
MULTIFAMILY MARKET ANALYSIS

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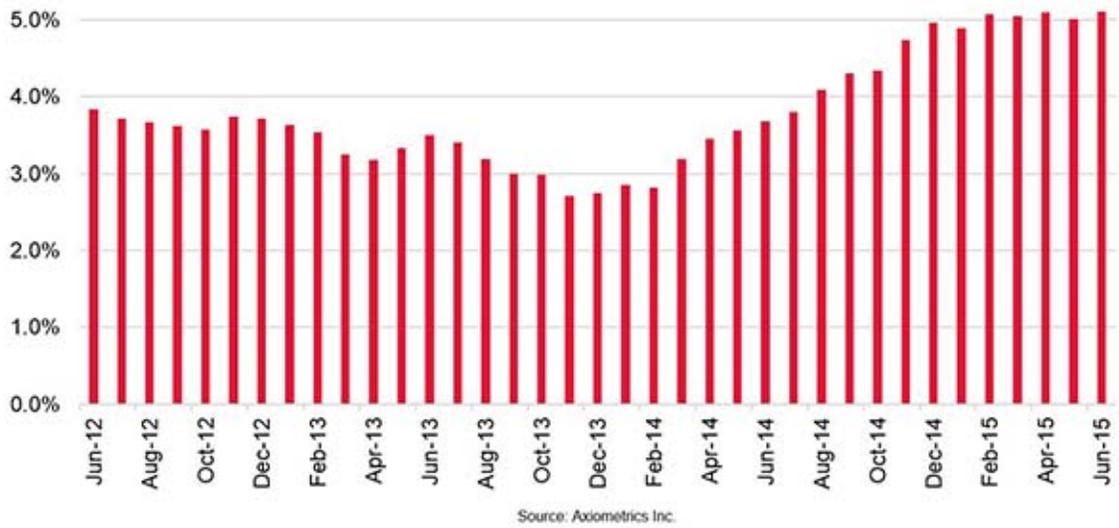
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At the national level, annual effective rent growth in the multifamily sector has extended the strong fundamentals reported in the first quarter. The national rate of rent growth was 5.1 percent in April, 5.0 percent in May, and 5.1 percent in June. The rate has now been at or above 5.0 percent for five consecutive months, the longest such streak in at least six years according to Axiometrics, from whom this data is derived. National effective rent growth as 3.7 percent in June of 2014. At 4.7 percent, year-to-date effective rent growth is also at its highest in six years.

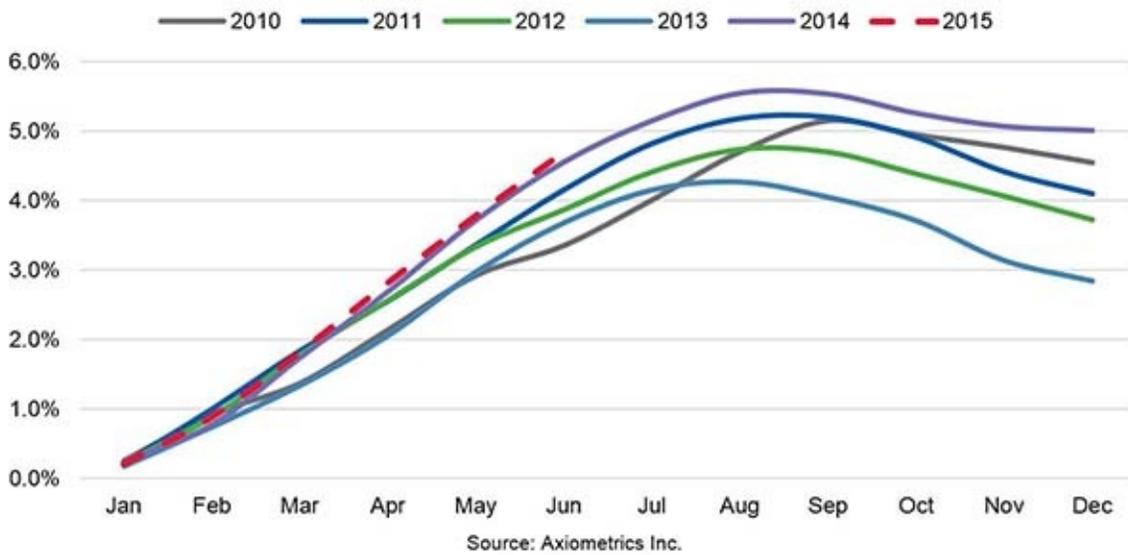
Meanwhile national vacancy registered at 4.7 percent in June 2015, giving no ground on the gains made in May. The third graphic below pertaining to occupancy shows it typically peaking mid-year. Given the continued strengthening of the multifamily market, however, Axiometrics suggests the moderating effect could have less impact than in other years. National deliveries of new multifamily supply will contribute, however, to moderating occupancy during the second half of the year as ongoing supply pushes toward balance in absorption rates.

