



Yardi® Matrix

Portland Keeps It Steady

Multifamily Report Fall 2019

Transaction Activity Drops Slightly

Developers Focus on Core Submarkets

Occupancy Rate Remains Healthy

Market Analysis

Fall 2019

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Demand Keeps Absorption Healthy

Portland's rental market remained healthy going into 2019's second half, backed by steady demographic and economic growth. Multifamily absorption kept up the pace over the past year, with the occupancy rate in stabilized properties decreasing just 10 basis points over 12 months, to 95.7% as of August. This, despite a 2.7% growth in supply.

Job gains continued to top national averages and the metro's education and health services sector led growth in the 12 months ending in July (6,000 jobs), followed by leisure and hospitality (5,300 jobs). Meanwhile, Adidas is doubling its footprint in the metro by expanding its headquarters with the construction of a 400,000-square-foot extension set to add some 1,100 new positions to the existing 1,700 jobs.

Despite a shaky start for transactions this year, nearly \$1 billion in multifamily assets traded in the first three quarters of 2019. Although the number of units delivered year-to-date through September decreased compared to last year, Portland still had 8,657 apartments under construction at the end of the third quarter. While the pipeline is slated to remain consistent, employment gains are expected to sustain absorption, keeping rent growth relatively healthy going into 2020.

Recent Portland Transactions

Rivage



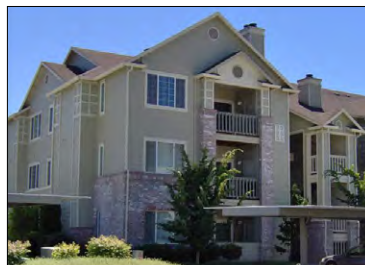
City: Portland, Ore.
Buyer: Magnolia Capital
Purchase Price: \$91 MM
Price per Unit: \$350,000

The Frank Estate



City: Portland, Ore.
Buyer: Prime Group
Purchase Price: \$85 MM
Price per Unit: \$274,865

The Grove at Orenco Station



City: Hillsboro, Ore.
Buyer: Jackson Square Properties
Purchase Price: \$73 MM
Price per Unit: \$275,568

The Pointe

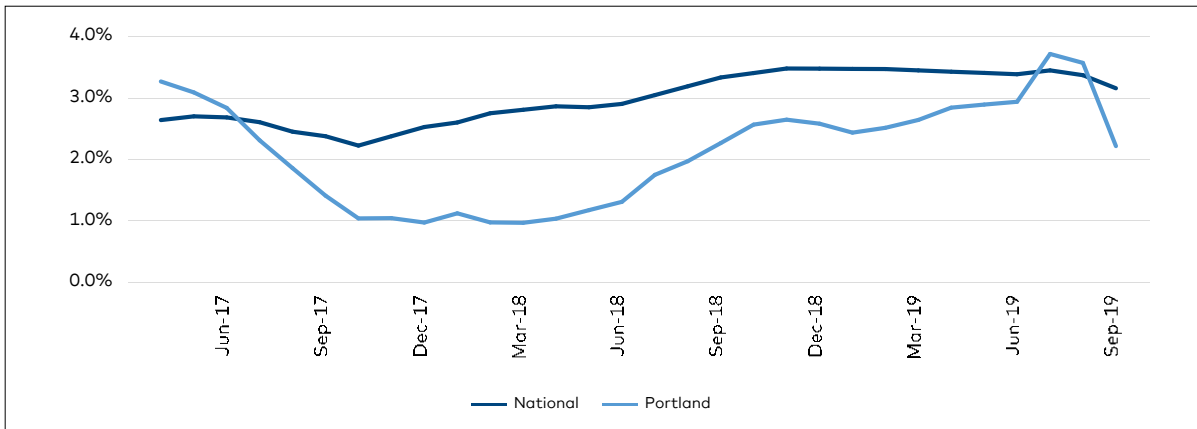


City: Vancouver, Wash.
Buyer: Vista Investment Group
Purchase Price: \$69 MM
Price per Unit: \$177,320

