
MULTIFAMILY MARKET ANALYSIS

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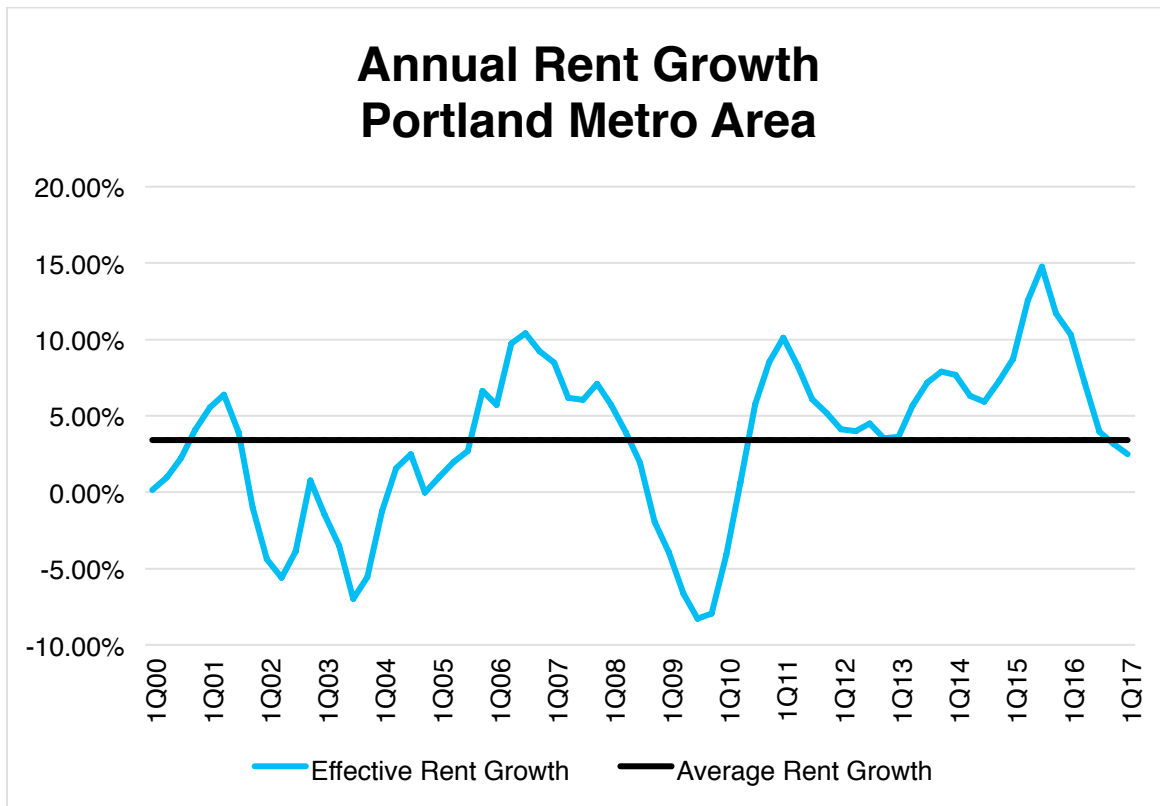
This year may prove to be the crescendo of a six year multifamily construction and rent growth boom for the Portland metropolitan area. New deliveries and vacancies are up while rent growth is down and even reversing in some parts of the central city core. However, as the saying goes “All real estate is local.” Digging deeper into the numbers reveals robust rental growth in select submarkets while others follow suit with downtown.