■ 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

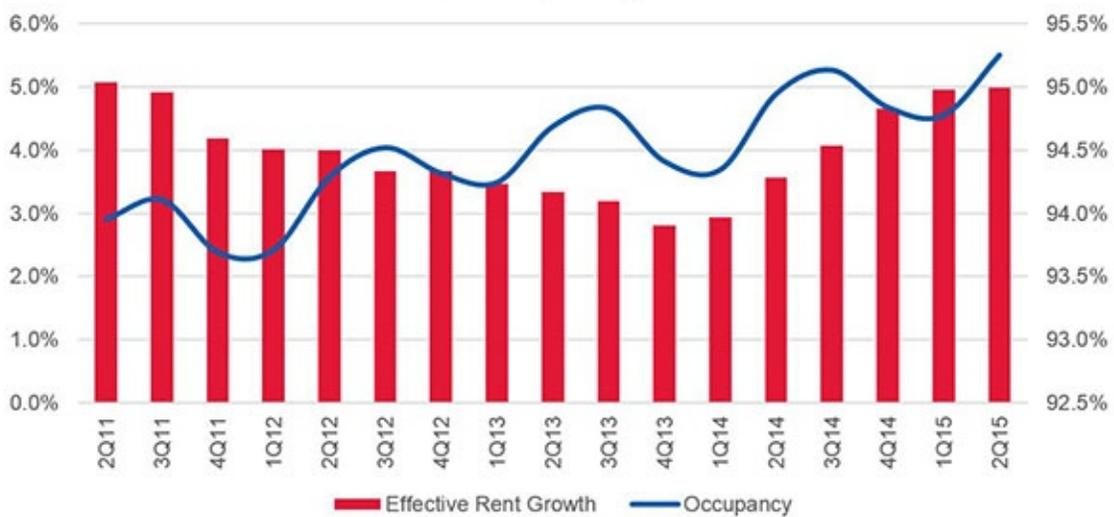


National Occupancy Rate



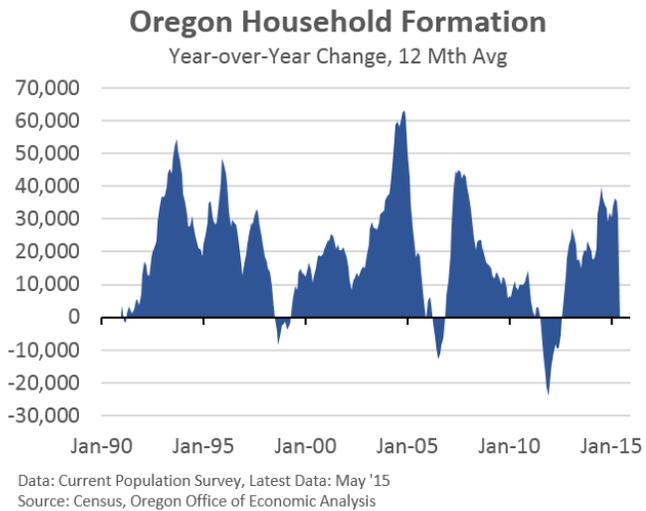
Examining the second quarter overall for the U.S., Axiometrics found that its overall annualized effective rent growth arrived at 5.0 percent for the first time in four years. The quarter-over-quarter effective rent growth figure was 2.7 percent, significantly better than the first quarter’s metric. A 95.2 percent quarterly occupancy was achieved in the market, surpassing 95 percent for only the second time since 2001. Certain factors such as ending school years and warm weather typically drive rent growth in the second quarter, and 2015 has not been an exception.

