
MULTIFAMILY MARKET ANALYSIS

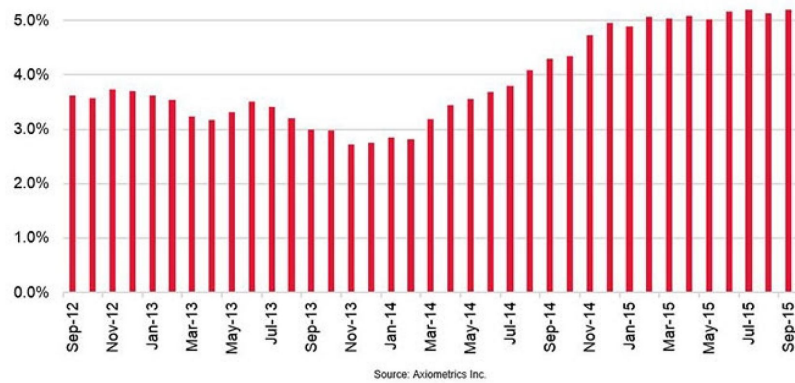
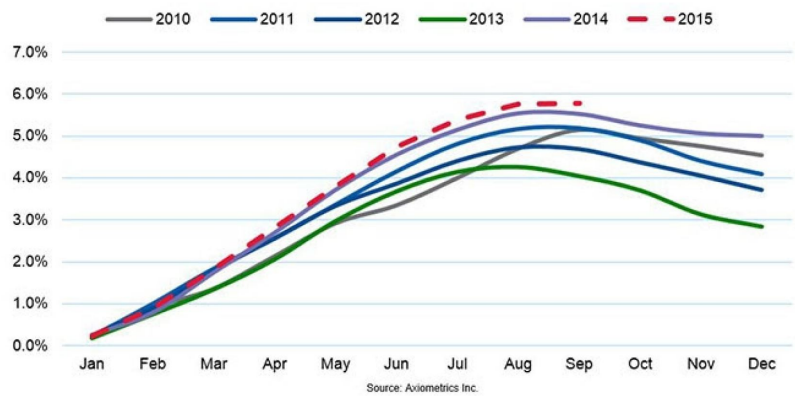
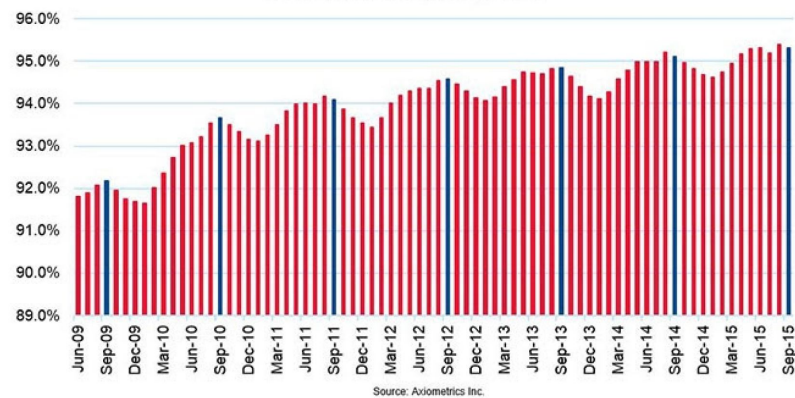
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At the national level, annual effective rent growth has once again strengthened. The national rate of rent growth was 5.2 percent in September, greater than both the 5.1 percent achieved in August and the 4.3 percent observed in September 2014. The rate has now been at or above 5.0 percent for eight consecutive months according to Axiometrics, from whom this data is derived. At 5.8 percent, year-to-date effective rent growth in September is at its highest level during the entire post-recession period. Meanwhile, national vacancy registered at 4.7 percent in September 2015, the third strongest month of the year by this measure.

