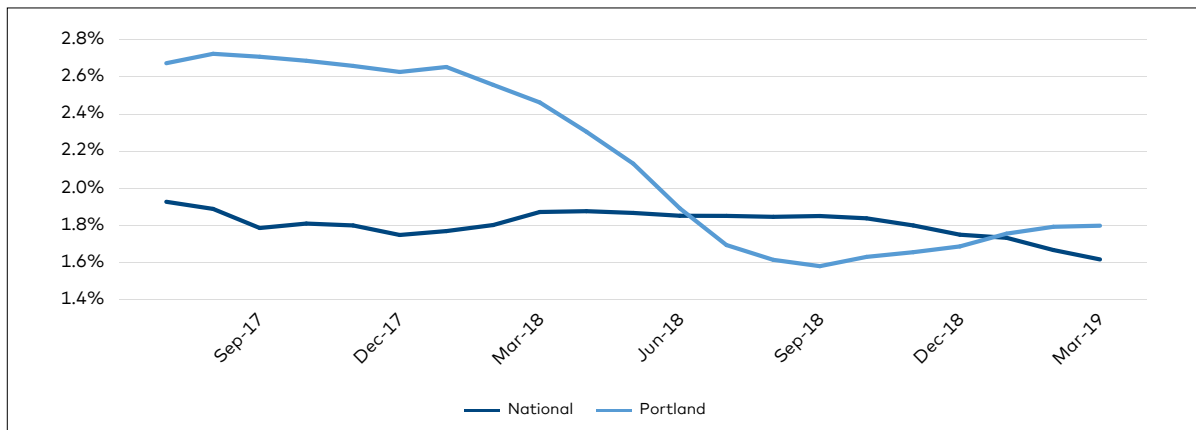


Source: YardiMatrix

Economic Snapshot

- The metro gained 21,800 jobs in the 12 months ending in March for a 1.8% expansion, 20 basis points above the national rate but on a clear deceleration path after several years of strong performance. Economic growth has kept the unemployment rate at 4.2% as of March, indicating that the market is close to full employment. A diverse job market continues to attract young professionals, boosting rental demand along the way.
- Education and health services led growth with the addition of 6,100 positions, a 3.4% increase, while manufacturing gained 4,500 jobs. Intel, one of Oregon's largest economic engines, plans to build a massive semiconductor factory in Hillsboro. The development ranks among the largest capital projects in the state's history. The company announced it would add 1,750 employees to the 20,000 workers it already employs in Washington County.
- At 4.0%, the construction sector recorded the largest year-over-year expansion with the addition of 2,800 positions. The metro remains in growth mode, and although the U.S. is in the midst of a construction labor crisis, Portland is still adding jobs. Apart from infrastructure works and the residential pipeline, metro Portland also had 2.2 million square feet of office space and 2.1 million square feet of self storage space underway as of June, according to Yardi Matrix data.

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	188	15.6%	6,100	3.4%
30	Manufacturing	130	10.8%	4,500	3.6%
40	Trade, Transportation and Utilities	216	17.9%	3,200	1.5%
15	Mining, Logging and Construction	74	6.1%	2,800	4.0%
70	Leisure and Hospitality	124	10.3%	2,500	2.1%
90	Government	154	12.7%	2,000	1.3%
80	Other Services	43	3.6%	1,500	3.6%
55	Financial Activities	72	6.0%	600	0.8%
50	Information	25	2.1%	-200	-0.8%
60	Professional and Business Services	183	15.1%	-1,200	-0.7%

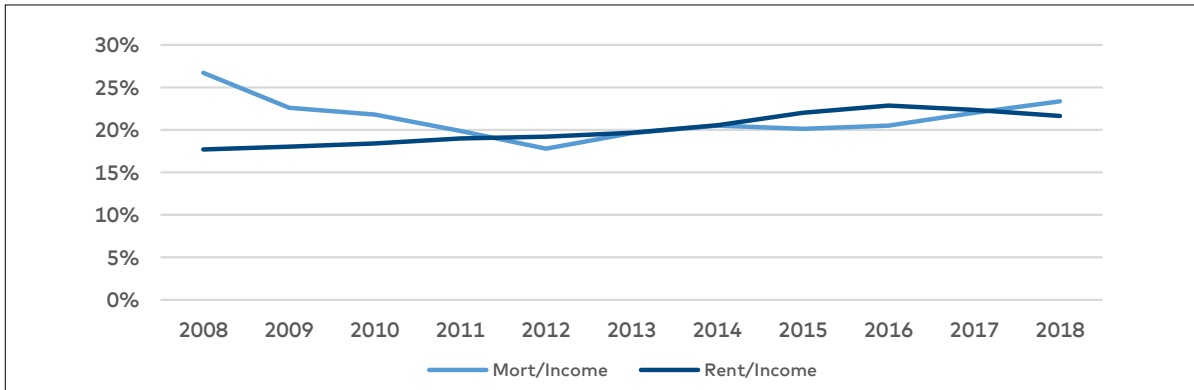
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