National Annual Effective Rent Growth and Occupancy Rate



62,403 new multifamily units were delivered in second quarter. There are 277,224 units projected for total 2015 delivery, so the second quarter’s completions represent 22.5 percent of this annual total.

Josh Lehner of the Oregon Office of Economic Analysis released an update on household formation in Oregon, a key metric in relation to housing, especially new construction. While the graphic shows fluctuations in the rate of change, it is in decidedly positive territory in recent months.



PORTLAND APARTMENT MARKET

The multifamily market in the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) continued to reach new milestones in the second quarter, revealed in Axiometrics’ wealth of data as follows.

In April 2015, Portland’s annualized rate of effective rent growth experienced the largest increase in all markets surveyed across the country, rising from 9.4 percent in March to 10.6 percent in April. *This is the first time Portland’s annual effective rent growth has reached double digits since April 2011.* The 10.6 percent rate of rent growth landed Portland in fourth place nationally for the month, behind only Oakland, CA (14.8 percent), Denver, CO (11.5 percent), and San Jose, CA (10.8 percent). On a monthly basis in April, Portland’s vacancy rate was 3.4 percent.

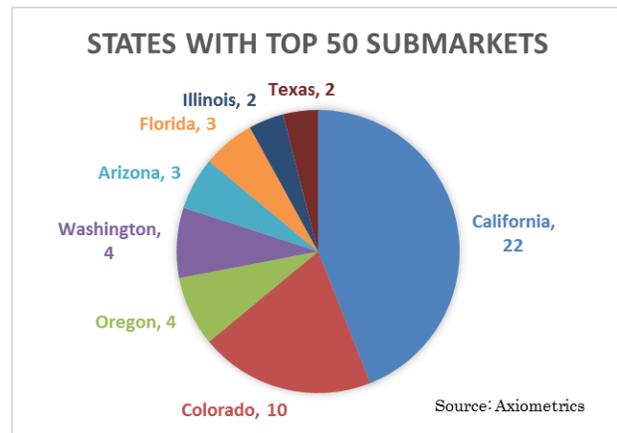
In May 2015, Axiometrics’ ranking of top 10 metros for effective rent growth experienced some major shifts, thanks in part to the Portland market. While Oakland remained in first place for greatest rate of rent growth at 14.3 percent, for the first time in at least a year the top five metros did not include all three Bay Area markets—San Francisco fell to sixth place while *Portland ascended to second place nationally* thanks to registering a 12.2 percent rate of annual effective rent growth for the month. Vacancy tightened further to 3.2 percent in May.

In June 2015, effective rent growth rankings underwent fewer upsets. Portland not only held the number two spot on the list of top metros, but its rate of effective rent growth *increased yet again*, to 13.6 percent. The monthly measurement of vacancy again declined, reaching 2.9 percent. (Oakland remained in first place

with 14.4 percent effective rent growth; Denver was third at 10.9 percent and San Jose fourth at 10.4 percent.)

Examining the second quarter as a whole, Axiometrics ranks the Portland MSA in second place for annualized effective rent growth at a rate of 11.8 percent, behind Oakland in first place at 14.3 percent. From another perspective, Portland rank in first place nationally for quarterly effective rent growth at 6.5 percent. Axiometrics pegs overall quarterly occupancy for Portland at 96.8 percent (a 3.2 percent vacancy rate), also good for a second place finish behind the New York City MSA.