Rent Trends

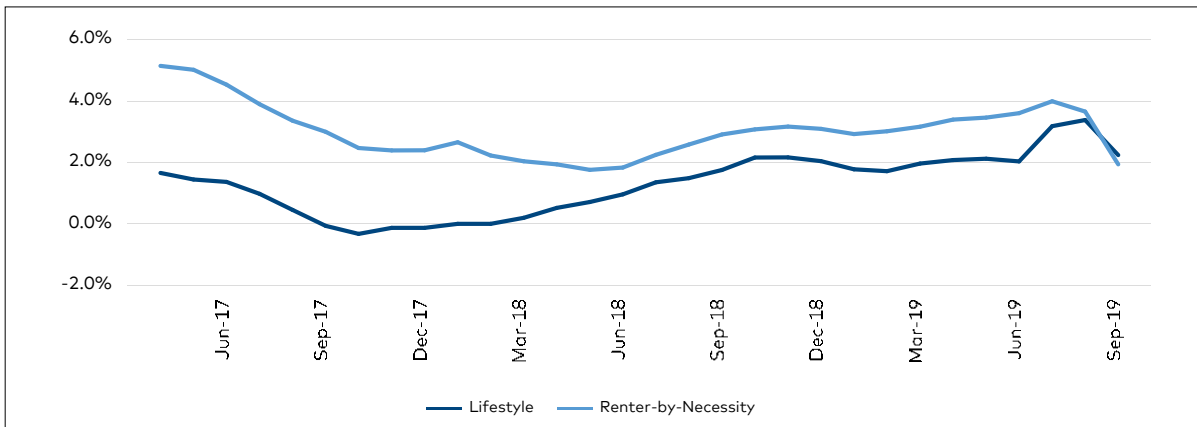
- Portland rents rose 2.2% year-over-year through September, 100 basis points below the national rate. At \$1,432, the average rent in the metro was slightly below the U.S. figure (\$1,471). Demand for units in Portland has remained exceptionally strong in recent years, with roughly 20,000 units absorbed. That has kept the occupancy rate consistently above the national average.
- Rates in the Lifestyle segment were up 2.2% year-over-year through September, to an average of \$1,601, while rents in the working-class Renter-by-Necessity segment increased 1.9%, to \$1,263.
- Rent growth was strong in suburban submarkets, including Stafford (10.2%), West Haven (7.0%) and Tualatin (5.9%). Growth was relatively spotty across the map, with average rates dropping slightly across 11 submarkets, including Troutdale (-2.6%), Piedmont (-1.8%) and Laurelhurst (-1.1%). Core submarkets such as Downtown Portland (with an average rent of \$2,087), the Pearl District (\$2,004) and PSU/Lovejoy (\$1,735) boast some of the highest rates.
- With supply and demand in relative balance, we expect rent growth to remain in the moderate range for the foreseeable future.

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)