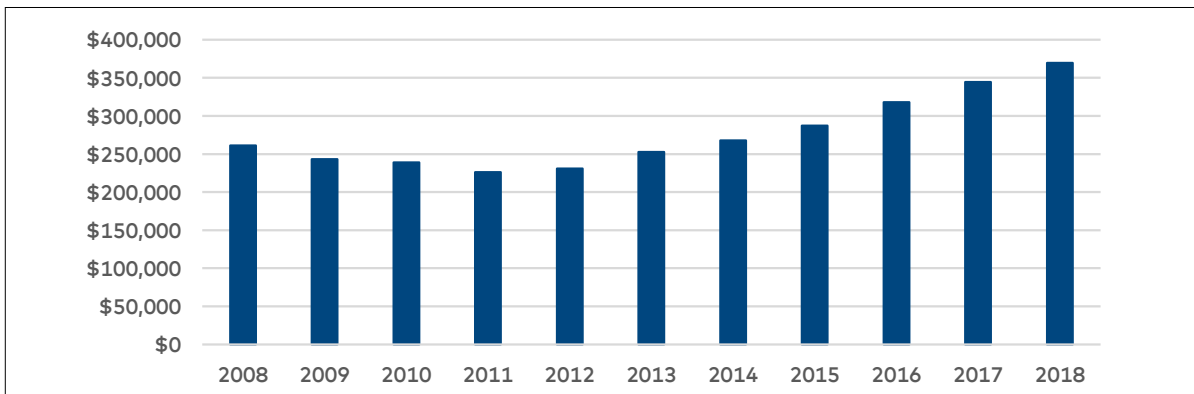
- The median home price continued to rise last year, reaching \$369,503 for a new cycle peak and improving 60% in just six years. In 2018, the average mortgage payment equated to 23% of the area median income, while the average rent accounted for 22%.
- According to Portland State University's 2019 economic forecast, the new Oregon rent control law is unlikely to decrease the metro's homeless population. The average rent in Oregon has been rising at a rate well below the imposed 7.0% annual threshold. While the policies are likely to impact some rapidly growing development pockets, the market overall is unlikely to suffer, at least not in the near future.

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 strong job market continues to attract young professionals. Portland added 30,066 residents in 2017 for a 1.2% expansion, outperforming the 0.7% U.S. average growth rate.

Portland vs. National Population

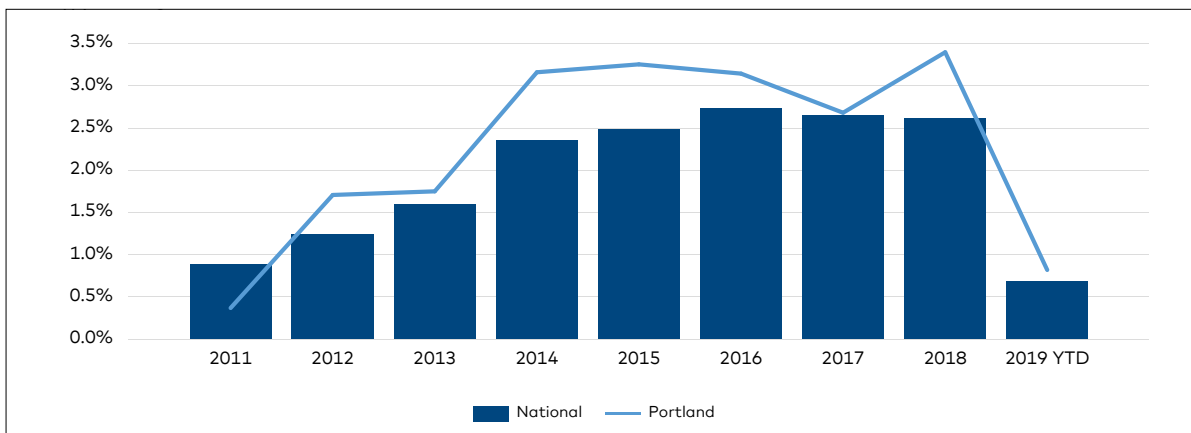
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Portland Metro	2,309,289	2,342,444	2,382,181	2,423,102	2,453,168