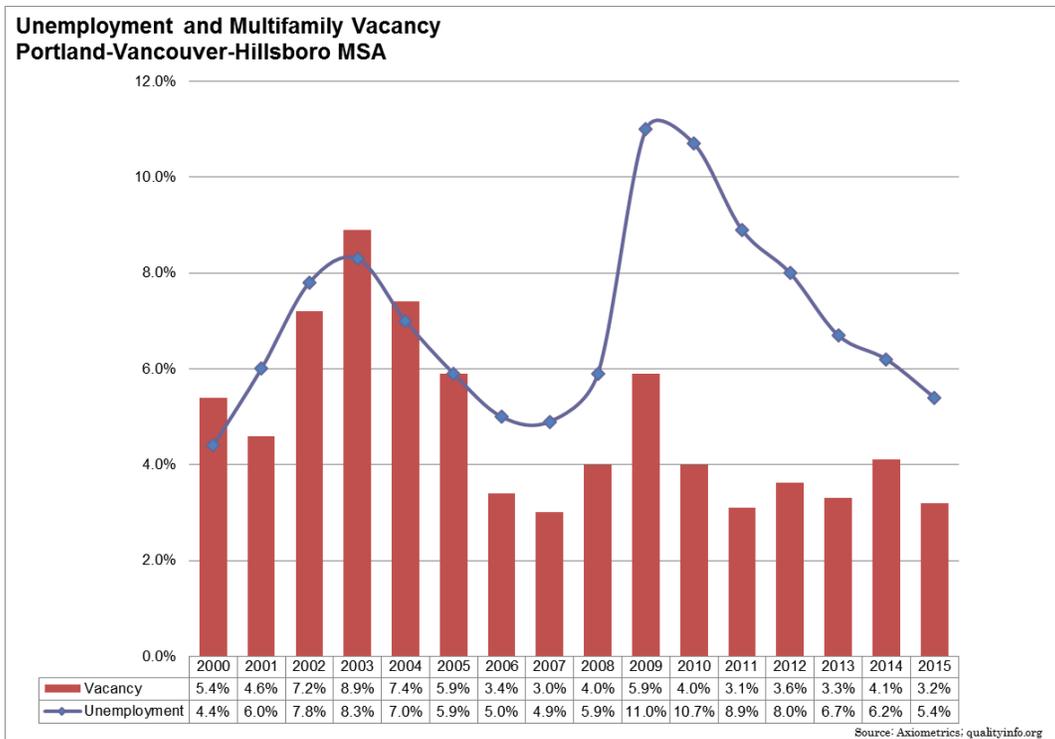
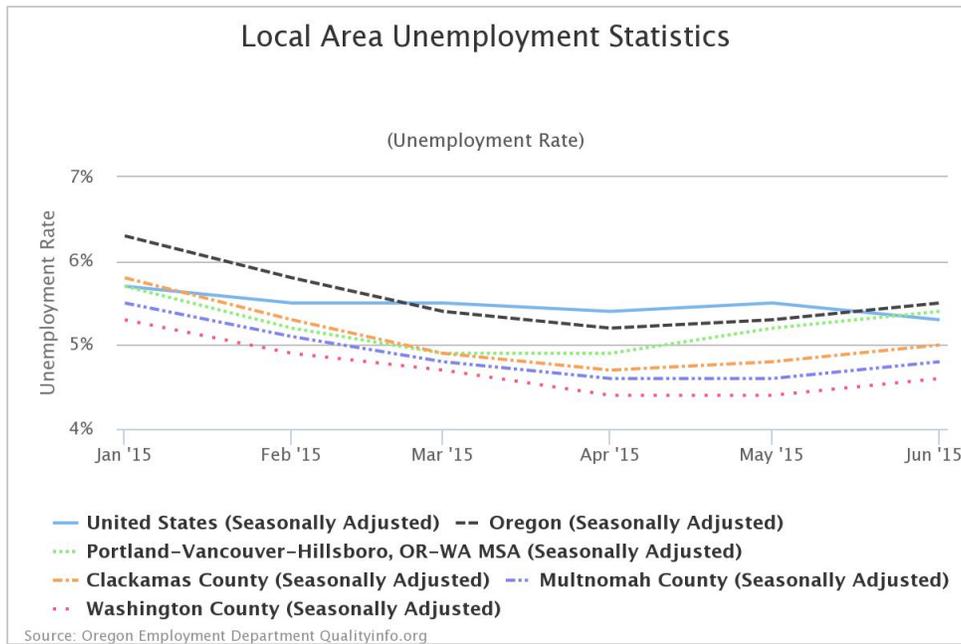
In a special feature, Axiometrics examined the top 50 multifamily submarkets with strongest annual effective rent growth in the U.S. in June 2015 and found that 43 of these were located in the West between the Rocky Mountains and the Pacific Coast. Unsurprisingly, California claimed the largest number of top submarkets out of all states, accounting for fully 22 of the top 50. Colorado claimed 10 while Oregon and Washington each claimed four. With only a few exceptions, most