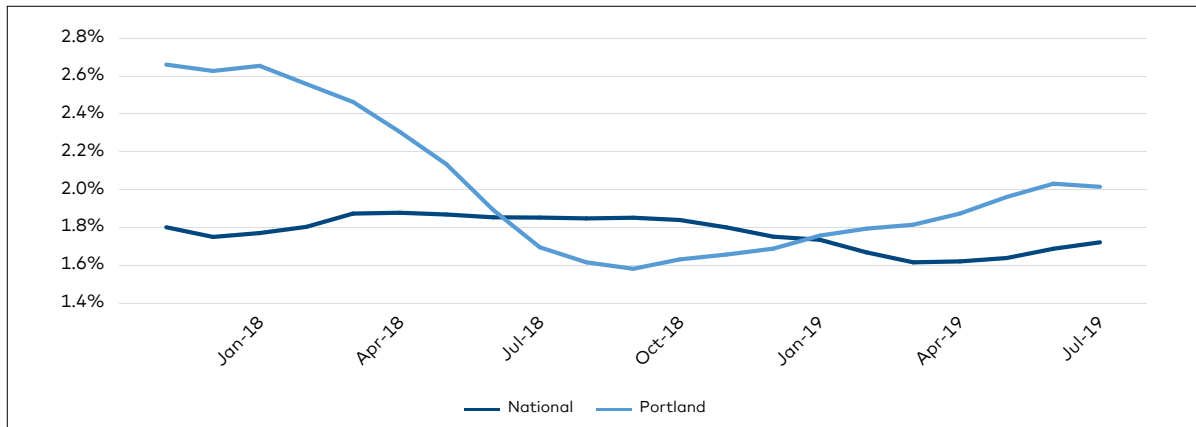


Source: YardiMatrix

Economic Snapshot

- Job growth is on an upswing: Portland gained 25,200 positions in the 12 months ending in July. This 2.0% expansion brought Portland 30 basis points above the U.S. rate. Education and health services, leisure and hospitality, and manufacturing drove most of the growth, gaining a combined 15,200 jobs. Unemployment was at 4.0% as of July, 30 basis points above the national figure and reflective of an overall tight job market.
- Job gains in office-using sectors have produced a strong supply pipeline. The metro had 3.2 million square feet of office space underway as of late October, according to Yardi Matrix data, most of it within easy reach of downtown. Meanwhile, Adidas is doubling its footprint by expanding its headquarters with the construction of a 400,000-square-foot extension, set to add more than 1,000 jobs.
- Tourism growth has boosted the leisure and hospitality sector. The Portland area recorded 26.6 million visits from individual travelers and 13.1 million from traveling groups last year, while numbers have been generally growing statewide, an Oregon Tourism Commission report shows. Nearing completion, the 600-key Hyatt Regency at the Oregon Convention Center is expected to grow the region's convention business by one-third. According to Travel Portland, the hotel is projected to generate \$120 million in annual tourism spending and \$10 million in new tax revenue.

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	14.8%	6,000	3.4%
70	Leisure and Hospitality	134	11.0%	5,300	4.1%
30	Manufacturing	133	10.9%	3,900	3.0%
60	Professional and Business Services	189	15.5%	3,800	2.1%
15	Mining, Logging and Construction	80	6.6%	3,100	4.0%
90	Government	145	11.9%	3,000	2.1%
40	Trade, Transportation and Utilities	218	17.9%	600	0.3%
80	Other Services	43	3.5%	100	0.2%
55	Financial Activities	73	6.0%	-	0.0%
50	Information	25	2.0%	-600	-2.3%

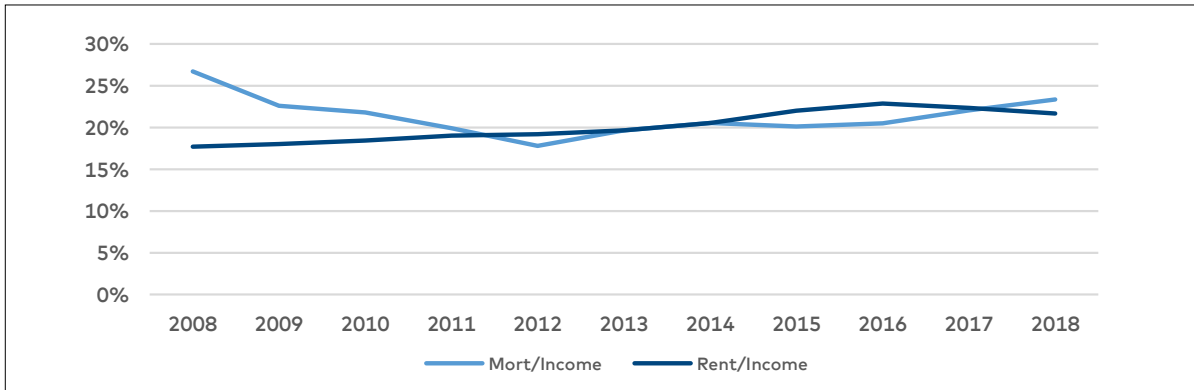
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

