

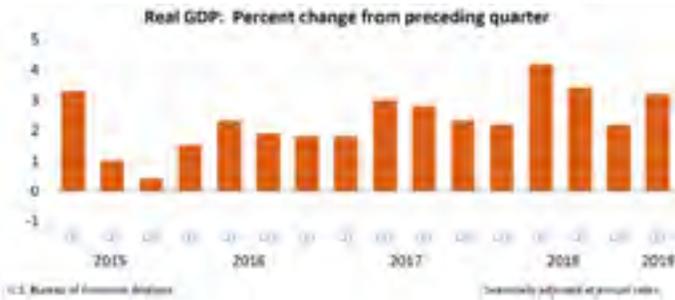
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## Economic Analysis

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At a national level, the current expansion cycle has continued through 39 consecutive quarters. Gross Domestic Product (GDP) during the first quarter of 2019 expanded at an annualized rate of 3.2%. The current consensus anticipates a significant reduction in the rate of expansion during the second quarter, as the first quarter numbers reflected some one-time factors such as a rush to bring in goods from China before tariffs took effect, which increased inventories in the first quarter.

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The continuation of the current expansion cycle is expected to continue, the pace of growth will likely decline. While slowing expansion is likely to reduce pressure on interest rates, which will help keep financing costs stable and capitalization rates for income properties low as well.

The Portland metropolitan area has outpaced the national rate of growth throughout the current expansion cycle, but that differential has diminished over the last few years.

While employment growth is expected to continue over the next year or two, the local market is no longer significantly outperforming the national average.

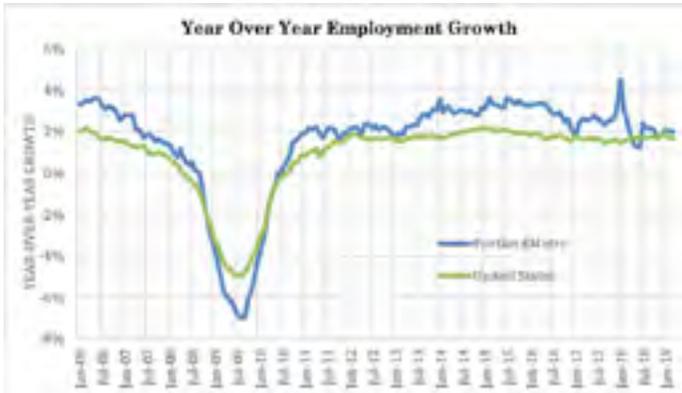
One of the limiting functions to overall employment growth during the remainder of this expansion cycle will be labor supply. The local unemployment rate has held steady at roughly 4.0% since the beginning of 2017, with additional labor needs addressed by in-migration and increases in labor force participation. With an estimated unemployment rate now at just 3.9%, continued expansion will increasingly need in-migration for additional labor force. The tight labor market will also place upward pressure on wages.

The Portland metro area has been the beneficiary of sustained net in-migration for decades, which has accounted for the bulk of population growth at the statewide and metro area level. The rate of natural increase (births less deaths) has declined steadily while in-migration has also declined. While the forecast is for in-migration to continue at high levels this pattern is not supported by historical trends. Some of the decline in natural increase is addressed later in this section in the discussion of trends in the millennial generation.

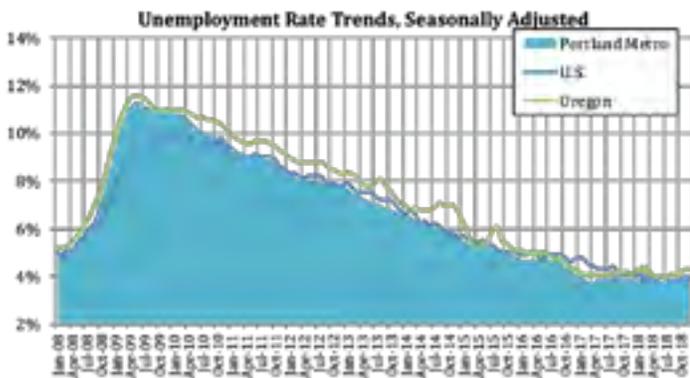
At a statewide level, the area of most significant population growth has been in the 65+ age cohorts. Growth in the key 25-44 age groups that are critical to support labor force needs declined in 2018. Labor force participation rates for working age households (25-54) are now over 80%, close to their historic high.