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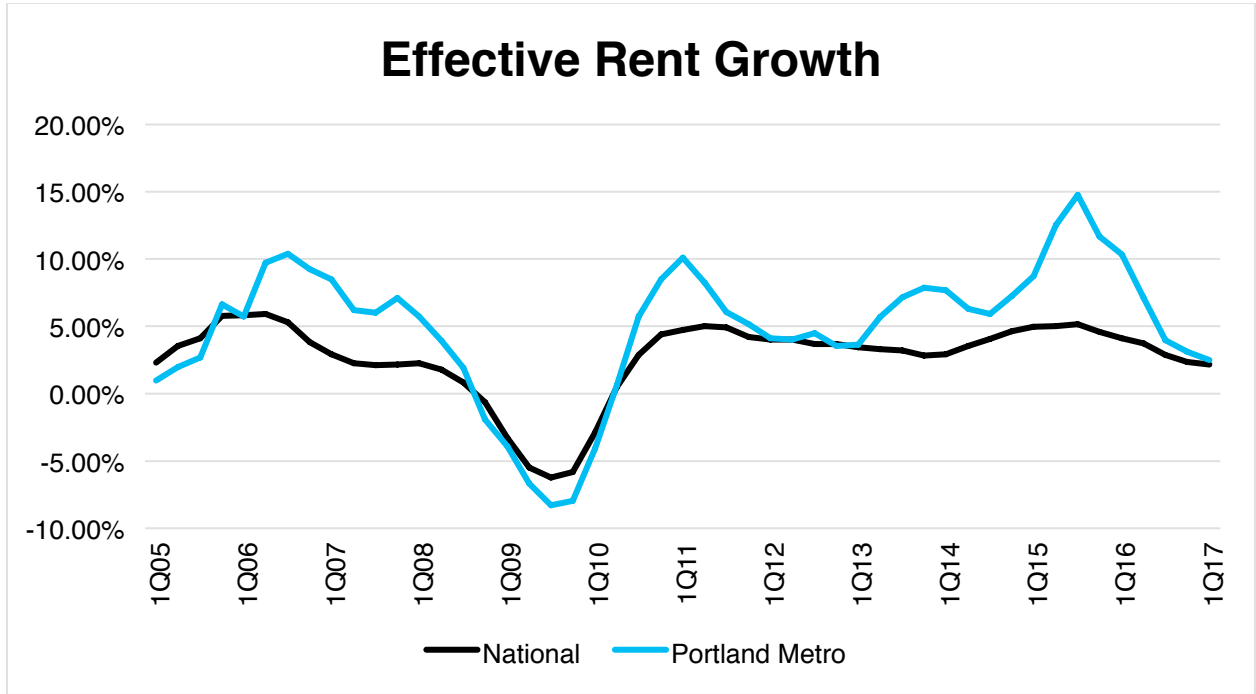
PORTLAND MULTIFAMILY RENTS CONTINUE DOWNWARD TREND IN 2017

Quarterly effective rent growth crept back into positive territory from a drop of 2.3 percent in the fourth quarter of 2016 to 0.3 percent increase the first quarter of this year. However, this was not enough to change the course of an overall downward trend for the Portland metro area.

Annual effective rent growth at 2.49 percent is the lowest Portland has seen in the seven years since the second quarter of 2010 and below the long-term average of 3.41 percent. Also, the gap is closing between Portland and nationwide effective rent growth figures. The following figures were created using numbers from the Axiometrics database.



