
MULTIFAMILY MARKET ANALYSIS

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Portland ranked ninth in the U.S. at 2.3 percent in rent growth during the second quarter of 2014 and ranked fourth at 7.4 percent in annual growth rent for the year ending in the second quarter of 2014 according to RealPage® MPF Research Division Report.

“Apartment owners and operators continue to have strong pricing power right now,” said MPF Research Vice President, Greg Willett. “Sizable rent hikes are occurring, especially in middle-market to bottom-tier properties, reflecting the especially tight occupancy rates seen for those units. If there’s a surprise in recent results, it’s that significant rent growth is also being generated at the very top of the apartment product spectrum. Even in projects finished just a year or so ago, higher rents are being realized when leases turn over, despite the fact that there’s competition from additional brand new developments just entering the market.”

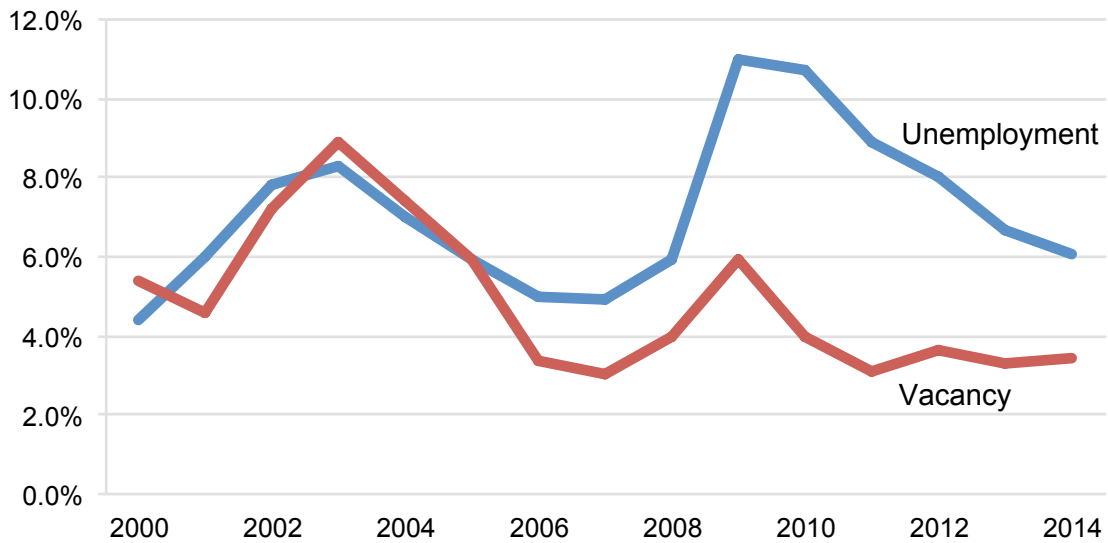
According to Freddie Mac Executive, David Brinkman, citing the Joint Center on Housing Studies of Harvard University report, 2014 State of the Nation's Housing, “Demographic forces alone could create as many as 4.7 million more renter

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households by 2023.” Additionally Brinkman notes “Construction starts of new multifamily units have rebounded, following a building drought during the financial crises. In the last few quarters, starts hit historical averages—an annualized rate of around 330,000 units. As completions begin flowing into inventory at levels consistent with historical averages in the next couple of years, we’re looking at about 3.1 million new units over the next 10 years.” This falls short of the 4.7 million renter households projected. Portland is in great shape to be the beneficiary of the continued rental demand. Higher cap rates than any other major west coast city, employment growth and the destination de jour for millennial’s puts Portland on the national map for investment dollars.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 6.1 percent ; this is equal to the national average of 6.1 percent . In addition, job growth in the Portland Metro area sits at 2.9 percent. The U.S. as a whole continues to lag at 1.7 percent.

