

## PORTLAND MULTI-FAMILY RESIDENTIAL ANALYSIS

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The multifamily residential market in the Portland metro area has remained robust through the fourth quarter of 2018, marking a 1.8 percent increase in overall rental growth and the highest volume of multifamily market trades since early 2016, according to Colliers International. While the effects of Portland's inclusionary zoning ordinances of 2016 have likely not yet been fully realized, the delivery of new rental housing has continued to provide sound investment aided by a stable platform of rising market rates and population growth. Rental rates continue to command just above \$1.50 per square foot and occupancy is tight at 95 percent throughout 2018, indicating room for further delivery.

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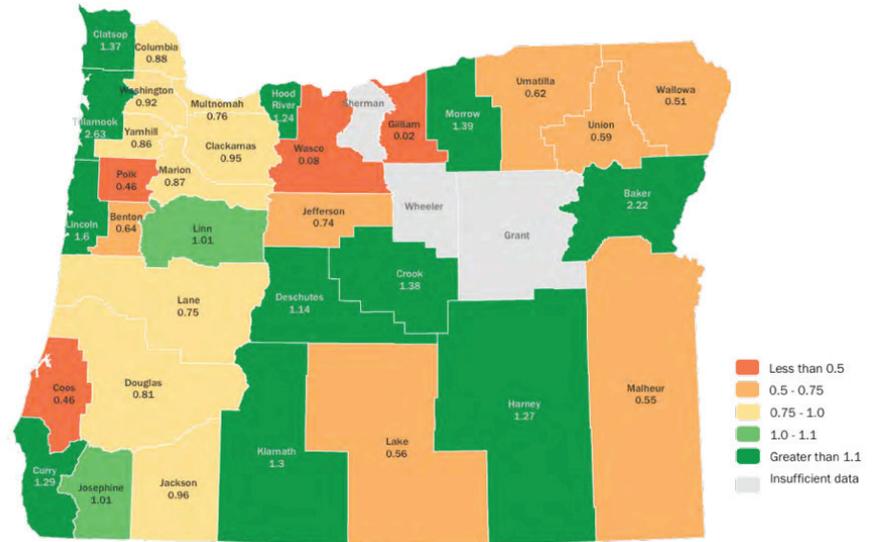
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## PERMITTING

As the cranes towering over Portland have been indicating for many months, the steady delivery of newly built residential space has continued in the fourth quarter to match the previous 2018 trends at a two percent monthly growth rate. The Census Bureau reports the fourth quarter of 2018 saw approximately 2,400 new building permits issued throughout the Portland metro area for 2,3,4, and 5+ unit multifamily spaces.

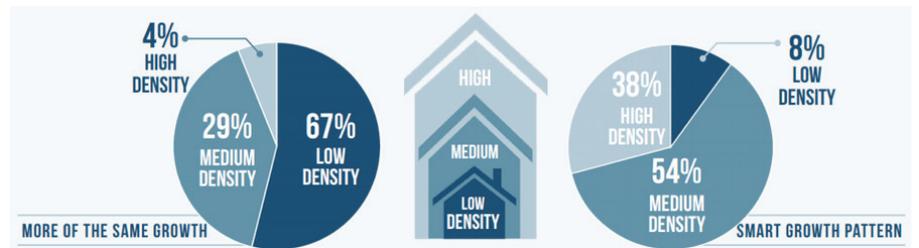
An ongoing shortage of housing in Portland has prompted efforts to boost “smart growth” strategies to supply more units. The Up For Growth National Coalition notes if Portland’s current housing development trends continue, 67 percent of new units would be single-family while only 4 percent would come in the form of high-rise, high-density housing. Alternatively, Up For Growth recommends encouraging high-density development to account for 38 percent of the units delivered. Other than shifting development emphasis from single-family homes to higher-density projects, the Up For Growth plan would also nearly double the supply for medium density (low-rise multifamily) units.

Figure 1: Fewer than 1 housing unit produced per household formed since 2000



Source: Up For Growth National Coalition (2019)

Figure 2: Current Housing Trends vs Smart Growth Alternative



Source: Up For Growth National Coalition (2019)

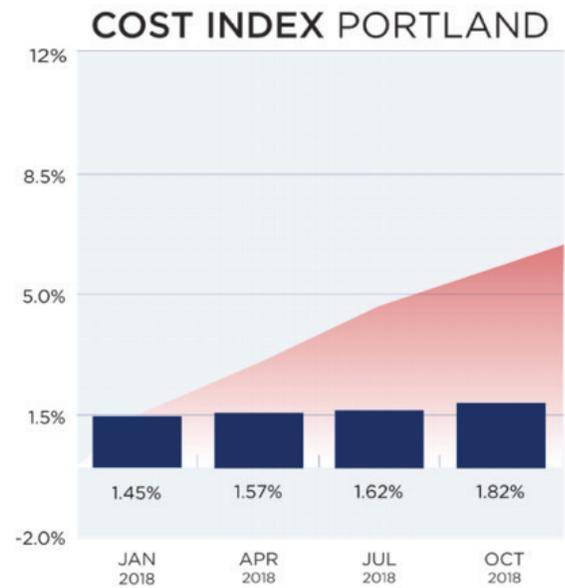
## VACANCY, RENTAL RATES, COSTS

As a strengthening labor market and falling unemployment rates increase the rate of family formations, the support for continued rising rental rates for multifamily spaces remains present through the fourth quarter of 2018. Colliers reports steady rental average growth at rates of nearly two percent across all unit sizes, with 1-bedroom units representing the greatest growth at 2.6 percent.

