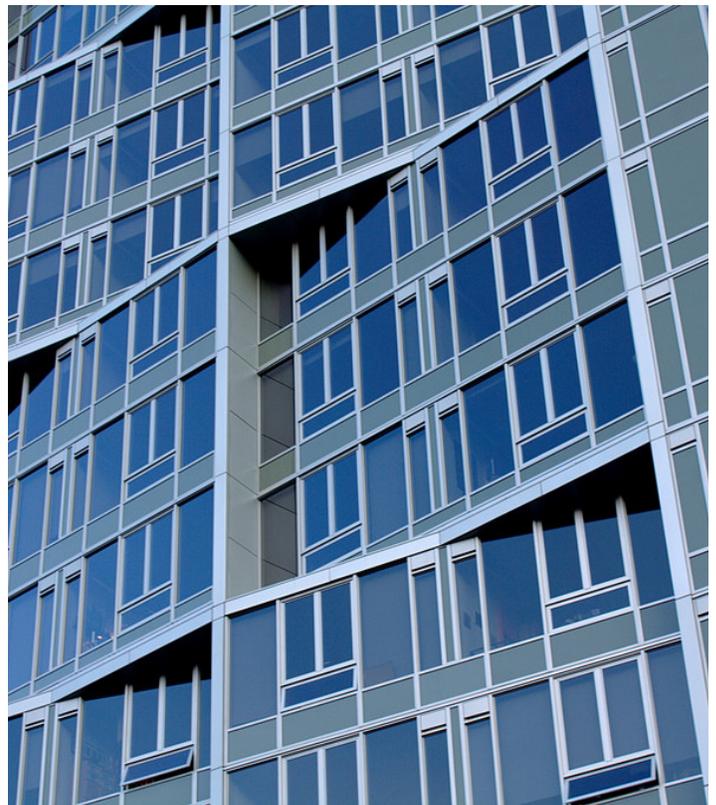
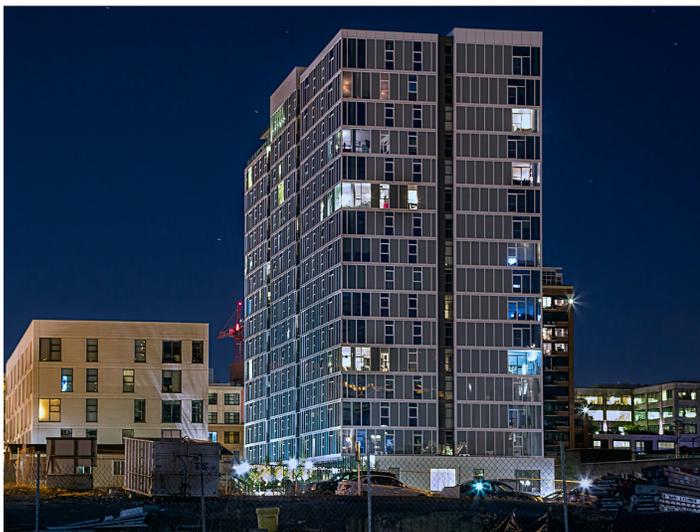


MULTIFAMILY MARKET ANALYSIS

SYDNEY BOWMAN
Portland State University

Portland continues to enjoy solid foundations of a healthy economy. The overall economic mood seems to be that the Portland multifamily market in 2018 will be a continued trajectory of 2016 and 2017, but tempered. At the same time, the public seems to be bracing for the next recession as we march into the eighth year of sustained growth in the real estate cycle.



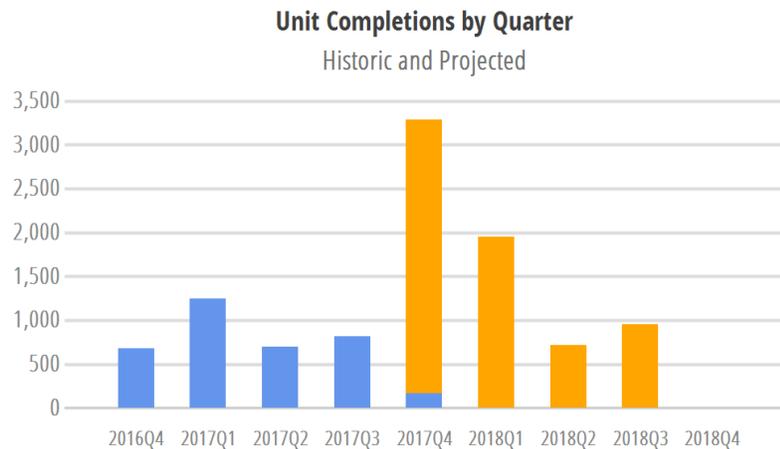
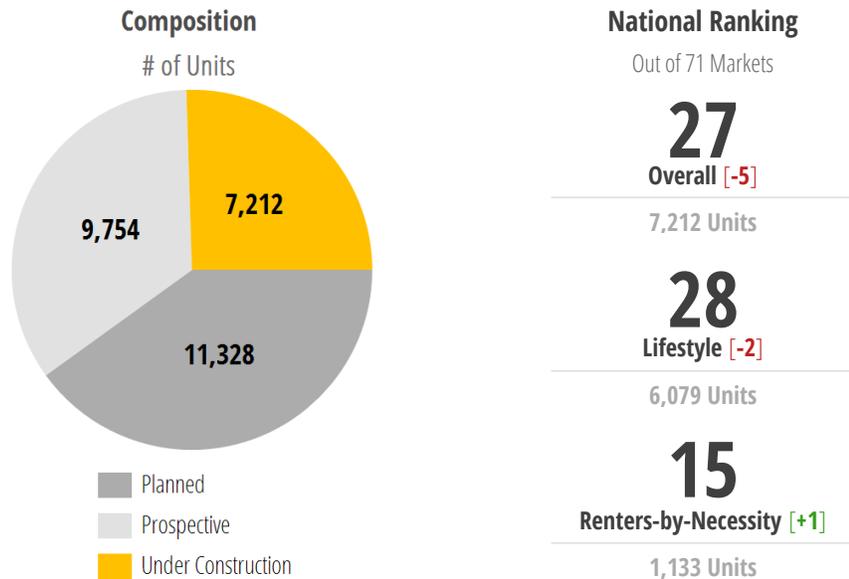
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AFFORDABILITY AND NEW CONSTRUCTION

