
MULTIFAMILY MARKET ANALYSIS

SCOTT HOLDEN

RMLS Student Fellow

Master of Real Estate Development Graduate Student

In the metro area multifamily permits are down in the first quarter, slightly up over last year's pace. Vacancy is up marginally to 3.4 percent. Neither is enough to register as significant and the building of new multifamily units is expected to continue throughout 2014.

According to REIS, U.S. apartment vacancy rates have fallen to 4 percent in the first quarter of 2014. Demand nationally and locally for multifamily units is high. Calvin Schnure, an economist and vice president for research and industry information for the National Association of Real Estate Investment Trusts noted, "This is not something that's hypothetical or theoretical, or just something that's coming out of a model. We have lots of evidence that people are doubled up ... it's a huge number—it's an unprecedentedly huge number."

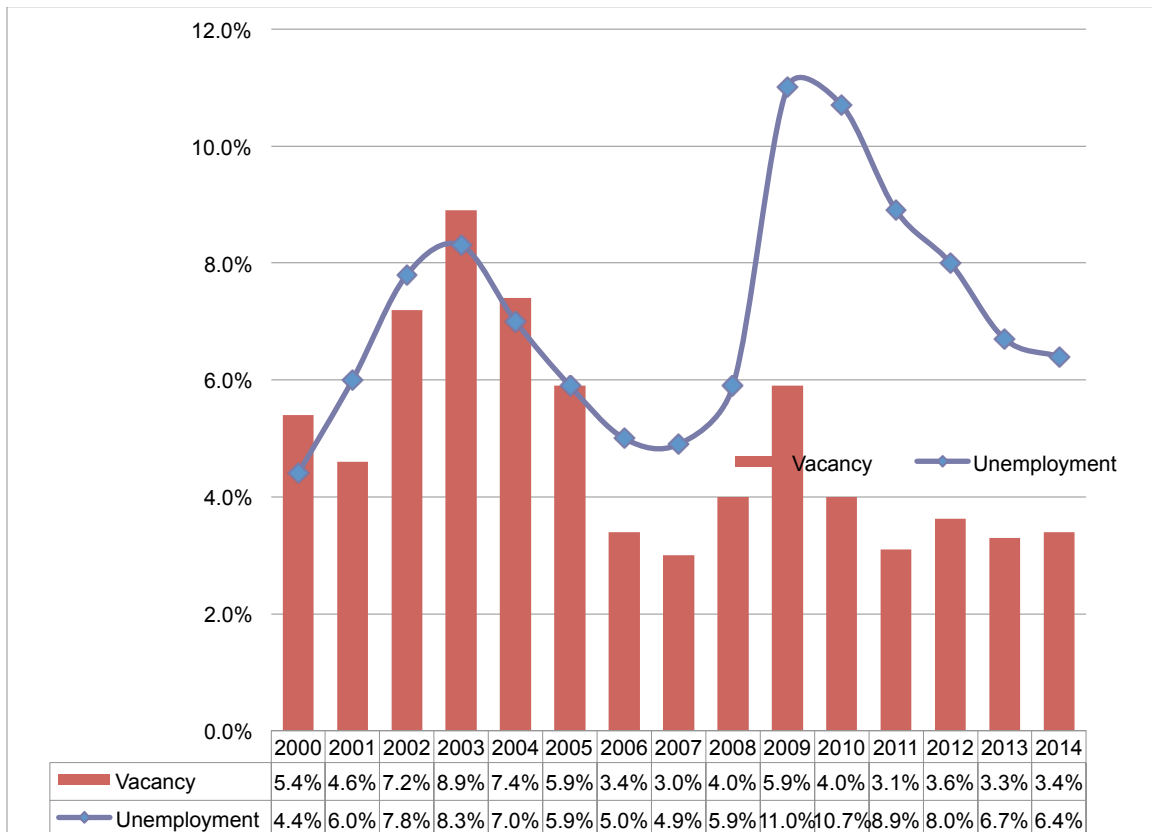
In Portland, the multifamily market still seems to be the market of choice. Buyers big and small are taking advantage of cap rates and scale that are now only available in tertiary markets. This has local developers continuing to redevelop current, repurpose different, and build new multifamily units to meet investor appetite and

■ Scott Holden is a Senior Relationship Manager at First Republic Bank. He is currently working towards the Master of Real Estate Development degree through a joint program of the School of Business Administration and the School of Urban Studies and Planning where he is an RMLS Student Fellow. 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.

consumer demand. As long as Portland can continue its population and job growth projections, supply should not dramatically outstrip demand in the long run. There is one, however, very large project that will drop a significant amount of units on the market at one time and may take time to absorb. Hassalo on 8th will finish 657 units at approximately the same time in the summer of 2015. This is in an area that is unique in that there has been very little housing and was previously dominated by mid-rise office buildings.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 6.4 percent, which is lower than the state average of 6.9 percent and the national average of 6.7 percent.