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

Supply

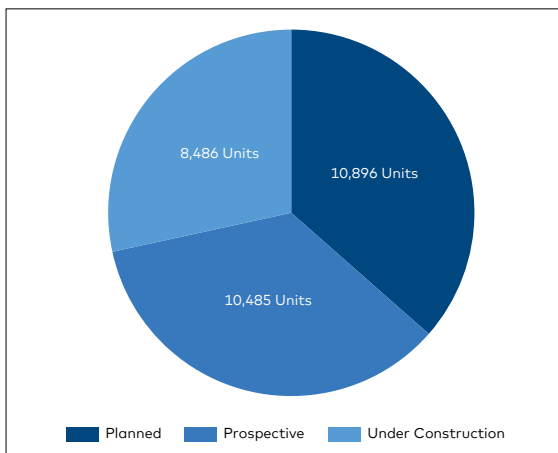
- As of May, there were 8,486 units under construction in the metro. Despite increasing development costs coupled with a lack of skilled labor, Portland's pipeline powers through. We expect 6,900 apartments to come online this year, which would represent a strong 4.5% of the total stock and would mark a new cycle peak for the metro.
- A total of 1,239 units came online in Portland during the first five months of 2019. Demand for more affordable options continues to be robust, as the vast majority of new projects are delivering upscale units across core submarkets. Since the beginning of 2014, metro Portland added more than 23,000 apartments, nearly 40% of which are in Lifestyle assets within 3 miles of downtown.
- Most of the upcoming inventory continues to target high-income residents, particularly in submarkets that are relatively close to downtown: Kerns/Buckman (1,322 units underway), Piedmont (1,043) and the Pearl District (793) are leading the way. Core Spaces' The Collective on 4th in downtown Portland was the largest project underway as of May. Upon completion, which is expected by year-end, the property will have added 417 apartments to the city core.

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



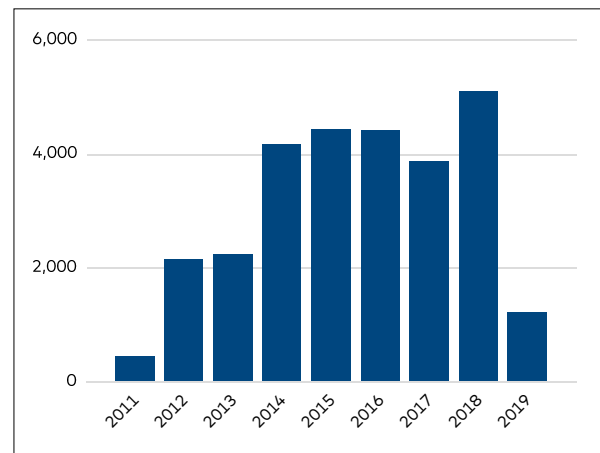
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Portland Completions (as of May 2019)