Source: Axiometrics

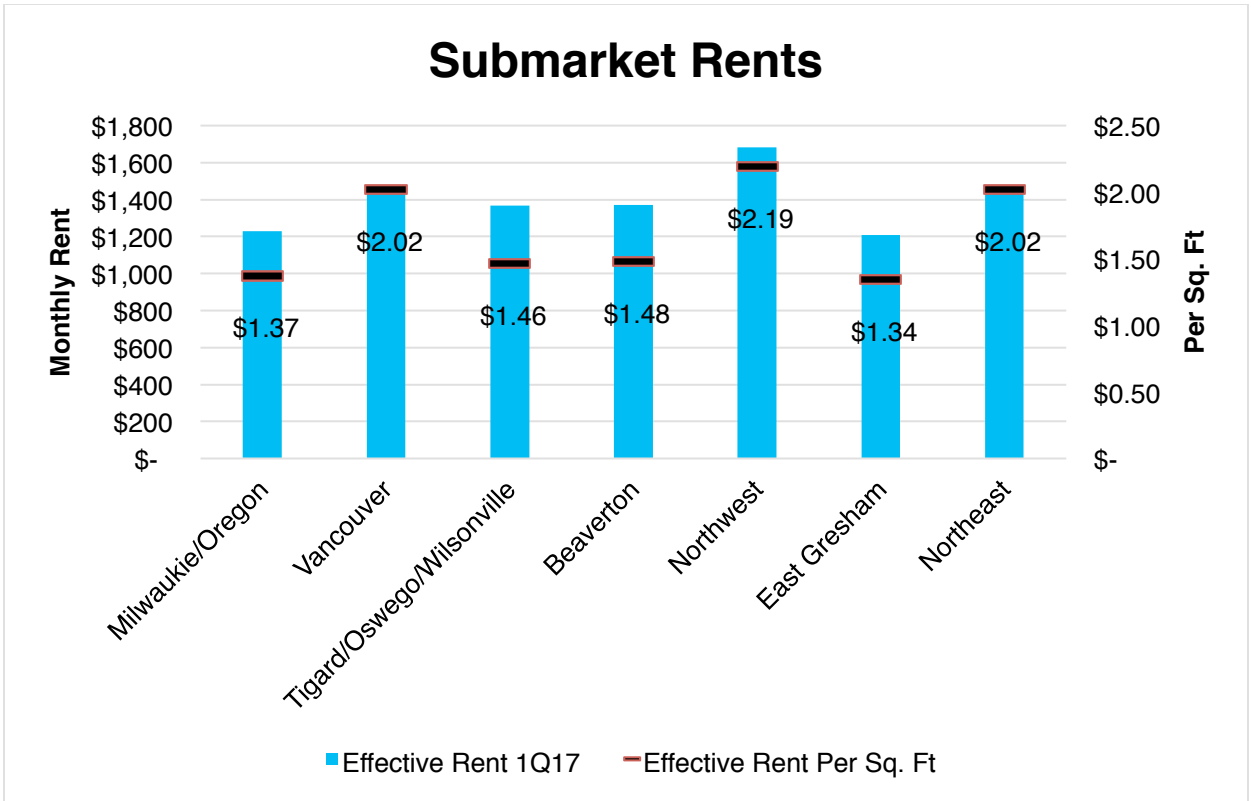


Source: Axiometrics

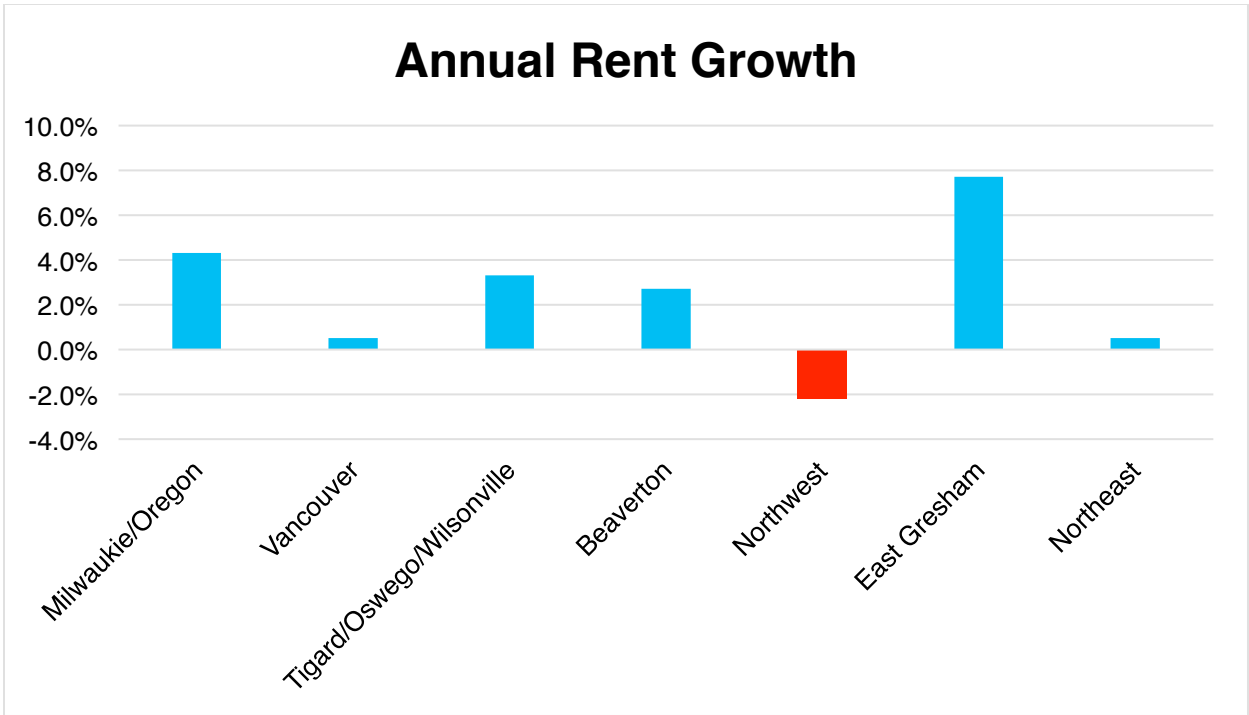
Drilling down into specific Portland submarkets shows a continuing trend of rent growth shifting outside the inner core of Portland. The large recent influx of supply in Northeast has diminished rent growth and plunged the northwest submarket into negative growth territory. East Gresham is still leading the pack with a robust 7.7 percent annual rent growth over the first quarter of 2016.