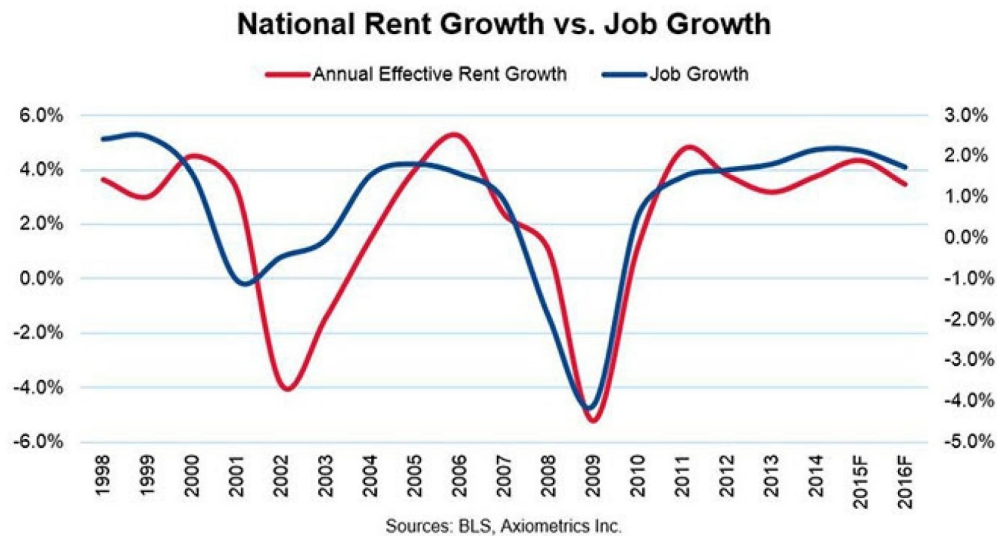
■ Clancy Terry is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is the 2015 RMLS Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

National Annual Effective Rent Growth**National Year-to-Date Effective Rent Growth****National Occupancy Rate**

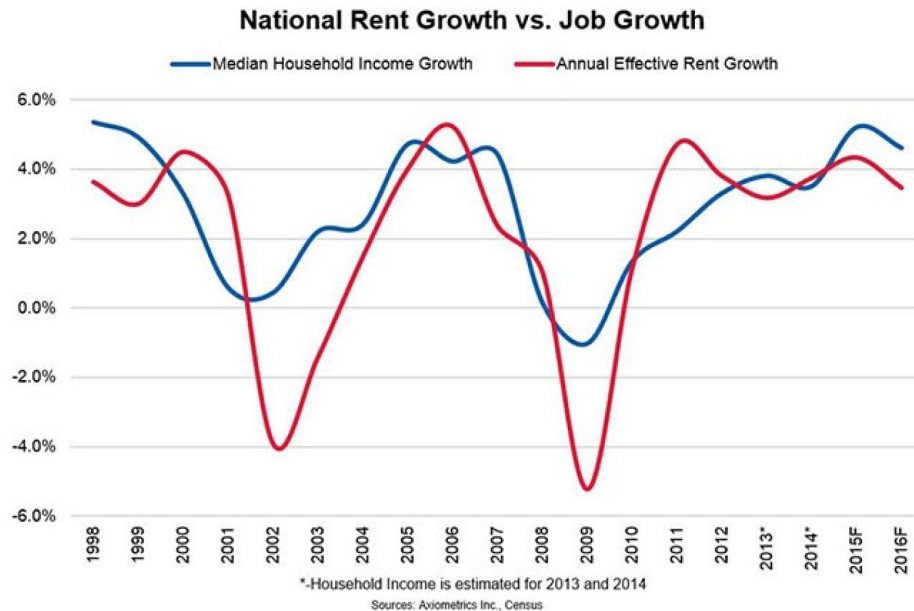
Axiometrics finds the “surge” in multifamily permitting in the second quarter drove a higher-than-expected level of housing starts in September. Multifamily starts totaled 454,000 units on a seasonally adjusted annual rate (SAAR) basis, 28.6 percent more than September 2014. A SAAR of 369,000 multifamily units were permitted in September, 14.6 percent less than August 2015 and 1.3 percent less than September 2014. Multifamily completions totaled 378,000 units, a 20.4 percent year-over-year increase.