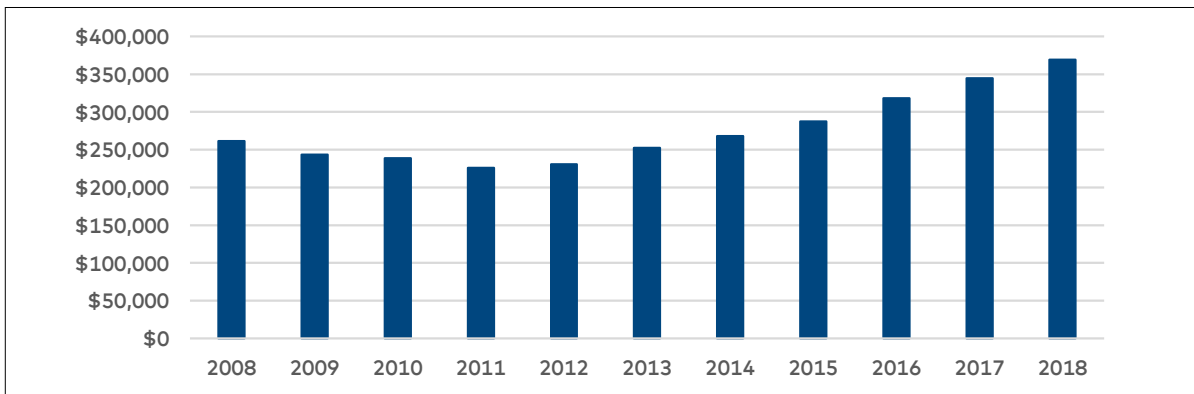
- Portland's median home price rose to a new high of \$369,387 in 2018, up 7.2% in one year and 63.4% since 2011. Overall, the metro remains relatively affordable: Last year, the average mortgage payment accounted for 23% of the area median income, while the average rent equated to 22%.
- Enacted this year, Oregon's new rent control regulations cap yearly rent increases at 7.0%, plus inflation. The new measure, Oregon Senate Bill 608, likely won't impact the market right away, but it does allow for lower caps in the future and might hinder development and investment in the long run.

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 22,348 residents in 2018, a 0.9% expansion, above the 0.6% national rate.
- Portland's best year for population gains this decade was 2015, when the metro added 45,089 residents.

Portland vs. National Population

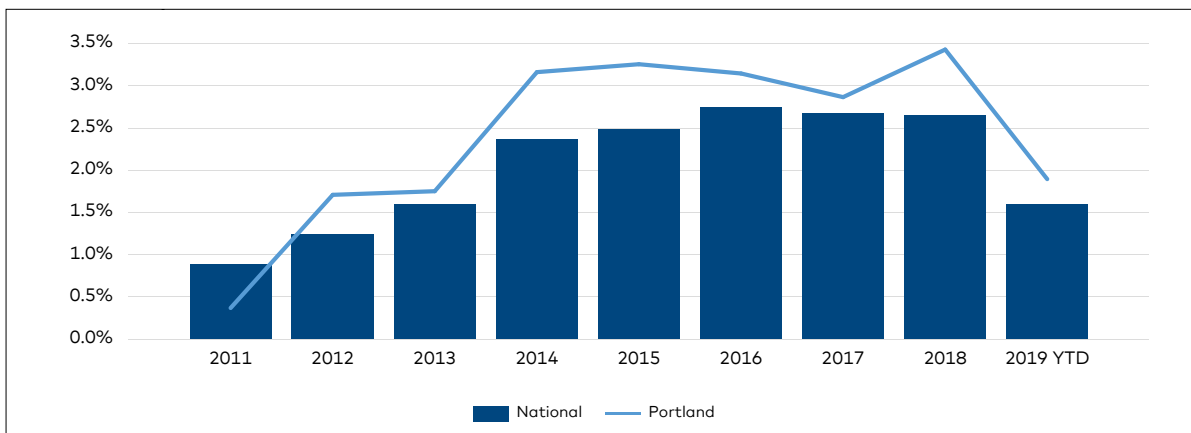
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Portland Metro	2,344,562	2,382,370	2,427,459	2,456,462	2,478,810