Submarket	Effective Rent 1Q16	Effective Rent 1Q17	Annual Rent Growth
Milwaukie/Oregon	\$1,176	\$1,229	4.3%
Vancouver	\$1,465	\$1,472	0.5%
Tigard/Oswego/Wilsonville	\$1,322	\$1,367	3.3%
Beaverton	\$1,335	\$1,372	2.7%
Northwest	\$1,719	\$1,682	-2.2%
East Gresham	\$1,115	\$1,208	7.7%
Northeast	\$1,465	\$1,472	0.5%

Source: Axiometrics



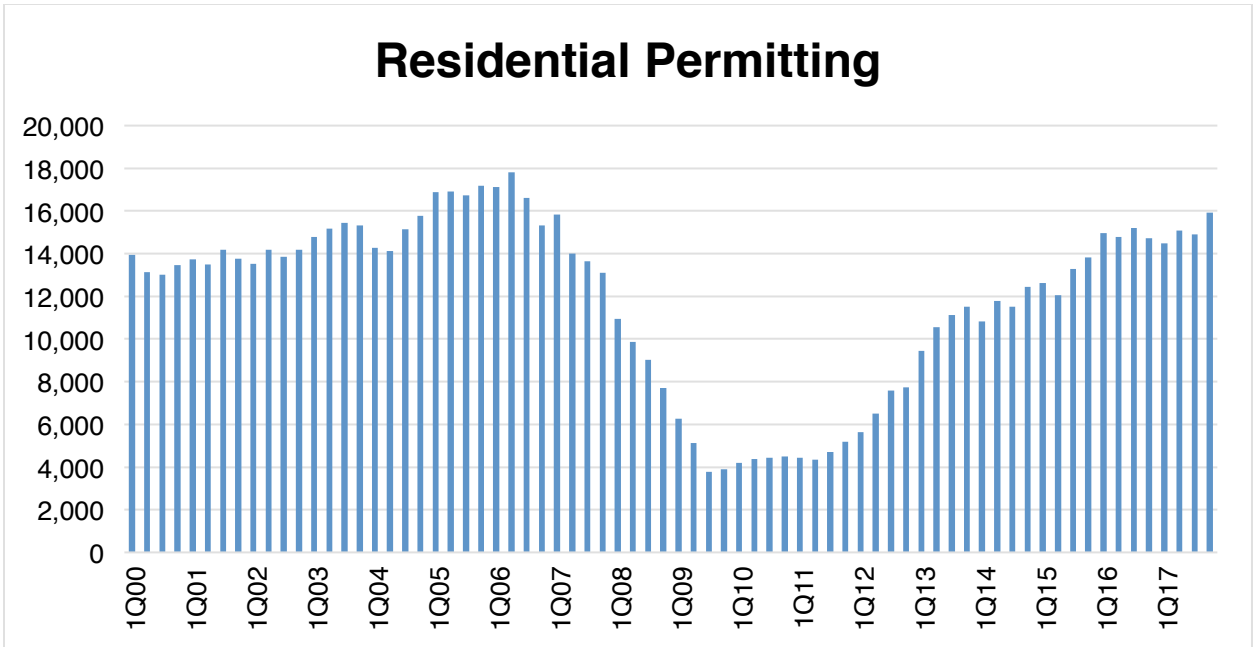
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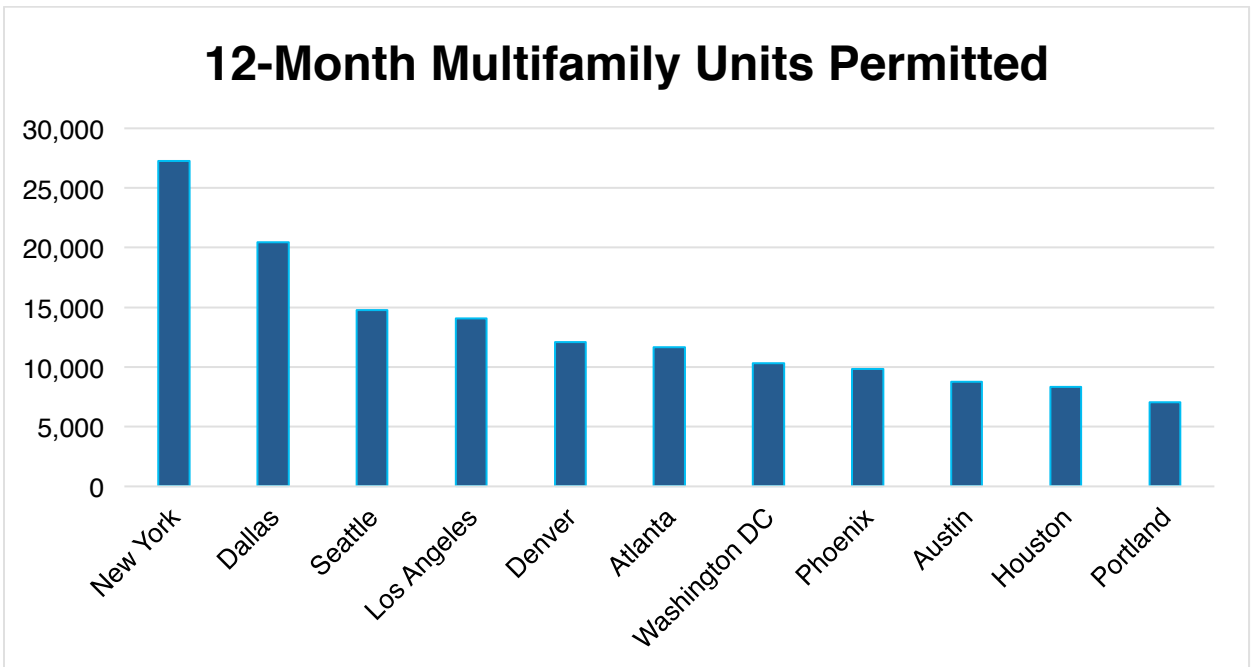
PERMITTING