AFFORDABILITY

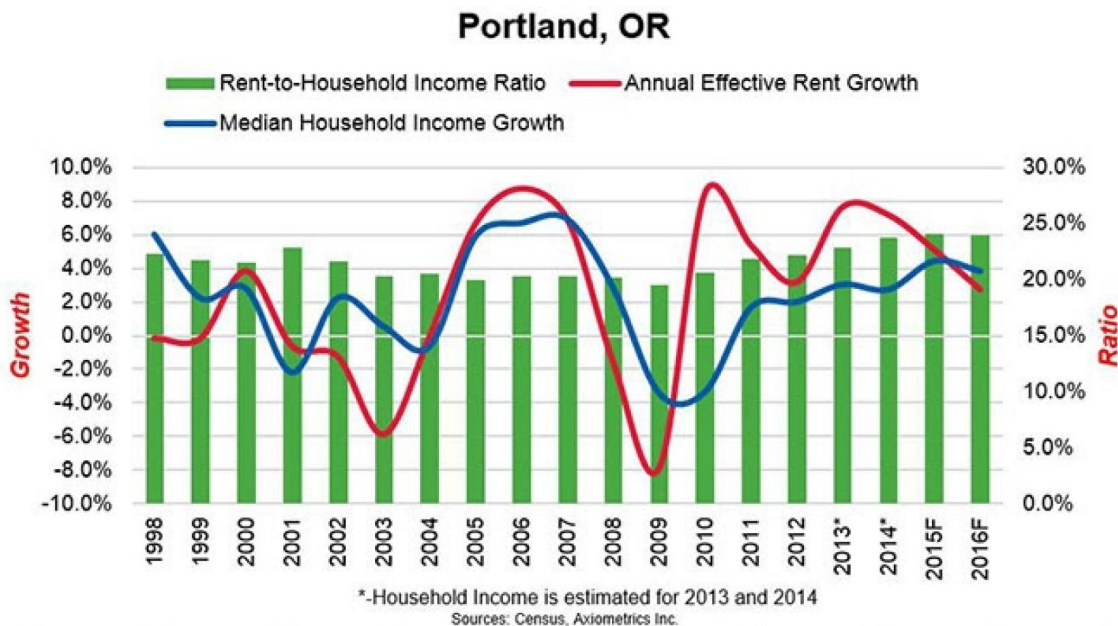
In a special feature, Axiometrics has reviewed apartment affordability nationally and in Portland. With annual effective rent growth making continual headlines, a question on many minds pertains to the sustainability of such rental rate increases vis-à-vis renters’ incomes. That is, will renters continue to be able to afford increasing apartment rents? To begin to answer the question, Axiometrics explains that job growth is a fundamental driver of effective rent growth. As job growth has occurred in 2014 and 2015 across the country, relative effective rent growth has also taken place:



Nevertheless, there is a distinction between job growth, wage growth, and total dollars flowing into households. During the 10 years prior to the Great Recession, growth in median household income averaged 3.0 percent while average annual effective rent growth was 2.1 percent; incomes were outpacing rents. After the Recession, however, household income growth has occurred at 2.8 percent while annual effective rent growth has averaged 3.3 percent. Axiometrics forecasts both rates of growth may lessen through 2016, as displayed in the following figure:



From another perspective, housing is generally considered “affordable” provided households are spending no more than 30 percent of incomes on housing payments. In 1998, national rent affordability was 27.2 percent, and has never surpassed 30 percent since then. In Portland, rent growth after the Recession, from 2011 to 2014, has averaged 5.8 percent, while household income growth has averaged 2.4 percent during the same period. Even so, the ratio of rent to median household income in Portland has remained below 24 percent since at least 1998. Thus, against the standard 30 percent gauge, rents in Portland are not at risk of becoming unaffordable over the next few years:



This is an aggregate perspective on the whole of Portland's housing economy, of course, and therefore does not reveal differing experiences in this housing market. NAI Norris, Beggs & Simpson's (NAI-NBS) third-quarter multifamily report to clients points to the market's arrival as acceptable to institutional investment and recent multifamily development trends as some of the factors contributing to valid concerns over housing affordability. NAI-NBS reports that market fundamentals such as vacancy rate and rent levels and growth have driven up both property values and institutional acquisitions. These conditions have also given rise to new developments that have mostly targeted the highest end of the Class A market, effectively "pricing out" many middle- and working-class renters. The firm also points to research indicating severely cost-burdened renters paying more than 50 percent of household income on housing payments could increase nationally by 25 percent over the next decade, as the above trends are not exclusive of Portland. As a final example of this ongoing trend, the firm reports average monthly rent for a two-bedroom, one-bathroom apartment in Portland reached \$1,183 in the third quarter, a 15.3 percent year-over-year increase from the \$1,026 seen in third quarter 2014.