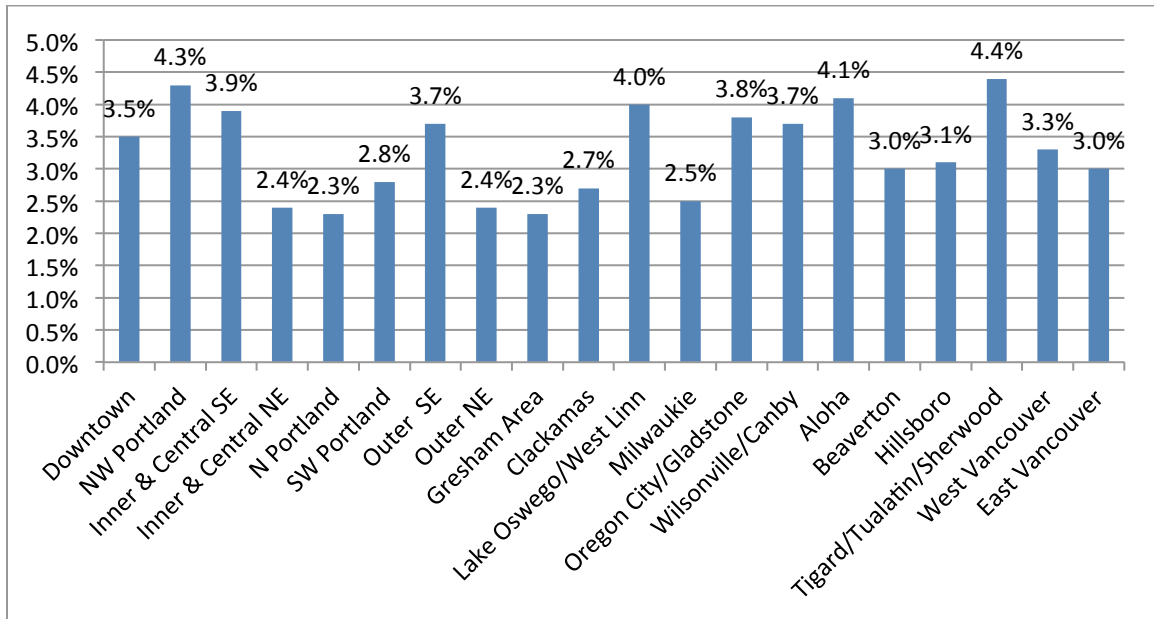
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



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 & 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 per-

cent, while the lowest was Milwaukie with .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.

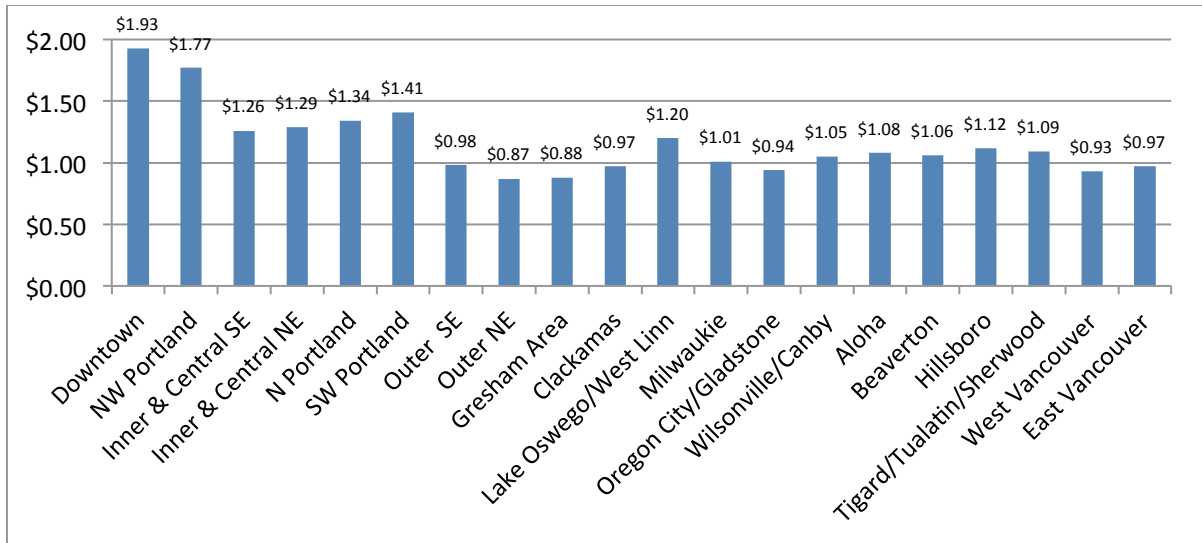
Figure 2: Vacancy Rates by Submarket Spring 2014Portland Metropolitan Area