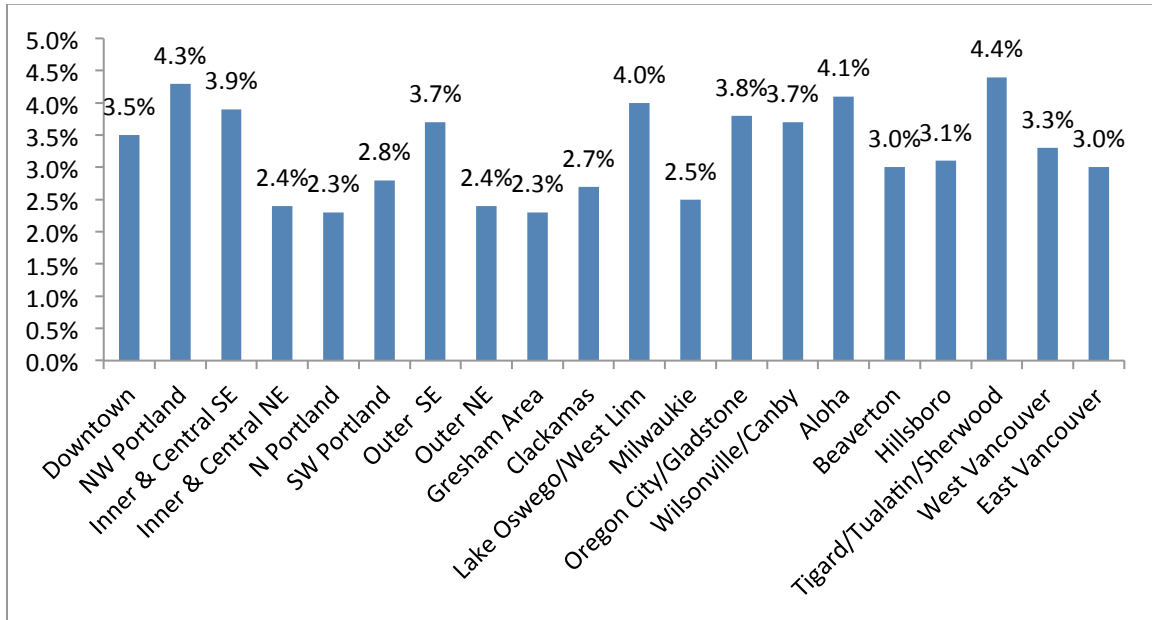
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 4.4 percent in Tigard/Tualatin/Sherwood and the lowest was Gresham area and N. Portland at 2.3 percent. The highest vacancy rate among studios was NW Portland at 5.81 percent. The highest vacancy rate for 1 BD, 1 BA was Central SE at 6.3 percent, while the lowest was Milwaukie with 0.93 percent. For 2 BD, 1 BA the highest vacancy was Lake Oswego/West Linn at 4.72 percent and the lowest was Clackamas at 1.06 percent. Ten submarkets reported a 0 percent vacancy rate

among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed. Lake Oswego/West Linn and Wilsonville reported 9.56 percent and 7.02 percent vacancy respectively for 3 BD, 2 BA units which are significantly higher than other areas.

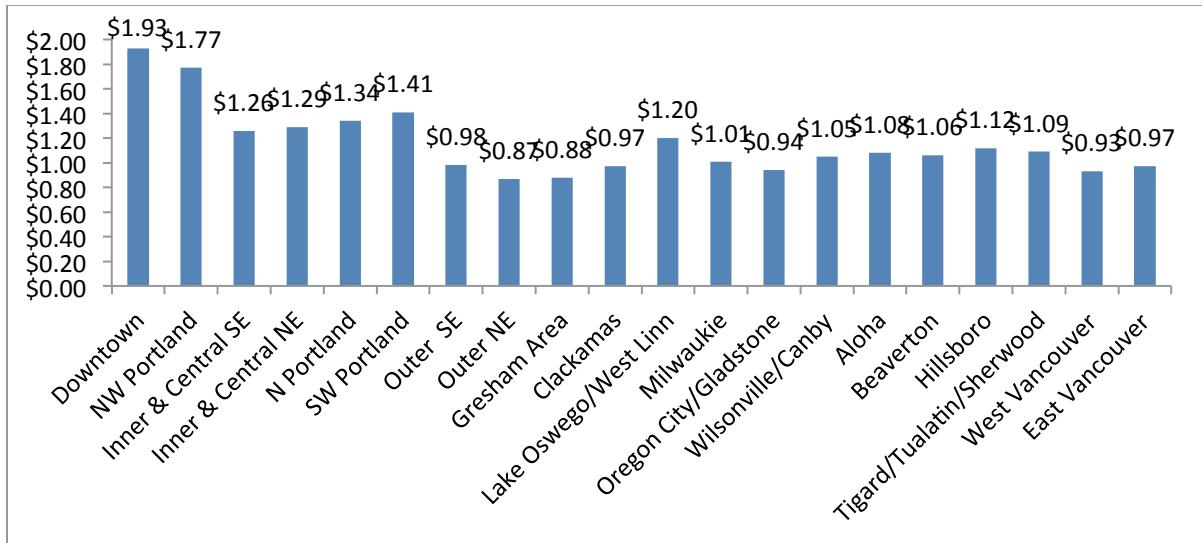
Figure 2: Vacancy Rates by Submarket Spring 2014Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a \$1.93 average, followed by NW Portland at \$1.77. The lowest overall rent/SF is shared between Outer NE at \$0.87 per square foot and Gresham at \$0.88 per square foot. The highest rent/SF for studios was NW Portland at \$2.09 and the lowest was Hillsboro/N of HWY 26 at \$1.14. The highest rent/SF for 1 BD, 1 BA was Downtown at \$1.93 and the lowest was Outer Northeast at \$0.96. The highest rent/SF for 2 BD, 1 BA was Downtown at \$1.98 per SF and the lowest was \$0.81 per SF in Troutdale/Fairview/Wood Village/Gresham.