PORTLAND APARTMENT MARKET

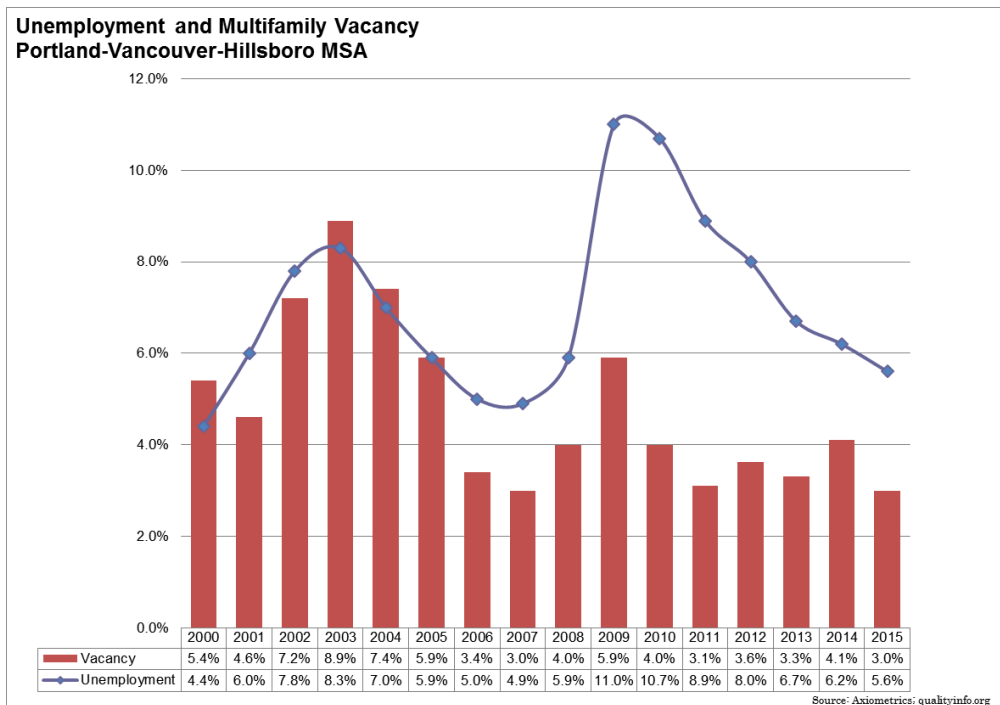
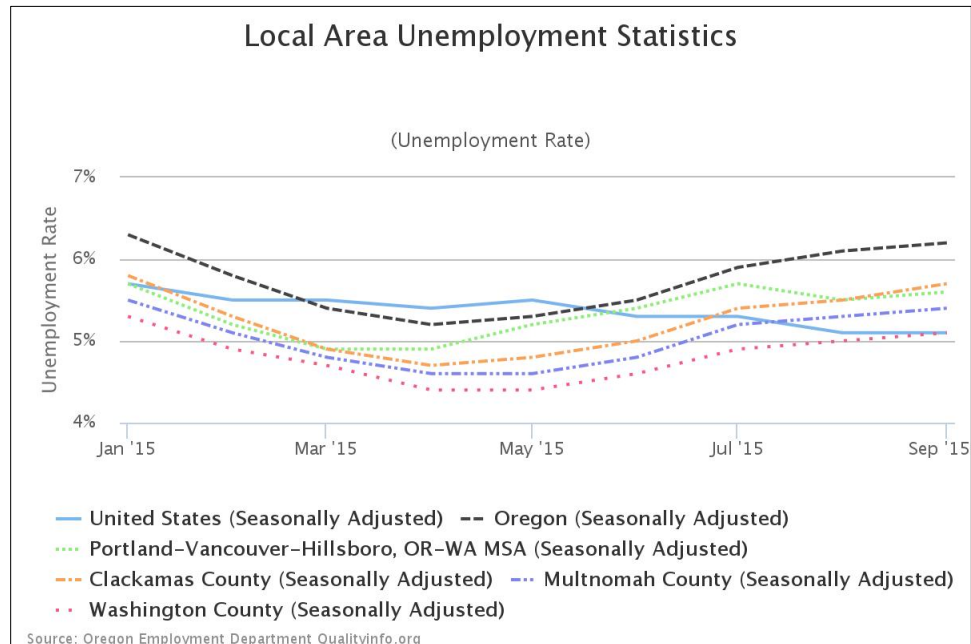
The multifamily market in the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) continued to reach new milestones in the third quarter.

In September 2015, Axiometrics measured the Portland-Vancouver-Hillsboro MSA's annual effective rent growth at 14.31 percent. This puts Portland in first place among the 50 metros studied by the research firm. Runners up were Oakland, CA (13.03 percent), San Francisco, CA (11.30 percent), Sacramento, CA (9.95 percent), and San Jose, CA (9.33 percent).