The following chart was created based on information from Axiometrics database and shows the trailing 12 months permits at end of each quarter. Overall statistics show that despite the recent fluctuations, total permitting is projected to hover around 15,000 units year over year throughout 2017. Also of note, is when taking the long view on permit activity that Portland is still below the levels of the mid-2000's.



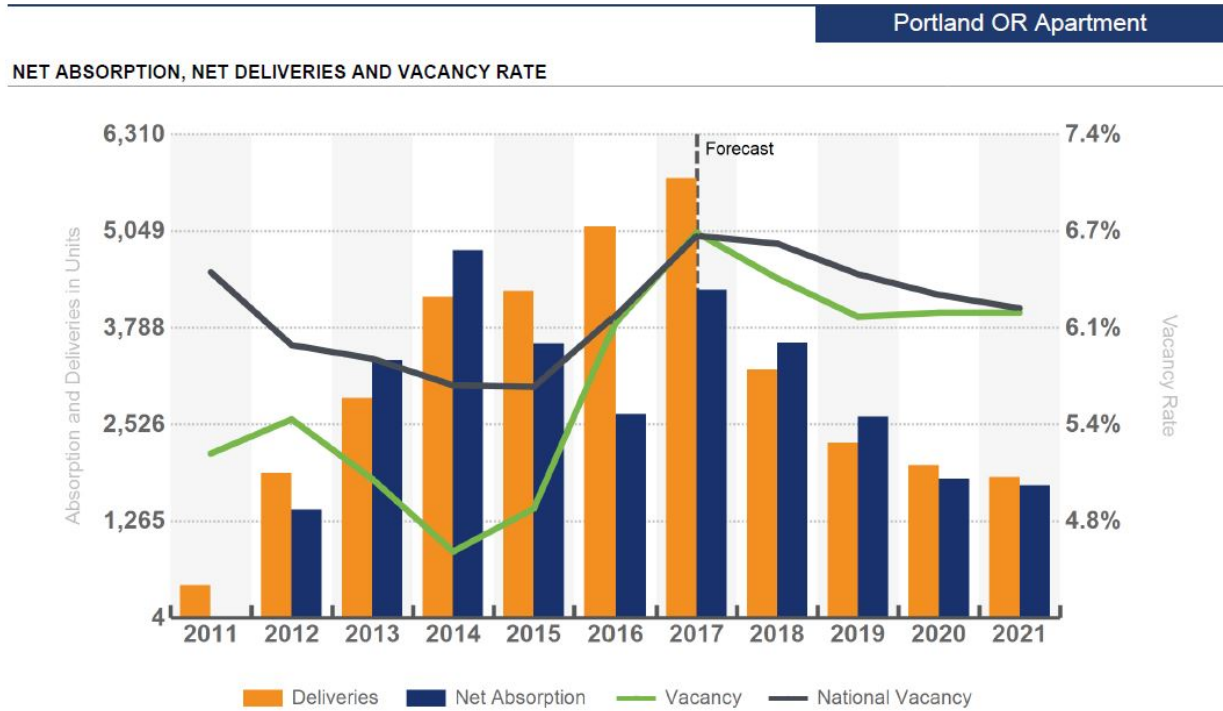
Source: Axiometrics

While we are at a local short term peak in multifamily permits it's interesting to see how Portland stacks up against the top Metro areas Nationwide. Portland does not crack the top ten but three Texan cities did make the list.