Occupancy across all units has remained at an average of 95 percent despite the continual delivery of new housing. We can expect that the combination of tight occupancy coupled with relatively stable interest rates and slowly rising rental rates are substantial indicators that downtown Portland's housing shortage remains.

Market rates are further expected to rise as a result of rising construction costs. According to fourth quarter data generated by Rider Levett Bucknall, Portland's current multifamily new construction costs range from \$160-250 per square foot and reflect a 6.6 percent increase year-to-date, growing at even faster rates than costs in Boston, Los Angeles, New York, Seattle, and Washington, DC. This has been a pervasive trend throughout 2018. Considering the newly-imposed tariffs on some construction material trade and the rising scarcity of skilled labor, it seems reasonable to expect that these expanding construction costs will continue to rise into the foreseeable future.

Figure 3: Construction Cost Growth, Portland 2018



Source: Rider Levett Bucknall (2018)

## SALES ACTIVITY

Sales conditions in the 2018 market have remained relatively stable through the end of the year, bolstered by falling unemployment rates, rising population trends and steadily rising rents. Kidder Mathews reports Portland's average multifamily cap rates hovering between 5.6 and 5.2 since mid-2015.

Sales prices per unit have doubled since the post-recession 2009-2013 trends from about \$100,000 to over \$200,000 in 2017-2018.

The most notable sale of 2018's Portland multifamily properties was that of Indigo at Twelve West, with an average price per unit of nearly three times the market average.

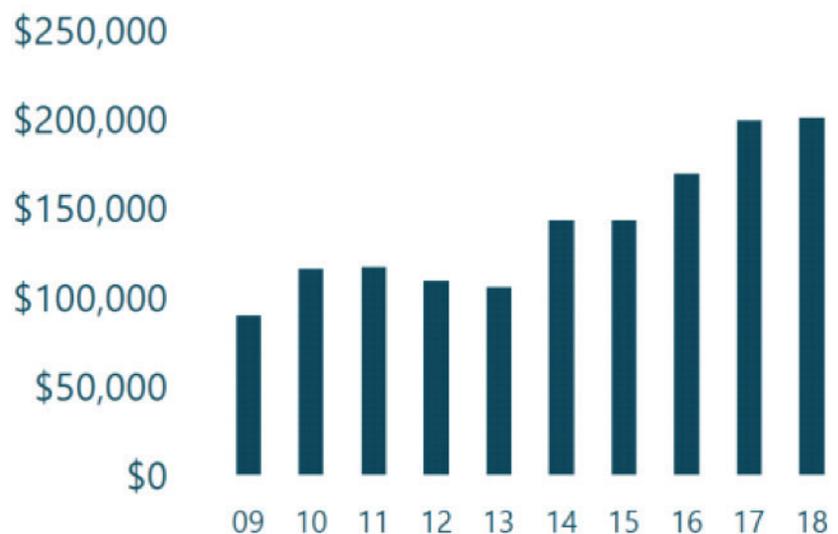
Recent transactions of multifamily property in Portland indicate the presence of a strong investment market. Based on incentives to increase the housing supply along with rising rents and low vacancy rates, we can expect Portland's multifamily economy to continue to grow.

### Table 1: Cap Rates by Type, Portland Multifamily Residential

Housing Type	February 2019 Cap Rates
Luxury, New Construction	4.62
Class A	5.14
Class B	5.67
Class C	6.45
Value-Add Purchase	6.34
<b>Average</b>	<b>5.64</b>

Source: ALS Nationwide (2019)

### Figure 4: Average Sales Price Per Unit 2009-2018



Source: Berkadia (2019)

### Table 2: Top Multifamily Sales 2018

NAME	CITY	UNITS	BUILT	DATE SOLD	SALES PRICE	PPU
Indigo @ Twelve West	Portland	273	2009	July	\$ 156,057,974	\$ 571,640
Thorncroft Farms	Hillsboro	340	1998	January	\$ 97,500,000	\$ 286,764
Tessera at Orenco	Hillsboro	304	2014	September	\$ 85,000,000	\$ 279,605
Arbor Creek	Beaverton	440	1984	October	\$ 84,300,000	\$ 191,590
Sygnii Apartments	Tigard	240	2017	October	\$ 75,200,000	\$ 313,333

Source: Berkshire Hathaway (2019)