Examining the third quarter as a whole, Axiometrics again ranks the Portland MSA in first place for annualized effective rent growth at a rate of 14.8 percent, ahead of Oakland in second place at 13.7 percent. From another perspective, Portland ranks in second place nationally for quarterly effective rent growth at 5.3 percent, behind San Francisco-Redwood City-South San Francisco MSA at 5.6 percent. Axiometrics pegs multifamily occupancy for Portland at 96.5 percent (a 3.5 percent vacancy rate). NAI-NBS measured the vacancy rate at 2.45 percent. We will report 3 percent here as the vacancy rate for the third quarter.

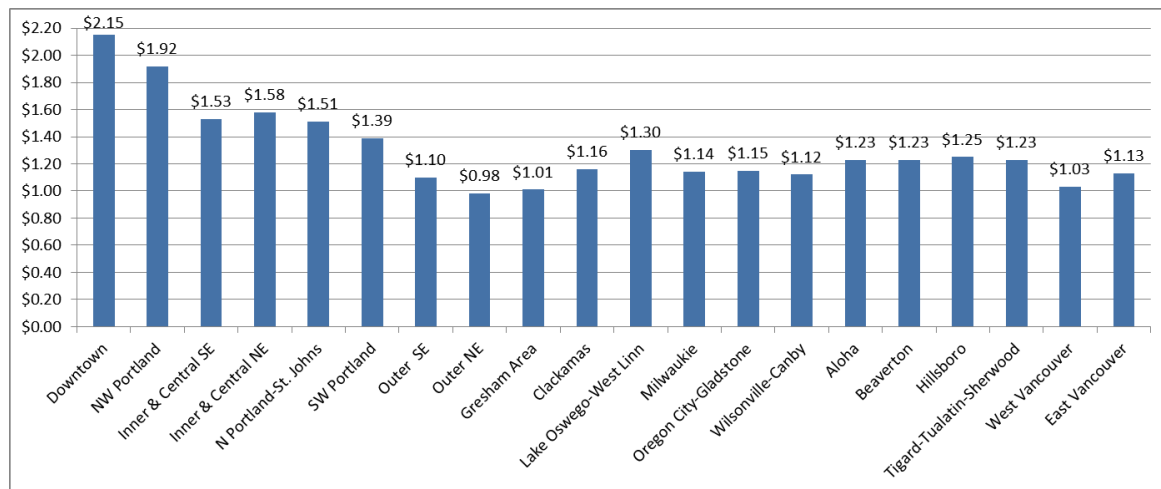
Colliers International reports that rising multifamily property values are supporting increased mortgage debt loads in the sector. The firm's Portland office reveals that total year-to-date sales volume reached approximately \$1.7 billion at the close of the third quarter, already surpassing 2014's full-year total of \$1.5 billion. Third-quarter multifamily transactions totaled \$686 million. Also, absolute average rents grew from \$1,023 in the first quarter of 2012 to \$1,366 in the second quarter of 2015. And, \$85 million in multifamily sales were recorded in the third quarter along the newly opened TriMet Max Orange Line light rail alignment.

The following charts display local unemployment trends and overlays of multifamily vacancy reported for the second quarter (3.0 percent) and the most recent unemployment statistic for September 2015 in the Portland MSA from the State of Oregon Employment Department (5.6 percent).