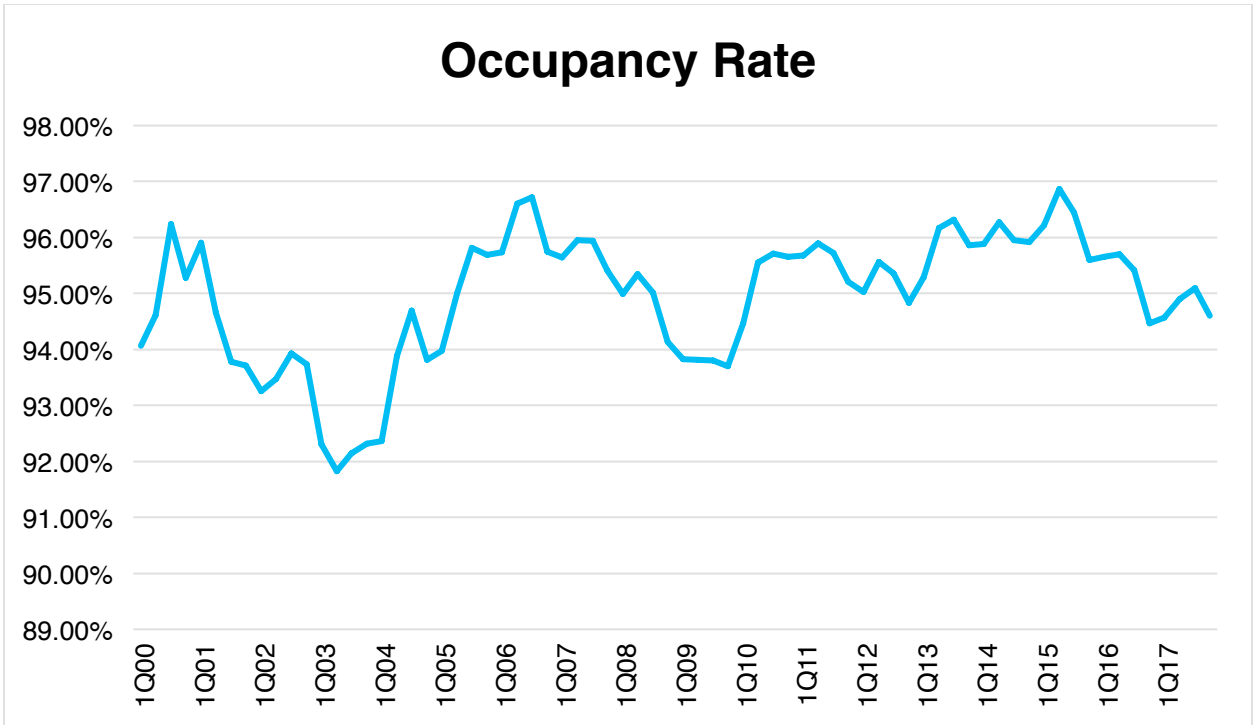


Source: Axiometrics

The following chart from CoStar shows 2017 to be a peak year for new deliveries in the Portland Metro area. This six year construction wave has driven up development costs across the city and when combined with increased vacancies, inclusionary zoning, and more stringent eviction legislation, the forecast shows a likelihood that the market will respond with fewer deliveries over the next five years.



Source: CoStar



Source: Axiometrics

SALES AND TRANSACTIONS

According to Investors Management Group Northwest, the volume of multifamily sales in 2017 are less than half of this time in 2016. That said, price per unit and per square foot are up over 25 percent over past year.