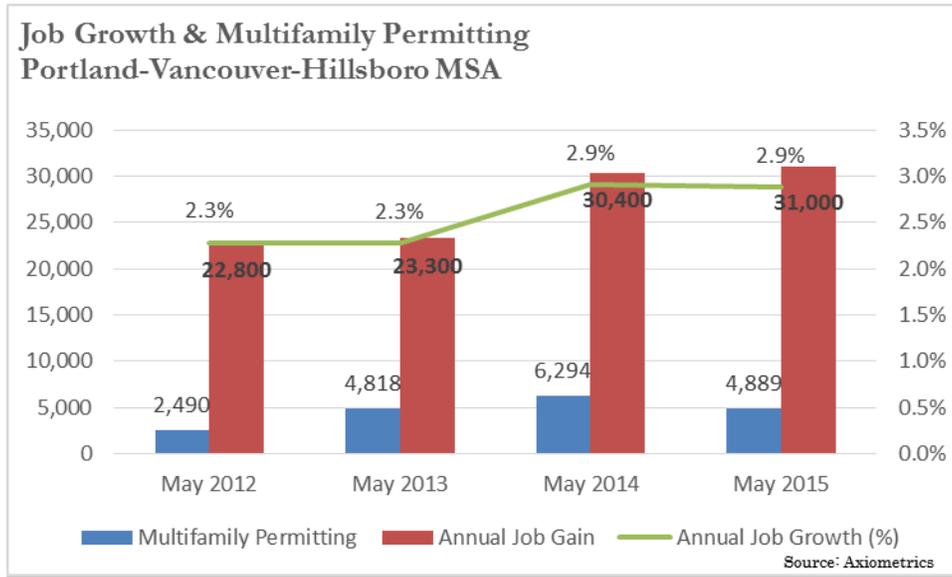


of these top-performing submarkets were in suburban locations. Indeed, Portland claimed three of Oregon's 4 top submarkets, and all three made it into the top 10 in this ranking. The Beaverton submarket ranked second with a June rate of rent growth at 18.12 percent; Vancouver, WA ranked fifth with a 16.98 percent growth rate; and Milwaukie ranked tenth at 14.77 percent.

This national submarket survey dovetails with Colliers International's Research & Forecast Report for the second quarter in Portland which finds multifamily renters in Portland do indeed have a strong preference for suburban locations. While the group reports a consistent 5.1 percent vacancy in downtown properties, the surrounding suburbs register at just 2.74 percent vacant, one of the lowest rates in the country. The bulk of new construction continues to be directed at the central city, however, with Colliers reporting deliveries of "over 11,500 units last year." Rent growth in the suburbs is therefore expected to continue increasing. Robust transaction volume in the suburbs and new deliveries bringing multifamily supply into greater balance with absorption are both expected to continue throughout 2015.