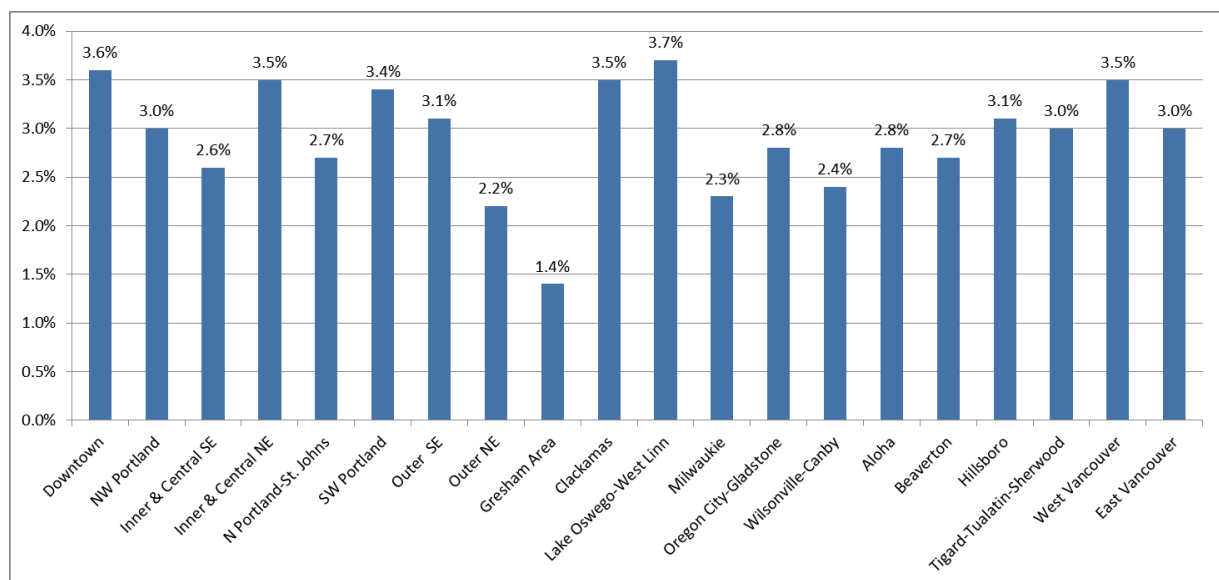


Below are representations of Multifamily NW's average rents per square foot and average vacancy rates for the 20 Portland submarkets in its most recently published survey.

Rent/SF by Submarket, Fall 2015



Vacancy Rate by Submarket, Fall 2015



TRANSACTIONS

Sperry Van Ness | Bluestone & Hockley has compiled the following data on multifamily transactions over \$450,000 for the third quarter of 2015:

In July, 20 properties traded compared to 14 in July 2014. Dollar volume totaled \$221,447,600, 254.4 percent greater than July 2014. Averages for these 20 transactions are as follows: 74.1 units, \$11,072,380 price, \$149,526/unit, 879.3 square feet/unit, \$175.31/square foot, 6.81 percent average reported cap rate.

In August, 17 properties traded compared to 20 in August 2014. Dollar volume totaled \$168,423,880, 55.0 percent less than August 2014. Averages for these 17 transactions are as follows: 56.1 units, \$9,907,287 price, \$176,545/unit, 972.4 square feet/unit, \$195.78/square foot, 5.36 percent average reported cap rate.

In September, 30 properties traded compared to 14 in September 2014. Dollar volume totaled \$261,222,822, 344.3 percent greater than September 2014. Averages for the 30 transactions are as follows: 62.6 units, \$8,707,427 price, \$139,022/unit, 918.7 square feet/unit, \$150.73/square foot, 5.42 percent average reported cap rate.

Year to date through September 2015, total dollar volume of sales over \$450,000 reached \$1,681,959,925 on 212 transactions. The averages for these 212 transactions are: 55.1 units, \$7,933,773 price, \$125,428/unit, 900.9 square feet/unit, \$146.82/square foot, 5.83 percent average reported cap rate.

Colliers International Portland reports the following significant Q3 trades:

Project	City	Sale Date	Sale Price	# Units	Price/Unit	Price/SF	Cap Rate
Terrene at the Grove	Wilsonville	8/31/2015	\$59,500,000	288	\$ 206,597	\$ 205.86	5.00
Miramonte Lodge	Portland	7/21/2015	\$55,835,462	231	\$ 241,711	\$ 340.16	5.00
The Cordelia	Portland	7/13/2015	\$47,750,000	135	\$ 353,704	\$ 442.13	4.07
Madison Bridge Creek	Wilsonville	9/24/2015	\$47,611,226	315	\$ 151,146	\$ 169.54	4.85
Madison Boulder Creek	Wilsonville	9/24/2015	\$44,739,438	296	\$ 139,320	\$ 169.23	4.85
Burnside 26	Portland	8/4/2015	\$41,500,000	135	\$ 307,407	\$ 436.84	4.25
Columbia Trails Apartments	Gresham	7/27/2015	\$38,400,000	264	\$ 145,455	\$ 150.38	5.25
The Bluffs	Milwaukie	7/21/2015	\$33,114,538	137	\$ 241,711	\$ 328.40	5.00
Arnada Pointe Apartment Homes	Vancouver	8/11/2015	\$28,100,000	200	\$ 140,500	\$ 146.23	5.50
Alden Apartments	Tualatin	7/16/2015	\$28,000,000	210	\$ 133,333	\$ 171.97	5.70
Prestige Plaza	Vancouver	9/1/2015	\$23,300,000	96	\$ 242,708	\$ 180.40	5.79
Woodspring Apartments	Tigard	7/20/2015	\$22,000,000	172	\$ 127,907	\$ 122.23	5.60
The Addison Apartments	Vancouver	8/13/2015	\$21,750,000	147	\$ 147,959	\$ 131.52	5.60