Figure 3: Rent / SF by Submarket Spring 2014 Portland Metropolitan Area



Source: MMHA

According to data provided by Steve Morris, Senior Advisor with Sperry Van Ness | Bluestone & Hockley, there were 42 multifamily sales over \$450,000 in the Portland Metro area in the second quarter of 2014. The average unit size was 50.22 units and the average price per unit was \$151,700. Real Capital Analytics reports Cap rates in Portland for multifamily properties have dropped from the previous quarters 6.81 percent to 6.5 percent in the second quarter. Portland’s cap rate of 6.5 percent puts it at the highest yield for all major west coast MSA’s. It is a full 2 percent higher than San Francisco with the lowest average cap of 4.3 percent and 0.6 percent above Sacramento, CA at 5.9 percent.

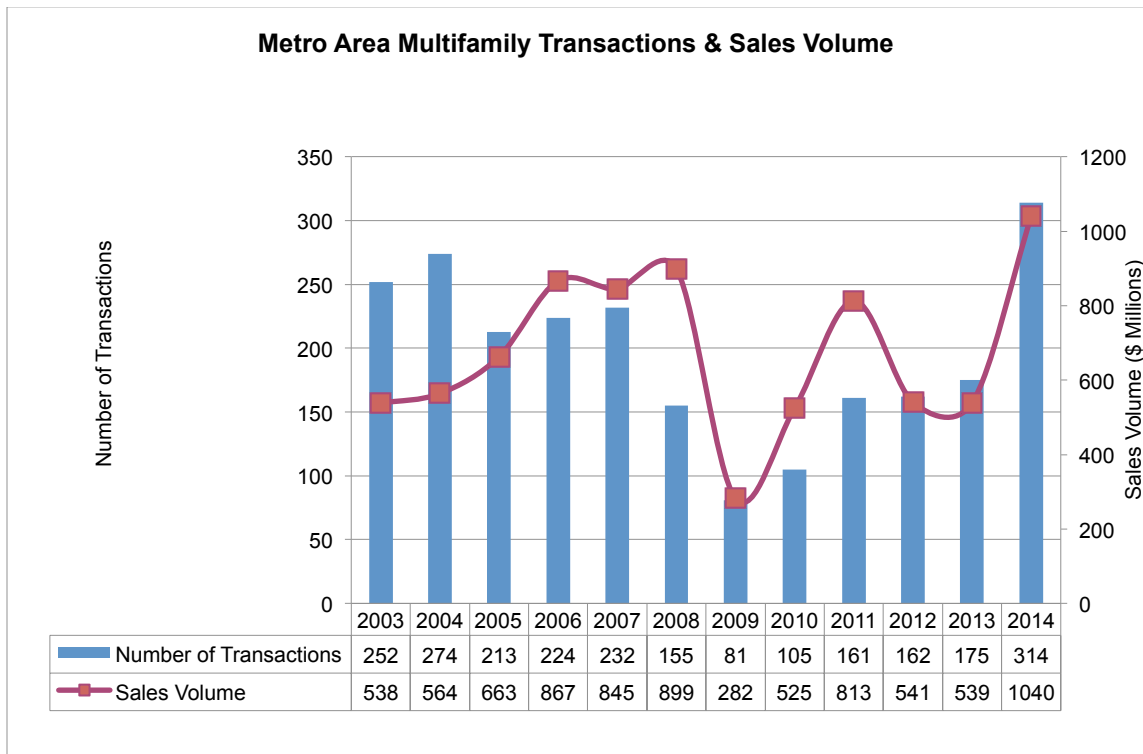
There were four deals over \$10 million in the second quarter. Asa Flats and Lofts (231 units) sold for \$105.5 million, One Jefferson Parkway (347 units) sold for \$63 million, Green Leaf Monterey (390 units) sold for \$51.2 million and Beef Bend Court Apartments (120 units) sold for \$13.1

Portland continues to attract out of state buyers with roughly one-third of all buyers in the second quarter of 2014 having listed an address other than Oregon. It is clear with continued population and job growth the market will remain active.