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

Supply

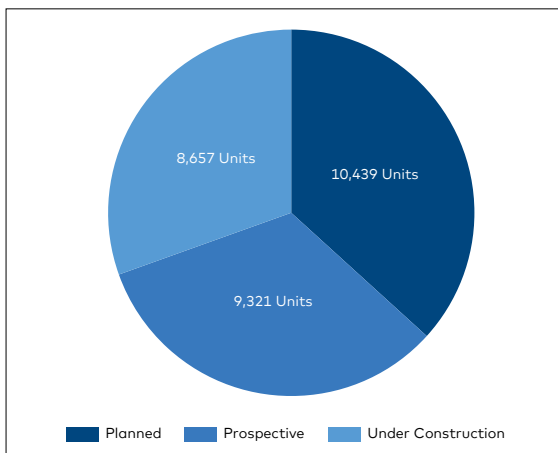
- Development remained elevated, especially in the city core and across several high-growth suburbs. As of September, the metro had 8,657 units under construction. Portland added 2,904 units in the first three quarters of 2019, part of the more than 25,000 apartments delivered since the beginning of 2014. In line with nationwide trends, new deliveries mostly cater to upscale renters, as three-quarters of the apartments that came online over the past five years are in Lifestyle communities.
- Supply decreased slightly in the first three quarters of 2019 compared to last year. Meanwhile, absorption of new units remained healthy, and occupancy in stabilized properties dropped just 10 basis points over 12 months, to 95.7% as of August.
- Four submarkets accounted for nearly half of the metro's pipeline as of September: Kerns/Buckman (1,450 units underway), PSU/Lovejoy (1,076), St. Johns/University Park (813) and Mill Plain (744). The city core continued to draw developers, with more than 50% of units under construction located less than 3 miles from downtown Portland.

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



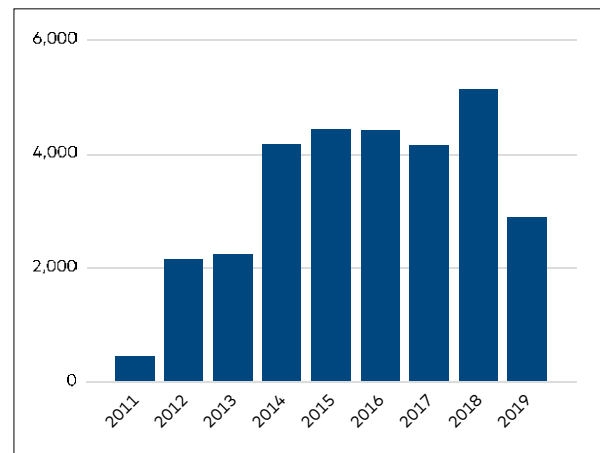
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Portland Completions (as of September 2019)