Portland Metro Multi-Unit Sales										
Sales			Units	Price	\$/Unit	SqFt/Unit	\$/SqFt	Built	Cap Rate	Total Sales
33	2017 YTD THRU 28 MAR 17	AVERAGE	60.7	\$1,158,962	\$ 171,442	\$ 897	\$ 198	1981.1	5.38%	\$ 381,774,557
77	2016 YTD THRU 2 MAR 16	AVERAGE	45.2	\$7,421,439	\$ 133,736	\$ 911	\$ 156	1976.7	5.50%	\$ 571,450,795

Notable sales in 2017 according to CoStar are as follows. Starwood Capital alone spent \$133,789,390 on four properties this year.

HISTORICAL SALES TRANSACTIONS

Property	Submarket	Sale Date	Price	Units	Price Per Unit	Built	Buyer Name
Modera Goose Hollow, 2004 SW Jefferson St	Northwest Portland	4/5/2017	\$47,500,000	134	\$354,478	2015	Security Properties Inc., Lib...
Collective Portland, 2073 SW Park Ave	Northwest Portland	3/2/2017	\$10,650,000	52	\$204,808	1945	Charles & Harold Isen
Pioneer Vista,	Vancouver	3/1/2017	\$21,922,460	109	\$201,124	2016	Mark C. Frandsen
StoneRidge at Cornell, 14800 NW Cornell Rd	Hillsboro	2/28/2017	\$46,500,000	233	\$199,571	1985	Starwood Capital Group
Silver Oak Apartment Homes, 8701 NE 54th St	Vancouver	2/28/2017	\$35,150,550	204	\$172,307	1989	Starwood Capital Group
Sedona At Bridgecreek, 2220 NE Bridgecreek Ave	Vancouver	2/28/2017	\$31,046,220	200	\$155,231	1989	Starwood Capital Group
Larkspur Place Apartment Homes, 7609 NE Vancouver Mall Dr	Vancouver	2/28/2017	\$18,092,620	100	\$180,926	1994	Starwood Capital Group
The Ellington Apartments, 1610 NE 66th Ave	Central Northeast	2/6/2017	\$47,000,000	263	\$178,707		Portland Housing Bureau
Muse Apartments, 1315 NW 19th Ave	Northwest Portland	2/1/2017	\$20,150,000	58	\$347,414	2017	Pearlman Properties
Corbett Heights, 3916 SW Corbett Ave	Southwest Portland	2/1/2017	\$15,000,000	48	\$312,500	2015	Pearlman Properties
Northwood Apartments, 8338 N Interstate Ave	North Portland	1/31/2017	\$14,000,000	57	\$245,614	2015	Lighthouse Partners Inc

Source: CoStar

INCLUSIONARY ZONING

With the signing of Senate Bill 1533 in the 2016 Oregon legislative session, the state preemption on inclusionary housing was lifted. The bill reads that any new multifamily building with 20 or more units “may not require more than 20 percent of housing units within a multifamily structure to be sold or rented as affordable housing.”

The City of Portland is using a menu style approach where developers can choose either (1) 20 percent affordable units at 80 percent area median family income (AMFI), (2) 10 percent affordable units at 60 percent AMFI, (3) pay a “fee en lieu” to an affordable housing fund, or (4) designate affordable units off-site.

The Barry Reports explains that “To avoid the requirements of IZ, there was a huge surge in permit applications ... showing that between December 1, 2016 and February 1, 2017, developers submitted applications for 54 projects totaling 7,050 units. This is an unprecedented surge in applications and increased the total Metro area pipeline of proposed units by 28 percent in just these two months.”

Going forward, the question will be whether permitting slows down in response to the city’s inclusionary zoning policies.

COMMUNITY PERSPECTIVES

The following are some brief thoughts from key policy makers and participants in Portland’s real estate markets.

Mark Edlen, Chairman of the Board, Gerding Edlen

What is your opinion on the current development environment in Portland?

Edlen: I’m bullish on the Portland economy. Major employers such as Nike, Intel, and Adidas pay great salaries and there is a strong budding entrepreneurial scene here. A lot of millennials come here for the great culture and now they’re starting companies. OHSU is another major employment pillar and incredible contributor to our local economy. I’m cautiously optimistic about the current development environment in Portland right now. The local development community is strong and some national players with institutional capital are arriving.

How is Gerding Edlen's business model changing with the new inclusionary zoning legislation?

Edlen: We’re pulling our horns back on new construction now that deliveries have caught up with demand. It will be interesting to see how this new supply is absorbed

over the next few quarters. The addition of inclusionary zoning and escalating construction costs means rents must rise before new projects can pencil.