No multifamily report would be complete without the discussion of the affordable housing situation in Portland. The onset of inclusionary zoning which went into effect February 1, 2017, requires developers to include rent restricted affordable units in projects of at least 20 units or pay a fee. According the Daily Journal of Commerce, approximately 19,000 multifamily residential units were in the development pipeline prior to that date. Most of the new construction of apartments easily seen around the city today came out of this rush to make the application deadline, although many of these permits will expire and will never come to fruition. To date, there have been six privately financed projects since inclusionary zoning has gone into effect. This equates to 60 affordable units and 406 market rate units.¹ Some have voiced concern that due to this dip in apartment deliveries, the lack of product will be felt in coming years as the low supply will cause rents to skyrocket once more—exacerbated by the continued in-migration to the area.²

Figure 1: Portland Development Activity

OVERALL DEVELOPMENT ACTIVITY



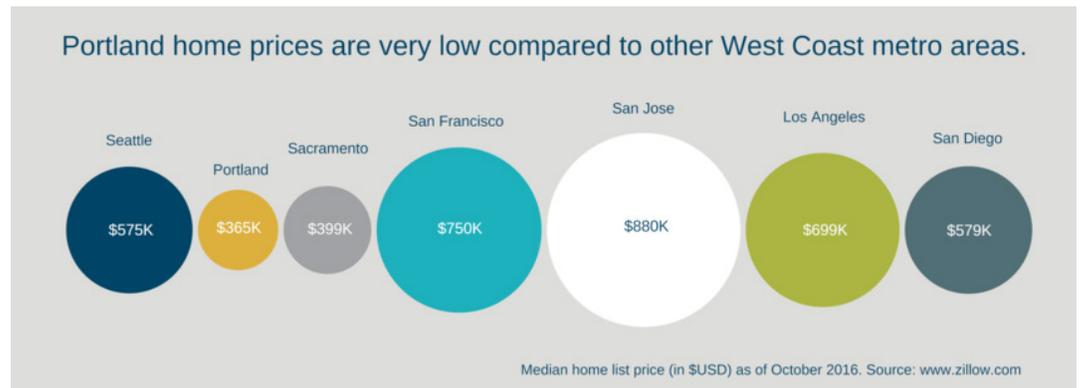
Source: Yardi Matrix

AFFORDABILITY AND NEW CONSTRUCTION

Portland, was once recognized as one of the most affordable big cities on the West Coast. Nevertheless, Portland caught up with the rest of the West Coast in 2015, experiencing the highest annual effective rent growth in the nation.³ More recently, 2017 rents have climbed only 1.9 percent, as reported by Realpage.⁴

This has occurred during a period of increased new construction in the higher rent echelon. In a report by Yardi Matrix, of the 830 apartment properties (of all class types) surveyed in December 2017, 12.7 percent are currently offering concessions. This number jumps up to 39.4 percent for apartment type Class A. Yet still, many Portlanders are unable to afford rent, mostly in part to income levels not able to keep pace with rent growth.⁵