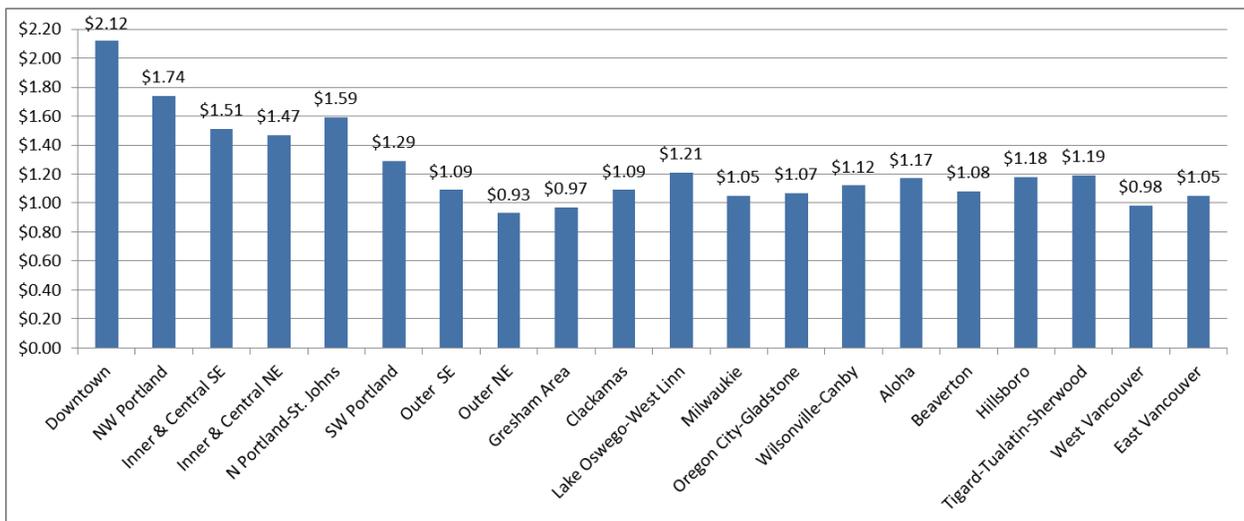
The following charts display local unemployment trends; overlays of multifamily vacancy reported for the second quarter (3.2 percent) and the most recent unemployment statistic for June 2015 in the Portland MSA from the State of Oregon Employment Department (5.4 percent); and job growth/multifamily permitting.



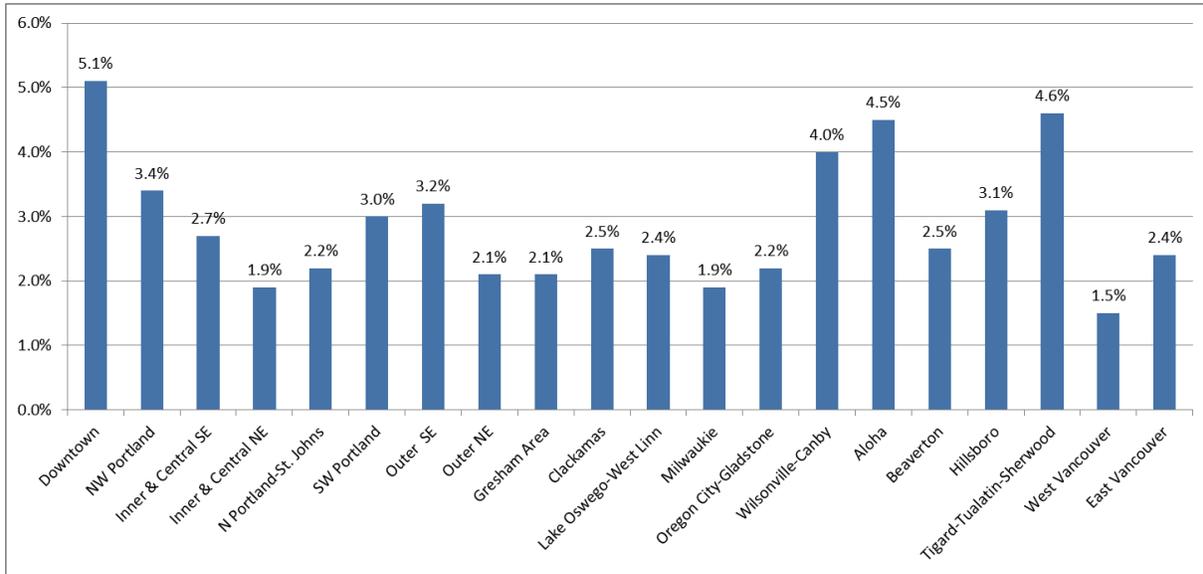


Below are representations of Multifamily NW's average rents per square foot and average vacancy rates for the 20 Portland submarkets in its most recently published survey.