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. 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 and the lowest was \$0.81 in Troutdale/Fairview/Wood Village/Gresham.

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



Source: MMHA

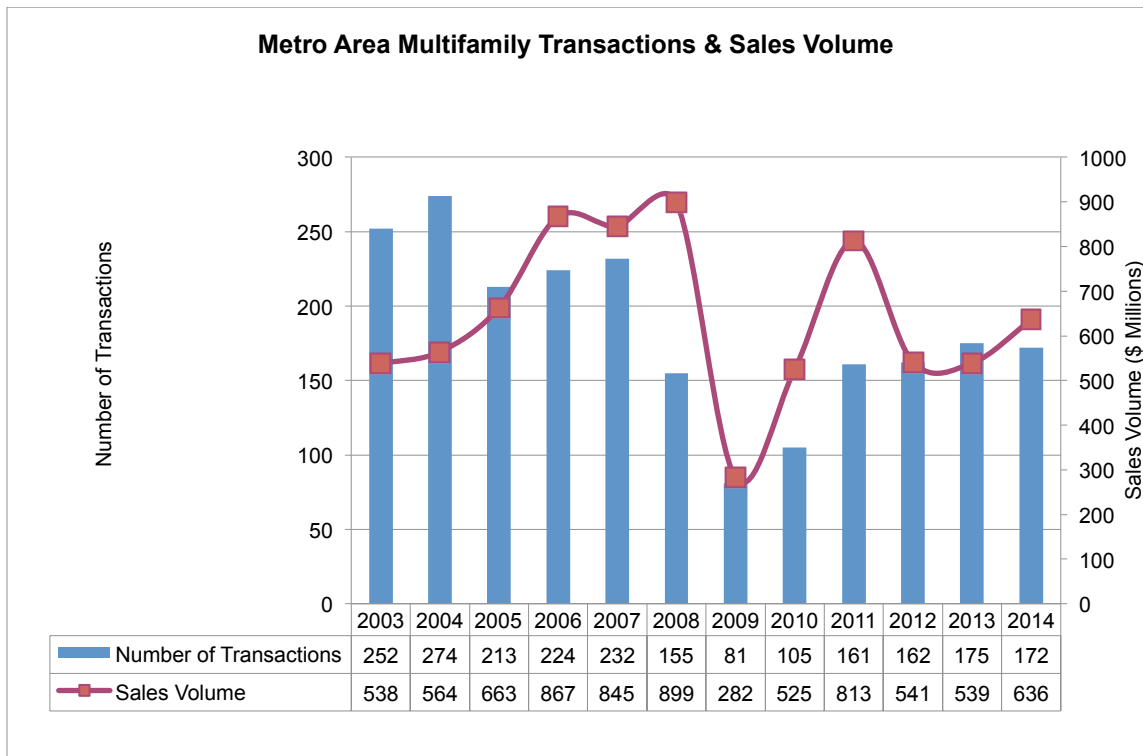
In Portland, approximately 70 percent of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the \$50,000-\$80,000 per unit range depending on rents, location, condition, and other factors. In the first quarter of 2014 the average sold price per unit was \$110,027 and the median sold price per unit was \$70,938. The average number of units was 25 and the average cap rate was 6.81 percent.

There were four deals over \$10 million in the first quarter. Tupelo Alley (188 units) sold for \$53 million, Vista at 23 (278 units) sold for \$27 million, The Gables at Mountain Park (129 units) sold for \$19.5 million, and Courtyard at Cedar Hills (145 units) sold for \$11.67 million.

Due to the solid market fundamentals, apartments remain the favored asset class of investors in Portland and throughout the nation. Experts are projecting that the increases in sales volume and transactions will continue to be strong in through 2014.