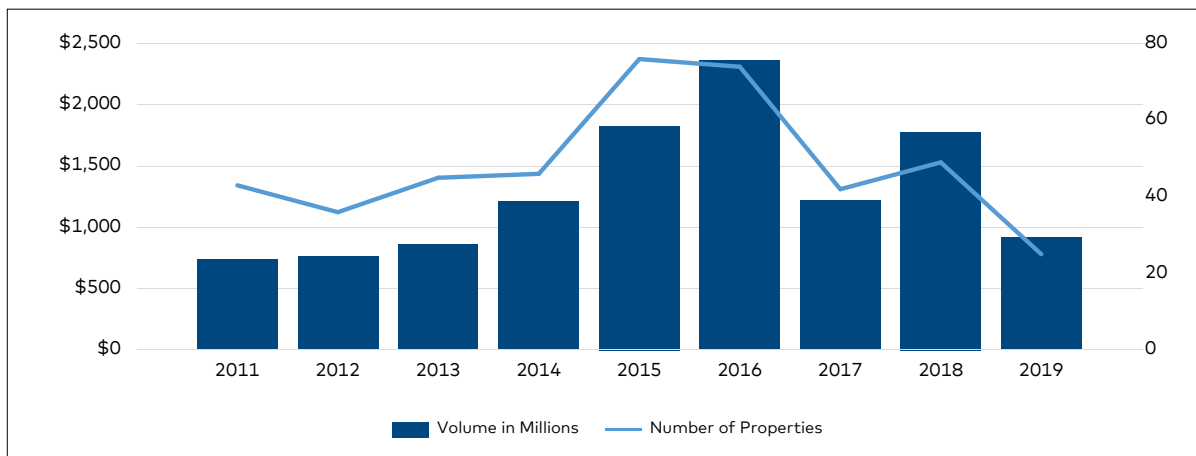


Source: YardiMatrix

Transactions

- Investment was off to a shaky start this year, as transactions for the first quarter totaled only \$210 million. Activity has picked up slightly since then and the total reached \$917 million as of September. Portland's five-year average volume now stands at \$1.7 billion, with a \$2.3 billion cycle high in 2016.
- After hitting a \$246,633 cycle peak in 2018, the average per-unit price dropped slightly in the first three quarters of 2019, to \$226,862. Investors remained split between Class A and value-add assets: Of the 25 properties that traded through September, 13 were Renter-by-Necessity and 12 were Lifestyle assets.
- Magnolia Capital's acquisition of Rivage, a 260-unit property in the Hillside/Northwest submarket, marked the largest sale of the third quarter. The Chicago-based firm bought the 2017-built community from Fore Property Co. for \$91 million, or \$350,000 per unit, using a Deutsche Bank line of credit.

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



Source: YardiMatrix

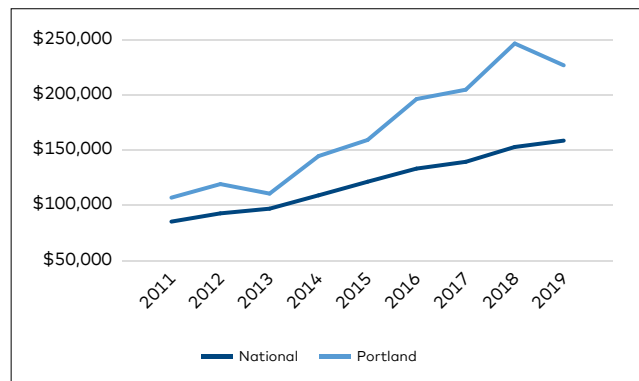
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Orchards	195
Beaverton	143
Greenway	141
Hillside/Northwest	91
Raleigh Hills	85
Hillsboro	73
Tigard	71
Wilsonville	70

Source: YardiMatrix

¹ From October 2018 to September 2019

Portland vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Wood Partners Starts Upscale Project in Portland

The company's fourth community in the Portland area, Alta Civic Station in Gresham, Ore., will offer 318 units and is slated to open in the spring of 2021.



Pacific Oak Capital Funds \$33M Portland-Area Project

The investment manager is backing a 172-unit community with 10,000 square feet of retail space in the city of Wood Village, Ore. Completion is expected in summer 2021.



JLL Arranges Sale, Financing For Portland Asset

Built in 2009, Tupelo Alley includes 188 units and 10,000 square feet of ground-floor retail space.



Prime Group Buys 309-Unit Portland Property

Newmark Knight Frank originated a \$63.7 million Freddie Mac acquisition loan, set to mature in 2031.