Figure 2: Portland’s Affordability



Source: www.zillow.com, oregonmetro.gov/snapshot

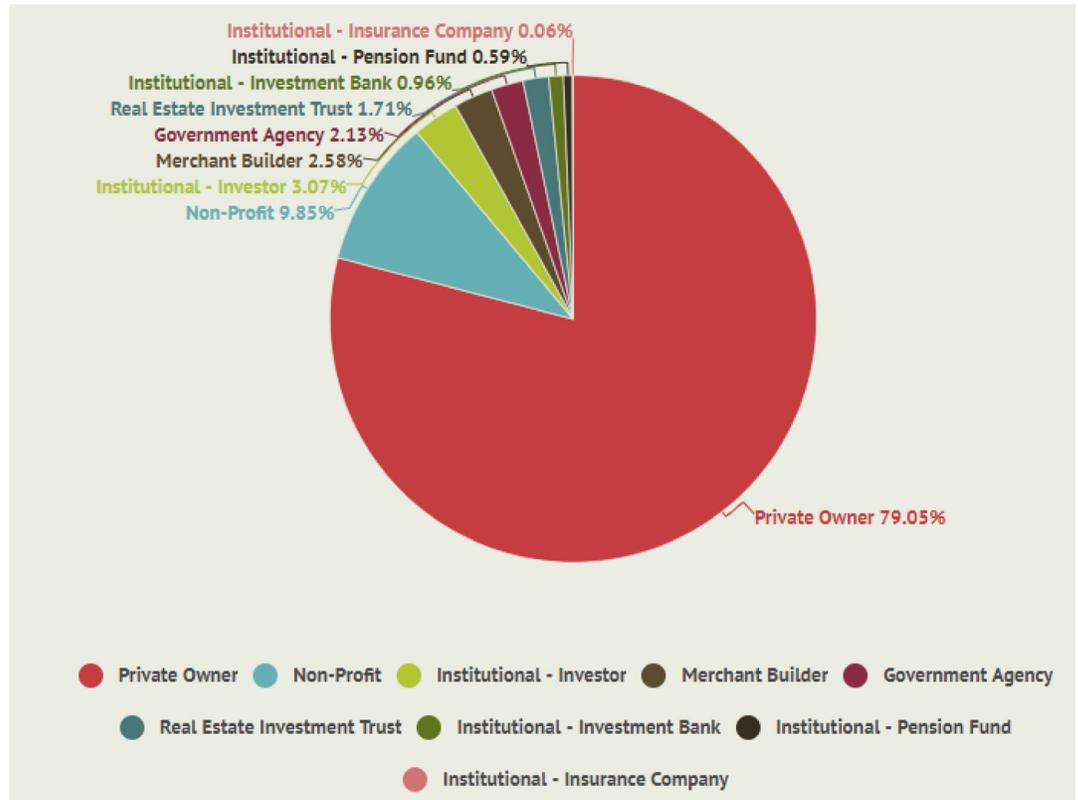
MARKET METRICS

According to the Multifamily Northwest’s Fall 2017 Apartment Report, Portland’s overall rent per square foot is \$1.57, which equates to an average of \$1,127 for a studio up to \$1,150 for a 2-bedroom, one-bathroom apartment. Costar’s Multifamily Portland Market Summary reports that the average vacancy rate is 6.1 percent with vacancy being highest in the urban core due to the new deliveries. This contrasts to the suburbs, which are maintaining higher occupancy.

Sales volume reached a record high of nearly \$3 billion in 2016, thanks to the strong presence of institutional and value-add investors, but achieved less than half of that figure, a total of \$1.49 billion in 2017.⁶ In 2016, there were 210 transactions of properties valued one million and above, where 2017 declined to 164 transactions. Portland saw an average 5.5 percent CAP rate in 2017 for all apartments above one million dollars in Clark, Multnomah, Clackamas and Washington counties. The median price per unit was \$155,000. Although Portland has recently entered into the spotlight for outside investors looking to invest, the majority of owners and investors are still local private owners.

MARKET METRICS

Figure 3: A Breakdown of Portland Apartment Ownership



Source: <https://www.multihousingnews.com/post/top-10-apartment-owners-in-portland/>

As mentioned in a presentation by the Northwest Economic Research Center at the CREW Forecasting breakfast this January, interest rates are expected to rise three times in the next year by 0.25 basis points. Investors continue to use debt to purchase existing multifamily product as it is available, however lenders are trending towards the conservative.

In 2017, investors and property owners in Multnomah County became increasingly nervous due to the recently implementation of relocation fees and capped rent increases. In turn, this has caused tertiary markets in Vancouver, Salem, Newberg and McMinnville in neighboring counties to look more and more attractive.

A recent notable project is Modera Belmont, a 200-unit urban apartment building in the Buckman Neighborhood which broke ground in the first quarter of 2017 and achieved certificate of occupancy January 12th, 2018. Developed by Mill Creek, Modera Belmont is already 7 percent occupied and is the only apartment in Portland to offer a virtual reality gaming room as an amenity

FORECAST & TRENDS

Two trends to watch in the Portland area is the expansion of the CLT (cross laminated timber) industry, especially with the Kattera's new domestic CLT manufacturing facility breaking ground July 2017 in Spokane, WA. Kattera also recently launched a 12-story multifamily high-rise CLT project in Portland.⁷ One notable CLT project is Framework, a 60 unit multifamily project, which is currently underway in the downtown Pearl district. The other hot topic surrounds Portland's 1,884 unreinforced masonry buildings. City officials and property owners are working together to find a solution of how to seismically prepare these old buildings before it is too late.⁸

Overall, the 2018 Portland multifamily market is to remain stable with some momentum shifting from apartments to civic projects and condominium developments, which are on the rise. The tax reform legislative is anticipated to smile on commercial real estate owners and construction costs are to remain high.

ENDNOTES

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