Mike Kingsella, Executive Director, Oregon LOCUS

What is your opinion on the current development environment in Portland?

Kingsella: Despite continued demand oriented tailwinds positively affecting our market, vis a vis population growth in the region as a whole, Portland continues to be a difficult development environment in which to operate. Hard costs (labor and materials) continue to escalate at a significant rate, and with continued geopolitical uncertainty the cost of capital has become more expensive. Additionally, many aspects of the development approval process and local regulatory environment add layers, costs and time to the development process, making projects harder to do. Recent conversations in Portland City Hall have been encouraging that there is an awareness of the impacts on getting the development needed to meet demand.

How might the market respond with the new inclusionary zoning legislation?

Kingsella: It is certainly possible that market rate development may shift geographically to the degree that program requirements and offsets in certain neighborhoods of the City of Portland are calibrated differently than others. Specifically, east of I-205 where market rates are between 60-80 percent AMFI lower density projects may work given existing offset structures, versus areas west of I-205 where the differential between market rent and affordable rents are not adequately offset. It's going to be critical for the commercial real estate industry and the City to work together, closely monitoring Inclusionary Housing program results and adjusting the program as necessary to achieve the housing affordability levels we all desire.

Eric Cress, Principal, Urban Development + Partners

What is your opinion on the current development environment in Portland?

Cress: Predictably, we are experiencing some softening in rents due to the delivery of a relatively large amount of apartment supply. I think we will likely be in a soft market as deliveries continue over the next 24 months. Financing is tightening and banks are proceeding with caution. That, in conjunction with additional regulation, will likely dampen new permit applications, providing for some market-strength in a couple of years. Of course, the capital markets are a whole other matter and no-one knows where we will be on that side of the equation. That said, we are long on Portland and continue to develop in select locations for a long-term hold.

How is your business model changing with the new inclusionary zoning legislation?

Cress: We are currently unable to proceed with projects in mixed-use zones where the Inclusionary Housing (IH) incentives are lower (specially in zones where the FAR allowance is 5:1 or less). Our calculations show that projects are still feasible in central-city zones; so those areas of the city will likely see continued deliveries of market rate and affordable housing through the IH program.

Kurt Creager, Director, Portland Housing Bureau**What is your opinion on the current development environment in Portland?**

Creager: I think it's cooling. We do a lot of forecasting in the city and we're predicting a slowdown in 2018 mostly driven by interest rates and peaking prices. It felt like we were reaching a high watermark with respect to potential rents, land prices, labor and material prices. We think it's a plateau not a precipitous decline on the backend. One of the unintended results of the election is the anticipation of lower corporate tax rates, which led to a decrease in the value of Low Income Housing Tax Credits (LIHTC). They were worth \$1.15 and are now down to \$0.95 which created a gap in affordable housing deals using such credits.

How are developers' business models changing with the new inclusionary zoning legislation?

Creager: This legislation adds an element of complexity to the business model. People can't use the same proforma they have for the past ten years. They're going to have to look at market segments in a different way and understand what the impact on the building sociology will be with respect to the mixture of incomes. Some people have been doing this work for a long time, for example, Skip Grodahl with GSL Properties has about 10,000 units of housing including the Yards at Union Station. Skip has been working in this space for the past 20 years and this is just an adaptation for him. What I see in mature markets that have had inclusionary zoning for a long time, eg Virginia, is that ultimately after the market adjusts, the asking price of land will reflect the entitlements. In other words, inclusionary housing policies are baked into the zoning construct. It may take 18-36 months but closed sales of land will reflect those entitlements.

Dan Saltzman, Commissioner, City of Portland**What is your opinion on the current development environment in Portland?**

Saltzman: It seems like a very robust environment, for multifamily in particular, with record levels of activity. Development is always at the whims of the economy,

with respect to interest rates for example, but I think Portland is a strong market that is only going to strengthen over time as this remains a very desirable place to live.

How is your business model changing with the new inclusionary zoning legislation?

Saltzman: I think that many developers feel this is not doable and that the City is dictating a government solution to a problem that should be more market based in its solution. However, also think the market based solutions are not really working for people seeking affordable housing in our area due to price escalations on rents and home prices. It's our goal to establish a requirement now that says, with input from the development community, affordable housing is part of their developments. We have a 25,000 unit deficit in affordable housing over the next 20 years and we can't solve this problem by government investment alone. ■