California has been the primary source of net in-migration to the State of Oregon, accounting for a net inflow of just under 20,000 residents from 2013 through 2017. The state had a net out-flow of to Washington during the period of over 3,600 residents.

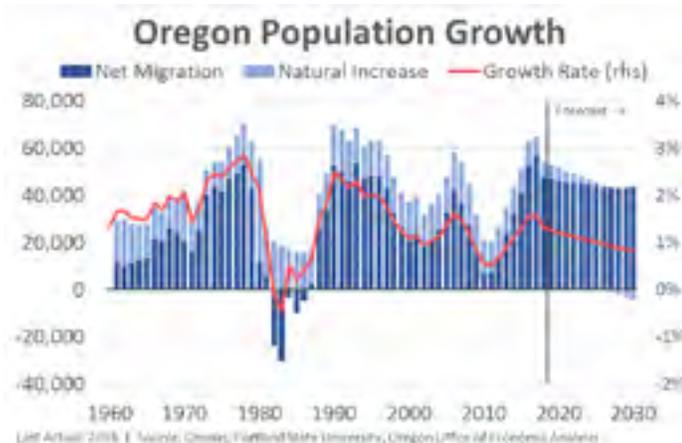
Demographic trends are expected to have a significant impact on the local residential markets, which will also impact the local potential for economic expansion. The strong demand for apartments in this business cycle can largely be attributed to the millennial generation. The millennial generation have largely moved out from their parents' households and established their own households. Thus, we expect more moderate growth in apartment demand going

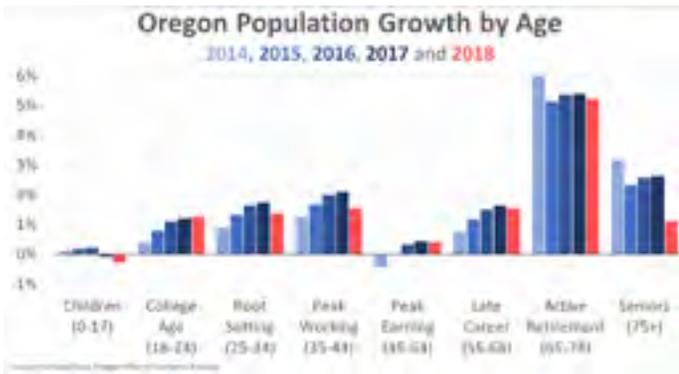


SOURCE: CES Employment, State of Oregon and BLS



SOURCE: Local Area Unemployment Statistics (LAUS)



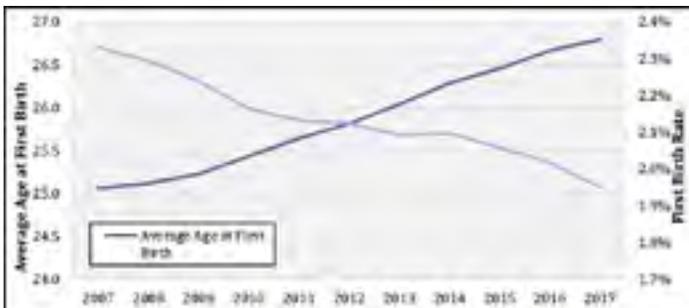


## RATE OF FIRST-TIME BIRTHS BY AGE, UNITED STATES (2007-17)



SOURCE: Centers for Disease Control and Prevention, JOHNSON ECONOMICS

## RATE OF FIRST-TIME BIRTHS AND AVERAGE AGE AT FIRST BIRTH (2007-17)



SOURCE: Centers for Disease Control and Prevention, JOHNSON ECONOMICS

forward. The next question is when these millennials will move into the family stage, and whether that will leave a vacuum in the apartment market as these millennial families move into more family-friendly housing.