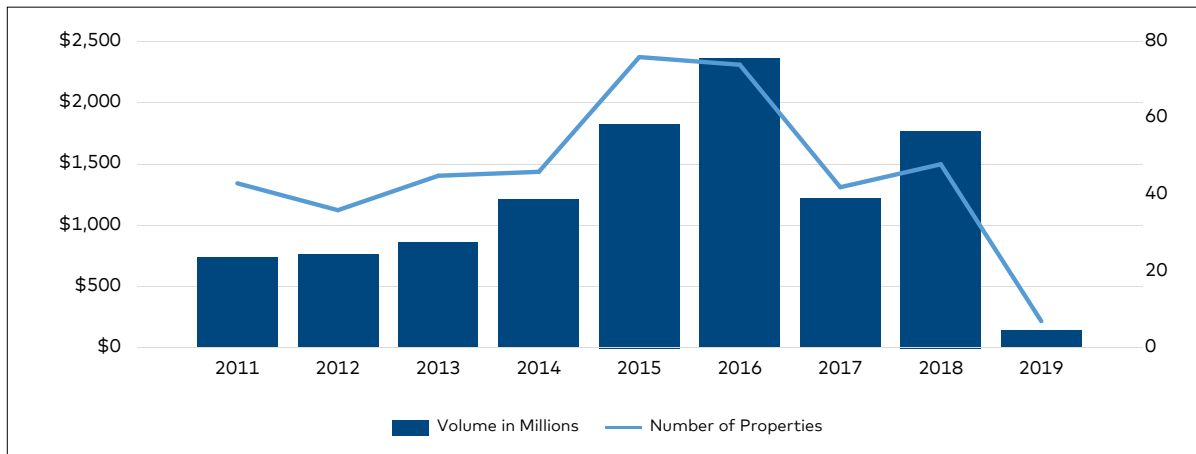


Source: YardiMatrix

Transactions

- In the context of Oregon's new rent control policies, Portland's multifamily investment shifted down a gear going into 2019, with only \$143 million in assets trading through May. This comes on the heels of last year's \$1.7 billion, when 48 properties were sold at an average per-unit price of \$248,059.
- This year through May, the average per-unit price in Portland was \$185,845, still above the \$156,206 U.S. figure. The steep price drop is due to deal distribution: While investors targeted both Class A assets and value-add plays last year, five of the seven assets sold in 2019 through May were workforce properties.
- GMC Properties' acquisition of Stevens Creek, a 140-unit asset in Happy Valley, marked the second quarter's largest multifamily transaction. Summit Real Estate sold the asset for \$38.3 million, or \$273,750 per unit.

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



Source: YardiMatrix

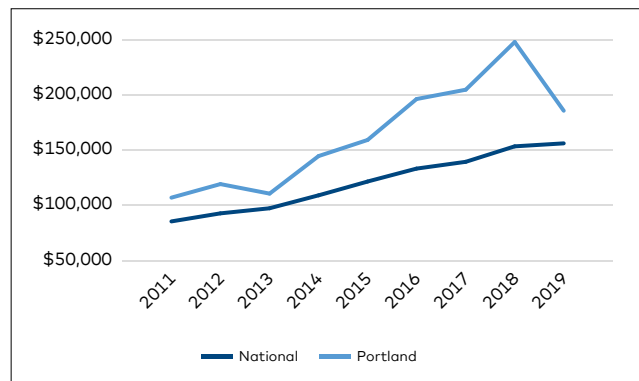
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Downtown Portland	206
Beaverton	141
Greenway	133
Tigard	99
Hillsboro	85
Orchards	72
Wilsonville	70
Milwaukie/Gladstone	66

Source: YardiMatrix

¹ From June 2018 to May 2019

Portland vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Affordable Housing Project Breaks Ground

Developer BRIDGE Housing has started work on 61 apartments for low-income families in north and northeast Portland. The property will accept Section 8 vouchers.



Portland-Area Apartments Trade for \$29M

Pathfinder Partners has expanded its multifamily value-add platform with the acquisition of a 132-unit community.



Construction Launches on Oregon's Largest Mixed-Use

Developed by Holland Partner Group, the Portland-area residential development is part of Reed's Crossing, a master-planned community underway in South Hillsboro, Ore.



Portland Community Trades for \$14M

Since acquiring the property in 2016, Pathfinder has made renovations to landscaping, corridors, the interior lobby and light fixtures, as well as adding artwork and a dog park.



REACH Community Development Opens Affordable Housing

The \$24 million project has 101 units catering to both seniors and families with children, as well as 8,900 square feet of retail space.



Trammell Crow Starts Work On Lake Oswego

The developer's residential arm, together with CenterCal Properties, has broken ground on the multifamily and retail asset that will bring 206 apartments to the affluent Portland suburb.



An Investor's View on the Portland Multifamily Market

By Adina Marcut

San Diego-based Pathfinder Partners has been keeping Portland on its radar, along with other key western markets. The company continues to expand its multifamily portfolio in the area, with Creekside Village, a 132-unit community in Vancouver, Wash., as one of its more recent acquisitions.

The company focuses on properties that offer the opportunity for improvement, according to Senior Managing Director Mitch Siegler. In the interview below, he shares strategy details and his views on Oregon's new rent control law and the biggest challenge for the multifamily sector today.

Oregon became the first to pass a statewide rent control policy. How does this affect Pathfinder's investments in Oregon overall and Portland in particular?

For new acquisitions in Oregon, we would need to comply with rent control regulations, which cap annual rent increases at 7 percent plus the rate of inflation, around 3 percent—approximately a 10 percent ceiling. Our recent acquisition in Vancouver, Wash., across the river from Portland, is outside of this rent control area. As to properties we have owned and renovated in Oregon, future rent increases would be at market rates, 3 to 5 percent, well below the ceiling.

Future value-add apartment acquisitions in Oregon would need to be carefully scrutinized, as the rent control regulations could impact our business plans.

How has demand for housing changed in Portland compared to other West Coast markets?



Demand for housing is directly linked to population and job growth. Portland has seen strong in-migration of residents, many escaping high housing costs in California. Portland's job growth has also been strong. It's a place where Millennials want to live because of the city's vibe, recreational activities and cultural offerings. The cost of living in Portland is much more reasonable than in California, which explains the population shift during the past few decades.