Q1 2014 Major Sale Transactions					
Building	Buyer	Price	Units	Price/Unit	Submarkets
Tupelo Alley	JPMorgan Chase & Co. Investor	53000000	188	\$ 281,915	NE Close-In
Vista at 23	Bridge Investment Group Partners	27000000	278	\$ 97,122	Gresham-Northeast
The Gables at Mountain Park	Sares-Regis Group	19500000	129	\$ 151,163	Mt Park MF
Courtyard At Cedar Hills	Prime Residential	11675000	145	\$ 107,356	Central Beaverton MF
Tabor East Apartments	Metro4rent Properties	7295000	72	\$ 101,319	South Tabor MF
Reserve at Ashbrook	Gerding Edlen Development Inc.	7128000	43	\$ 165,767	Tigard Neighborhood

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

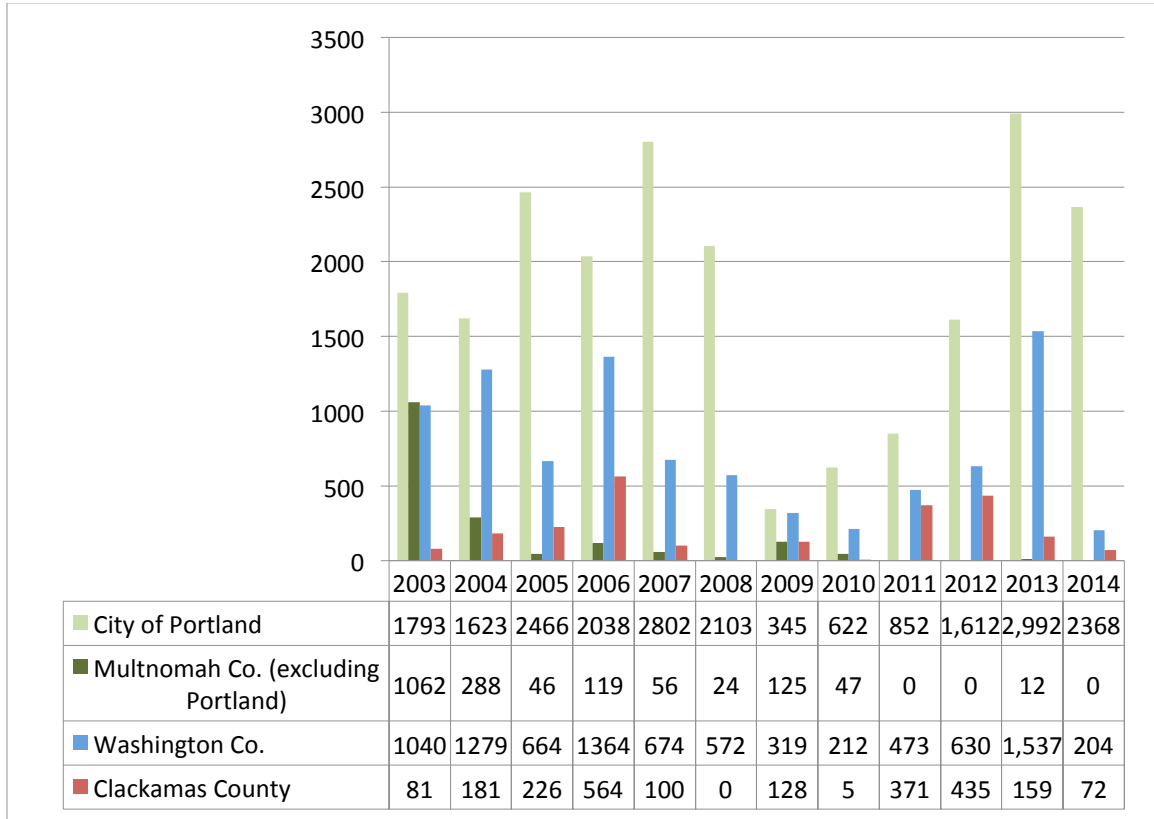


Source: Costar

Through March of 2014, multifamily building permits were down across all counties. Washington County issued permits for 51 multifamily units in the first quarter of 2014 versus 765 multifamily units in the first quarter of 2013. The City of Portland’s pace is below 2013’s from and annual pace of 2891 to 2272 in 2014. According to the Barry Apartment Report, in 2014 and 2015, we expect completion of around 12,000 to 14,000 new apartment units. This should cause vacancies to gradually rise to a more modest 4.5 percent to 5.35 percent by late 2015 and a more balanced market. Prior to the downturn the Portland Metro area was building about 4000 new multifamily units per year.

Figure 5: Multifamily Building Permits Issued, March 2014

Number of permits through March 2014 is annualized



Source: US Census

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.