Greystar Sells Portland-Area Community

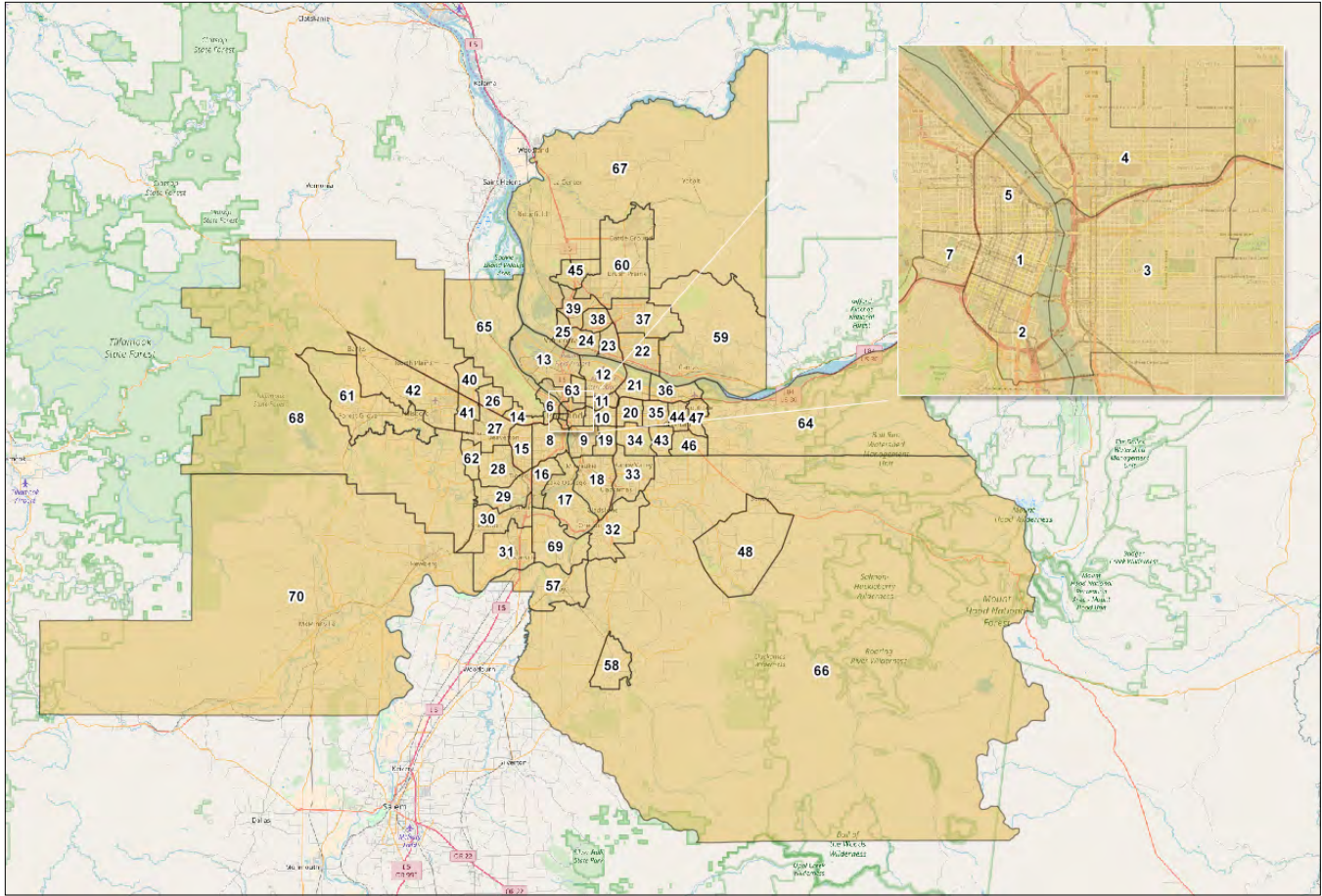
The 264-unit property in Hillsboro, Ore., is just south of Intel's research and manufacturing campus.



Barings Sells Portland Community For \$116M

Griffis Residential acquired the 294-unit, LEED Gold-certified property situated in the city's South Waterfront neighborhood.

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
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	Hillsboro

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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