Rent/SF by Submarket, Spring 2015



Vacancy Rate by Submarket, Spring 2015



TRANSACTIONS

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

- In April, 17 properties traded compared to 18 in April 2014. Dollar volume totaled \$143,142,800, 37.9 percent greater than April 2014. Averages for these 17 transactions are as follows: 75.6 units, \$8,420,165 price, \$118,300/unit, 964.6 square feet/unit, \$123.08/square foot, 5.49 percent average reported cap rate.
- In May, 20 properties traded compared to 12 in May 2014. Dollar volume totaled \$59,904,000, 283.1 percent greater than May 2014. Averages for these 20 transactions are as follows: 26.2 units, \$2,995,200 price, \$114,321/unit, 820.8 square feet/unit, \$150.97/square foot, 4.71 percent average reported cap rate.
- In June, 29 properties traded compared to 12 in June 2014. Dollar volume totaled \$384,363,622, 97.8 percent greater than June 2014. Averages for the 29 transactions are as follows: 78.5 units, \$13,253,918 price, \$168,877/unit, 925.9 square feet/unit, \$179.94/square foot, 5.93 percent average reported cap rate.
- Year to date through June 2015, total dollar volume of sales over \$450,000 reached \$992,771,545 on 142 transactions. The averages for these 142 transactions are: 52.7 units, \$6,991,349 price, \$125,113/unit, 900.6 square feet/unit, \$147.41/square foot, 5.79 percent average reported cap rate.

Colliers Portland reports the following significant trades in the first quarter, includes some low-income/non-market rate transactions.

Project	City	Sale Date	Sale Price	# Units	Price/Unit	Price/SF	Cap Rate
Wyndham Park	Beaverton	6/1/2015	\$63,900,000	423	\$ 151,064	\$ 331.53	
Museum Place	Portland	6/19/2015	\$59,500,000	140	\$ 425,000	\$ 389.78	5.40
Canyon Creek	Wilsonville	4/30/2015	\$49,500,000	372	\$ 133,065	\$ 136.27	5.50
Domaine at Villebois	Wilsonville	6/25/2015	\$48,025,000	274	\$ 175,274	\$ 180.38	4.73
Powell Valley Farms	Gresham	6/15/2015	\$27,750,000	228	\$ 121,711	\$ 138.92	
Tualatin View	Portland	4/29/2015	\$21,900,000	210	\$ 104,286	\$ 112.77	5.70
Summerlinn	West Linn	6/17/2015	\$19,200,000	300	\$ 64,000	\$ 62.31	5.80
Westmoreland's Union Manor	Portland	6/16/2015	\$18,100,000	300	\$ 60,333	\$ 82.70	
West Slope Terrace	Portland	6/11/2015	\$12,700,000	96	\$ 132,292	\$ 131.50	
7701-7820 NW Quinalt St	Camas	6/19/2015	\$10,052,000	28	\$ 359,000	\$ 372.30	
Corso Apartments	Portland	5/5/2015	\$ 7,750,000	46	\$ 168,478	\$ 208.78	
Cascadian Terrace	Portland	5/29/2015	\$ 7,525,000	103	\$ 73,058	\$ 85.51	
Woodland Park Estates	Portland	5/13/2015	\$ 6,633,000	74	\$ 89,635	\$ 93.16	