The company plans to acquire \$100 million in multifamily assets this year

in several markets. How close are you to hitting that goal?

We have acquired the majority of that amount during the first five months of the year.

What other markets are you focusing on?

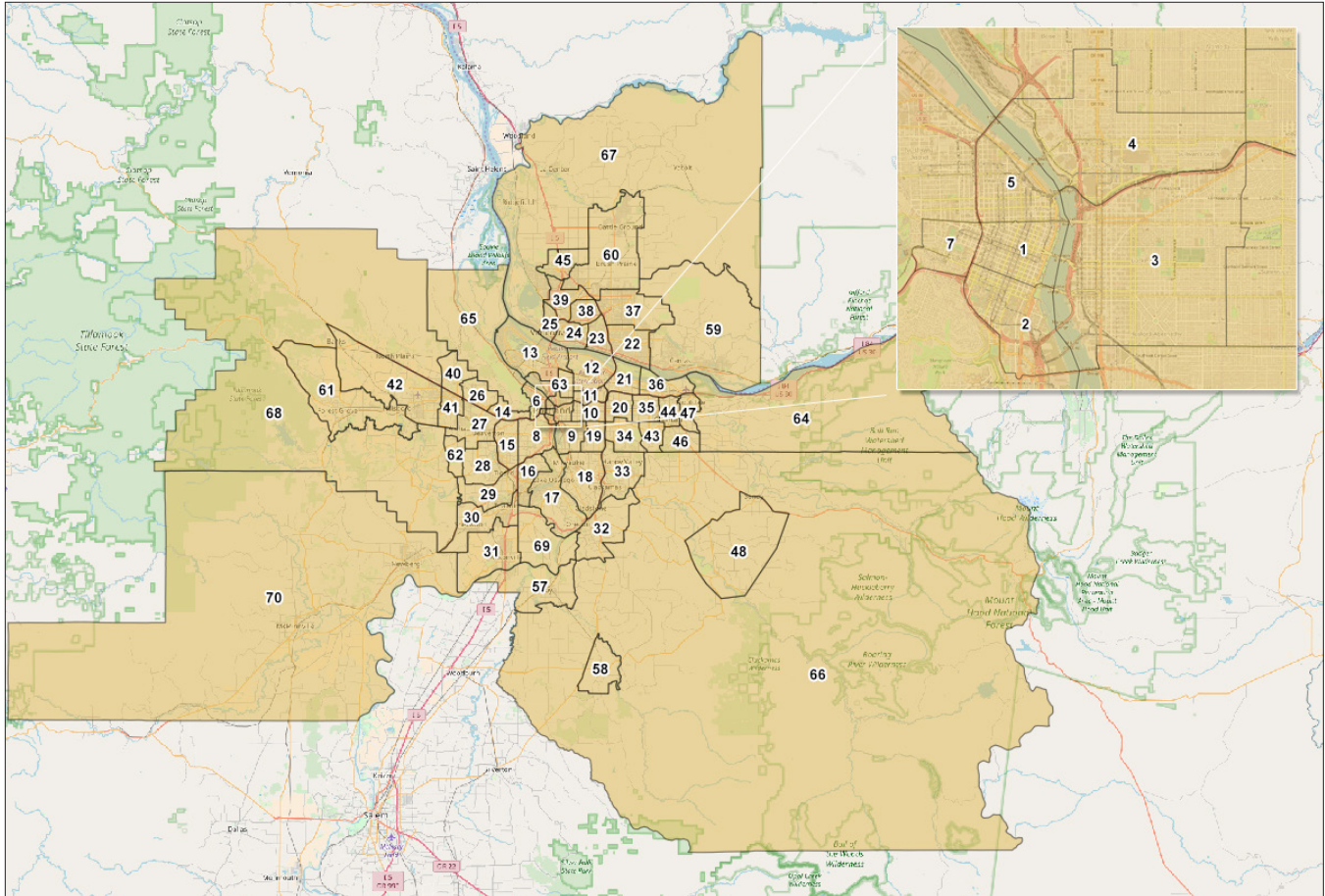
Our primary target markets include Seattle, Portland, Southern California, Phoenix and Denver, along with secondary target markets Sacramento and Las Vegas.

What is the biggest challenge in the investment sector today, and how do you cope with it?

Many others see what we see. Interest rates are low and asset prices (stocks, bonds, real estate) have appreciated significantly during the past decade. Properties are more expensive, investment returns are lower and there's no shortage of competition for a new acquisition.

(Read the complete interview on multihousingnews.com).

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/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 #	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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