Q2 2014 Major Sale Transactions					
Building	City	Price	Units	Price/Unit	Cap Rate
Asa Flats and Lofts	Portland	\$ 105,500,000	231	\$ 456,710	
One Jefferson Parkway	Lake Oswego	\$ 63,000,000	347	\$ 181,556	
Green Leaf Monterey	Portland	\$ 51,250,000	390	\$ 131,410	5.96
Beef Bend Court Apt.	Tigard	\$ 13,100,000	120	\$ 109,167	6
Trailside	Gresham	\$ 7,295,000	72	\$ 101,319	5.5
Watkins Park	Clackamas	\$ 7,128,000	156	\$ 45,692	
Reserve at Ashbrook	Tigard	\$ 7,128,000	43	\$ 165,767	6.19
Woodland Park	Hillsboro	\$ 6,850,000	111	\$ 61,712	6
Brackney Estates	Beaverton	\$ 5,900,000	39	\$ 151,282	
Baseline Woods	Beaverton	\$ 4,421,424	230	\$ 19,224	
Willow Springs Apt.	Oregon City	\$ 4,400,000	56	\$ 78,571	7.06

Source: Colliers International Midyear 2014 Multifamily Report

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, Through June 2014 (annualized)



Source: Costar

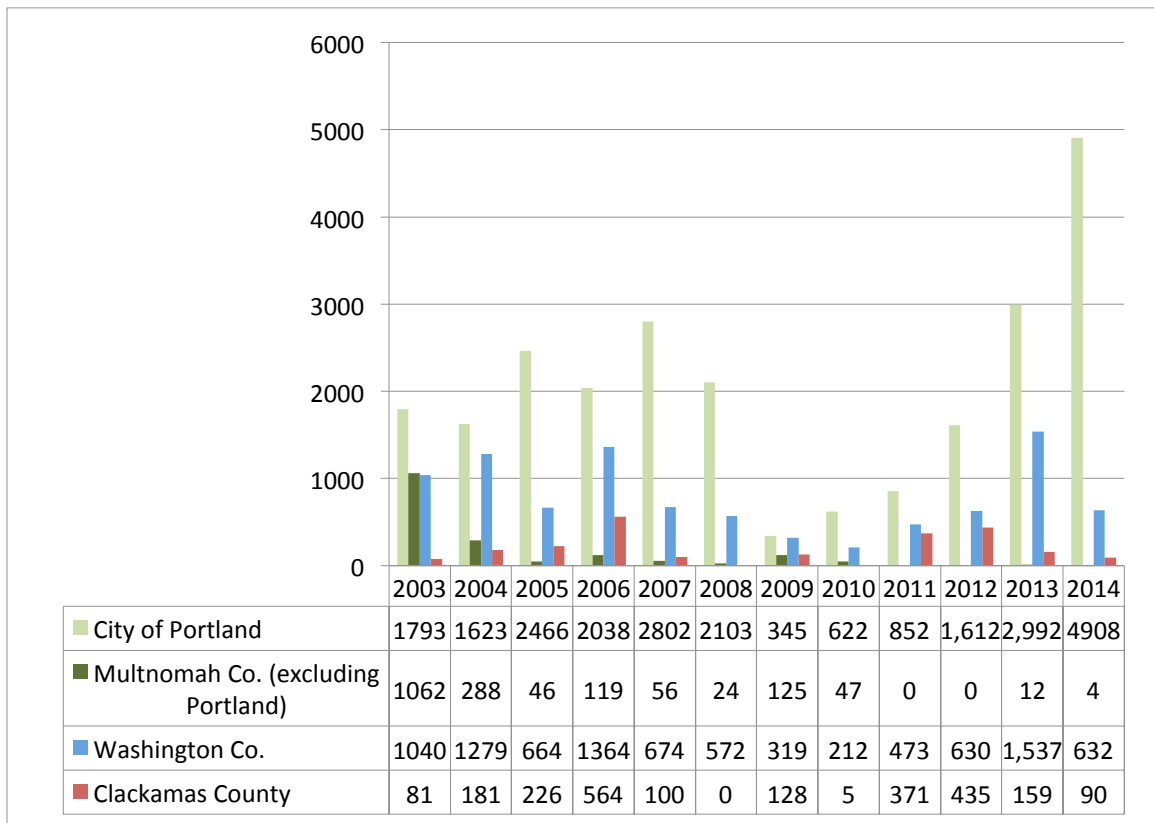
During the second quarter of 2014, multifamily building permits issued rose significantly in the city of Portland. After a slow and steady start in the first quarter Portland is now on pace to issue nearly 5,000 multifamily building permits by year end. A 64 percent increase over the 2,992 permits issued in 2013. Permits issued in Washington and Clackamas Counties are well below the number issued in 2013. Annualized Washington County will issue 632 permits compared to 1,537 permits issued in 2013 and Clackamas County will issue 90 permits compared to 159

permits issued in 2013. Prior to the downturn the Portland Metro area was building about 4000 new multifamily units per year.

Metro is projecting that Portland alone will require 5,000 multifamily units per year through 2035 to accommodate growth of 205,594 people within the city limits. ■

Figure 5: Multifamily Building Permits Issued, March 2014

Number of permits through June 2014 is annualized



Source: US Census