ABR Winkler Real Estate Services reports the following perspective on multifamily sales through the year-to-date period ended September 2015:

Median price per square foot	\$129
Median cap rate	5.60%
Dollar volume of sales	\$1,619,232,138
Median gross rent multiplier	9.92
Median price per unit	\$107,900
Average price	\$9,414,140
Average number of units	55

PERMITS

The following information pertains to building permit issuances in the third quarter of 2015 for projects with five or more private housing units.

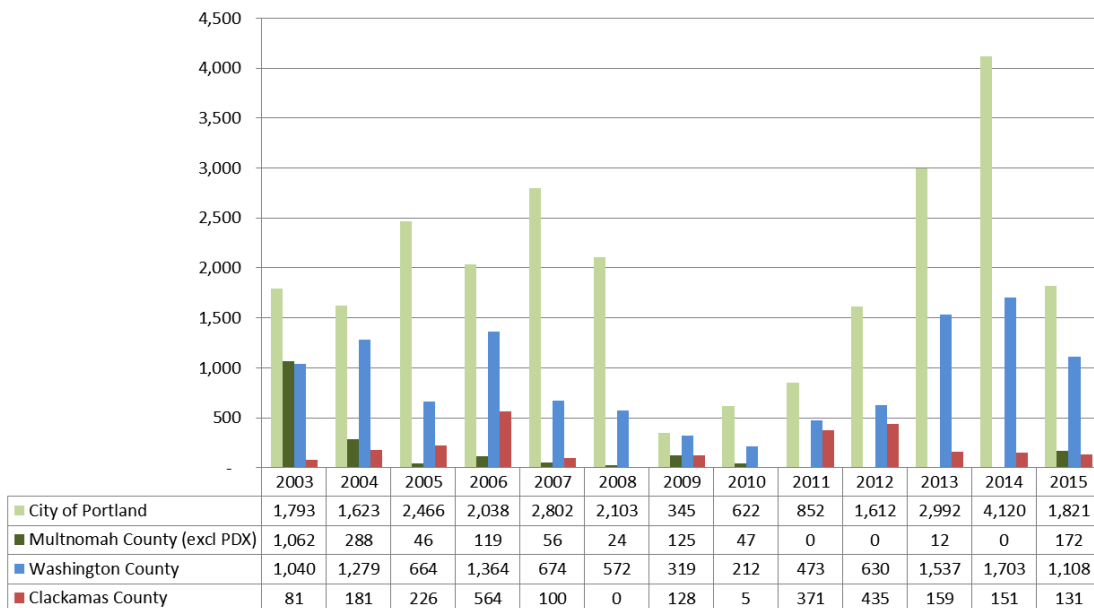
Portland reclaimed its customary lead in permitting volume, followed in second place by Washington County (which was reported last quarter to have permitted more multifamily units than the City of Portland during that period).

Also, last quarter we reported that for the first time in 2015, multifamily units were permitted in Multnomah County outside of Portland. Additional research indicates that these 17 units were permitted in a single project in the City of Gresham. Significantly more remarkable is the news out of Gresham for the third quarter: a single project was permitted in Gresham in July 2015 containing 155 units. No additional multifamily permits were issued outside of Portland in August or September. This volume of permitting has not been seen in eastern Multnomah County since 2009, and indicates the rapidly rising rents and near-zero vacancy in Portland's suburban submarkets reported last quarter may be driving multifamily development feasibility in these areas.

Third-quarter and year-to-date permit totals for the four areas surveyed are:

Area	Q3 Total
City of Portland	992
Multnomah County Excluding Portland	155
Washington County	238
Clackamas County	60

Multifamily building permits issued, YTD September 2015
Permitted number of units



Source: U.S. Census Bureau

NEW CONSTRUCTION

The following totals and samples are courtesy of the Fall 2015 Barry Apartment Construction Report.