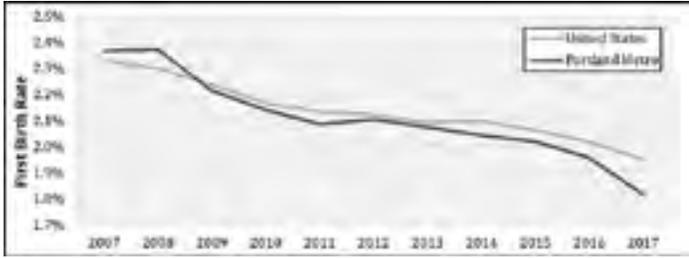
On the national level, the millennial wave has not yet produced a birth wave. Though 27-year-olds represent more first-time births than any other age level, and the number of 27-year-olds increased considerably leading up to 2017, the number of first-time births within this age group is declining. We get a clear picture of what is going on when we compare age-specific rates of first-time births in 2007 and 2017. In 2007, 19-year-olds had a higher rate of first-time births than any other age group. 6.1% of all 19-year-old women in 2007 became mothers for the first time that year. By 2017, that rate had declined to 3.4%. The rate of first births declined dramatically across all ages below 30.

For the entire female population between 15 and 49, the share of first-time births declined from 4.2% to 3.0% over the ten-year period, while the average age at first birth rose from 25 to 27. In other words, women today wait longer before becoming mothers than they did before, and they also have a greater tendency to avoid having children altogether. The data does not provide any indication that these shifts have ran their course.

There are several economic reasons that may explain this trend. Millennials are more burdened by student debt than any preceding generation. In addition, they also spend more on rents, as rent levels have increased considerably faster than wages and incomes over the past ten years. Escaping the rising rents has also become more difficult, as the threshold to homeownership is now much higher than it was before the last recession. Fewer young couples have the family-friendly setting they are looking for when raising children, and fewer can afford to forego the second income while raising their children. We see the impact of this most clearly on the Hispanic population, which has seen the steepest declines in birth rates over the past ten years.

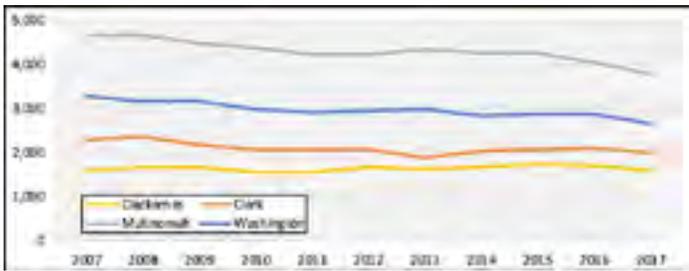
Trends in birth rates and family formation in the four-county Portland Metro Area mirror those at the national level, with steep declines among the youngest women and gains among women in their thirties and forties. The declines in birth rates are more pronounced in the Portland Area than nationally.

## RATE OF FIRST-TIME BIRTHS (PERCENT OF FEMALE POPULATION AGE 15-49, 2007-17)



SOURCE: U.S. Census Bureau, Centers for Disease Control and Prevention, JOHNSON ECONOMICS

## FIRST-TIME BIRTHS BY COUNTY, PORTLAND METRO AREA (2007-17)



SOURCE: Centers for Disease Control and Prevention, JOHNSON ECONOMICS

While the female population between 15 and 49 grew by 10% over the 2007-17 period, there was a 15% decline in first births, from 11,800 to 10,100 annually. Again, the data does not indicate that the decline in first-time births is leveling off, as declines in 2017 are steeper than in previous years.

The steepest declines in first-time births over the past ten years have been in Multnomah and Washington counties (-18% and -19% respectively), despite these having seen much stronger population growth within child-bearing ages. However, growth in these counties has been weighted to high education levels, and therefore has not contributed to more births. Note that these are also the counties with the highest rent levels, and thus with the highest thresholds for single-income families.

The impact of these patterns on the local real estate markets has been a level of sustained strength in the rental residential beyond what would be expected by demographic patterns. The household formation patterns of the millennial generation combined with debt burden and housing market options have fundamentally altered the tenure split locally towards rental housing. This pattern indicates that the local rental apartment housing markets are likely to show greater strength than underlying demographic trends would indicate based on previous experience. They also indicate a future demand for lower-priced ownership housing options as these household eventually enter that market.