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

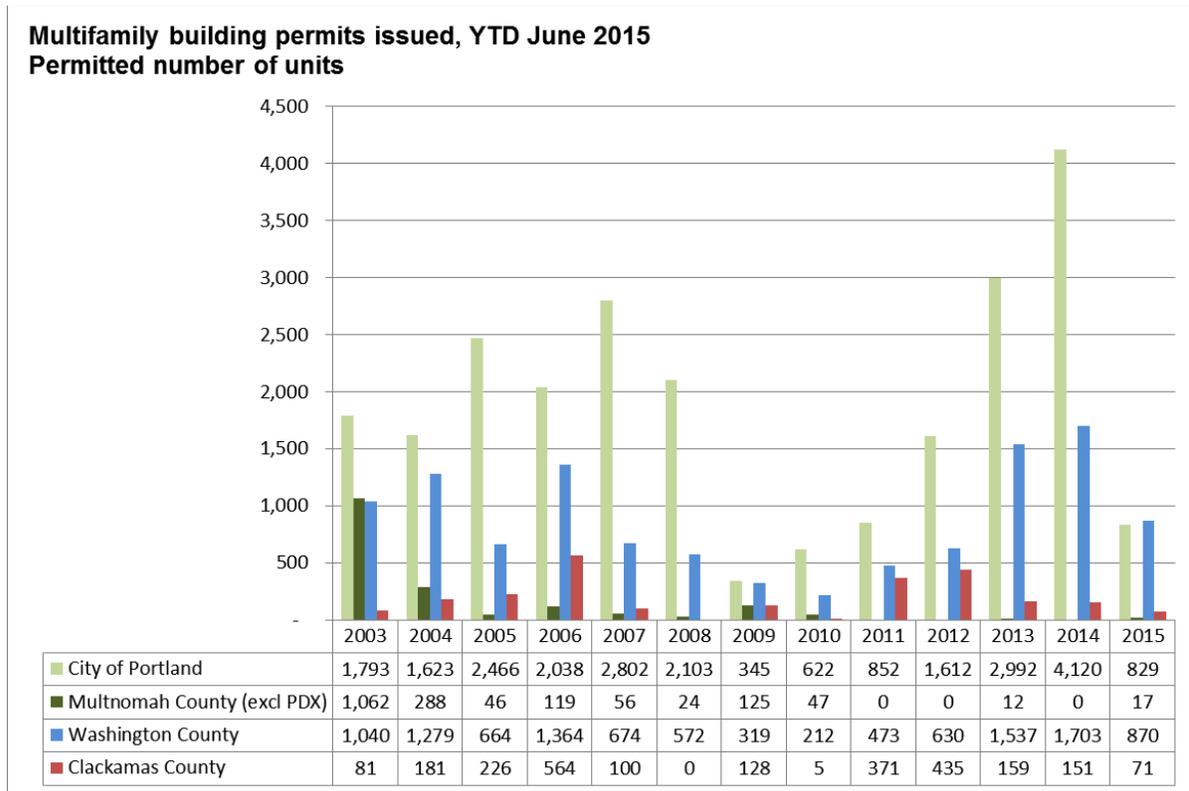
Average price per foot	\$102
Median cap rate	6.07%
Dollar volume of sales	\$853,296,241
Median gross rent multiplier	9.04
Median price per unit	\$89,286
Average price	\$5,140,339
Average number of units	46

PERMITS

In the second quarter, Washington County issued more permits for multifamily units in buildings with five or more units than the City of Portland. Also, for the first time this year, multifamily permits were issued in the areas of Multnomah County that exclude Portland.

In Portland, 404 multifamily units were permitted. Meanwhile, 17 multifamily units were permitted in the balance of Multnomah County that excludes Portland (a.k.a. the eastern suburbs). Also, 523 multifamily units were permitted in Washington County, and 53 multifamily units were permitted in Clackamas County.

The robust second-quarter permitting in Washington County also brings that jurisdiction's year-to-date total above Portland's correlating metric. 2015's year-to-date multifamily permitting totals are represented in the following graphic.



Source: U.S. Census Bureau

NEW CONSTRUCTION

NAI Norris, Beggs & Simpson’s (NAI-NBS) second-quarter 2015 multifamily report discusses the shifting tenure split in Portland among a growing proportion of newly built multifamily real estate. The firm reveals that 67 percent of all new housing units built in Portland between 2010 and 2014 were apartments, reflecting the much larger volume of multifamily permits issued in the jurisdiction as compared to single-family permitting. Portland’s well-documented population growth together with demand for multifamily from both Millennials *and* Baby Boomers are all called out as fundamental drivers underpinning the local multifamily market. Beyond this familiar refrain, however, is the group’s argument that recent arrivals of major employers in the market have intensified the concentration of a population demanding apartment living. The city’s amenities, cost of living, and well-educated population are attractive to employers, and firms—many in the technology industry—have responded by bolstering their presence. NAI-NBS points to the very tight Central City office market as evidence. ■