Total Units Proposed and Under Construction

	Proposed	Under Construction	Total
North Portland	1,623	912	2,535
Close in East Portland	4,989	1,472	6,461
Close in West Portland	4,674	3,680	8,354
Suburban West	4,146	1,272	5,418
Suburban East	1,190	141	1,331
Suburban South	1,556	180	1,736
Clark County	2,550	1,347	3,897
Total	20,728	9,004	29,732

Total Projects Proposed and Under Construction

	Proposed	Under Construction	Total
North Portland	38	13	51
Close in East Portland	79	30	109
Close in West Portland	47	26	73
Suburban West	23	8	31
Suburban East	25	4	29
Suburban South	10	1	11
Clark County	22	10	32
Total	244	92	336

Sampling of New Construction Completions

North Portland					
Name	Address	City	Units	Complete	Notes
Marvel 29	7227 N Philadelphia Ave	Portland	165	2015	St, 1br, 2br. UG parking, 4 story, grnd floor retail
Wilmore	4357 N Williams Ave	Portland	75	2015	Ground floor retail space, on-site parking
Northwood Apts	8310 N Interstate	Portland	57	2015	4-story, on-site parking, ground floor retail
Monroe Apartments	3035 NE MLK Blvd	Portland	46	2015	In lease up

Close-In Eastside Portland					
Name	Address	City	Units	Complete	Notes
Hassalo on 8th (Lloyd Blocks)	700 NE Multnomah St	Portland	657	2015+	1,200 underground parking spaces, 4 large towers
The Union	304 NE Multnomah	Portland	186	2015+	6-story, ground floor retail, below grade parking
Burnside 26	2625 E Burnside	Portland	135	2014+	4 story, ground floor retail, underground parking
SE Alder Apartments	700 SE Cesar Chaves Blvd	Portland	99	2015	3 story, on-site parking
NE Tillamook Apartments	3910 NE Tillamook St	Portland	75	2015	5 story, underground parking

Close-In Westside Portland					
Name	Address	City	Units	Complete	Notes
Waterline Apartments	2130 NW Front Ave	Portland	244	2015	4 buildings, on-site parking below grade
LL Hawkins Apts	1515 NW 21st Avenue	Portland	113	2015	6-story, mixed use ground floor, on-site parking
Treehouse Apts	3440 SW US Veterans Hosp Rd	Portland	69	2015	7 story, 1/3 of an acre site. On-site parking
The Janey II	1135 NW Everett Street	Portland	62	2015	9-story, ground floor retail, rooftop deck, parking

Suburban West					
Name	Address	City	Units	Complete	Notes
Platform District - Orenco	NW 231st Ave & NE Alder St	Hillsboro	579	2015	Three - 6 story buildings. On max line.
Merlo Village	SW 170th Ave at Baseline Rd	Beaverton	312	2015	3 story flats, large site
West Parc Apartments	15640 NW Laidlaw Rd	Portland	131	2015	4 buildings, 3-5 stories, on-site parking
Springville Oaks	16320 NW Canton Street	Portland	112	2015	Seven buildings

Suburban East					
Name	Address	City	Units	Complete	Notes
Glendoveer Woods	333 NE 146th Ave	Portland	112	2015	Some affordable housing
The Rose Apartments	318 NE 97th Ave	Portland	90	2015	2 - 4-story bldgs, 58 parking spots, workforce housing
Glisan Commons (Phase II)	601 NE 99th Ave	Portland	60	2015	6-story, senior housing, on-site parking
Glisan Commons	9999 NE Glisan St	Portland	127	2014	Some subsidized housing, 1st floor retail space

Suburban South					
Name	Address	City	Units	Complete	Notes
Active Adults at the Grove	8750 SW Ash Meadows Rd	Wilsonville	112	2014+	4 story, 55+ community. 3.41 Acre site
Eddyline at Bridgeport	18055 SW Lower Boones Ferry Rd	Tualatin	367	2014	Completed in phases
Bell Tower @ Old Town Square	30480 SW Boones Ferry Rd	Wilsonville	52	2013	2, 3 & 4 story building - Luxury apts, studio, 1br & 2br
Villebois	28900 SW Villebois Dr	Wilsonville	178	2013	Completed in phases

Clark County					
Name	Address	City	Units	Complete	Notes
VHA Apartments	16703 SE 1st Ave	Vancouver	152	2015	Low-income
Prestige Plaza	307 E Mill St	Vancouver	96	2014	3-story, studios, 1br, 2br
The Reserve	600 SE Mill Plain Blvd	E. Vancouver	418	2013	Completed in phases
NorthGlen Villas	7101 NE 109th St	NE Vancouver	200	2013	Phased - gas FP, W/D, fitness center, jacuzzi, spa