



# THE Apartment Report

## UNPRECEDENTED MARKET

Craig McConachie, C&R Real Estate Services, Co.  
Apartment Report Committee

Demand for apartments continues to outpace supply, both in the Portland MSA, and outlying areas. The vast majority of our surveyed areas are experiencing vacancy factors of 3% or below, with rent rates continuing to escalate. With the strong job market, robust in migration, and the rate of homeownership declining, the need and demand for rental housing is exceptionally high. Low vacancies and rising rent rates are putting pressure on tenants and policy makers alike, while developers are scrambling to meet the need. The Portland area remains one of the strongest apartment markets in the country for effective rent growth and institutional investors are aggressively seeking opportunities here. Apartment sales are on a record pace, with cap rates continuing their decline to an average of 5.2%. Third quarter Costar reports the average sale price per unit of \$154,220 and a median price per unit of \$87,500.

### Portland/Vancouver

#### VACANCY:

The Portland / Vancouver vacancy factor went down again, to a record low of 2.87%, a decline of 22 basis points since the Spring report. Not surprisingly, both the Troutdale/Fairview area and the Outer Northeast areas have the lowest vacancy factors of 1.4% and 2.2%, respectively. These two areas also have the lowest rents in the Metro area. This is a strong indication that tenants are migrating towards more affordable neighborhoods, causing occupancy to increase.

As a sign of strength in the overall market, no area has a vacancy factor over 4%. Lake Oswego at 3.7%, and Downtown Portland at 3.6%, are experiencing the highest vacancies. Downtown Portland improved significantly from the Spring vacancy of 5%, primarily due to strong absorption of the newer product. West Vancouver vacancy jumped from 1.5% to 3.5%, as well as Inner and Central Northeast,

from 1.9% to 3.5%. All unit types are close to 3% vacant or below, with the exception of a 4.2% rate for studio units. Two-bedroom townhomes have the best occupancy of all unit types, with average vacancy of 2.2%.

#### RENT RATES:

Overall rents in the Metro area have continued to accelerate at an annual rate of 9%. Average rents have increased from \$1.22 psf. to \$1.33 psf. in the past twelve months. The 9% is less than many sources are reporting, however average rents have increased 7% in just six months since our Spring Report, indicating an annualized rate increase of 14%. This is more reflective of actual market conditions. Beaverton led the way in percentage increases since Spring, climbing 14%, and Northwest Portland saw a 9% increase.

The Downtown core continues to have the highest rents at \$2.15 psf. Outer NE Portland and Troutdale/Fairview have the lowest rates, averaging \$.99 psf. Both East and West Vancouver rents are finally over the \$1.00 psf. mark. North Portland/St.Johns is the only area to experience a decline in average rent.

#### Overall average rents per unit type:

- Studio:.....\$1000
- 1 bdrm/1 bth: ..... \$998
- 2 bdrm/1 bth: .....\$978
- 2 bdrm/2 bth: .....\$1207
- 2 bdrm twnhs: .....\$1058
- 3 bdrm/1 bth: .....\$1076
- 3 bdrm/2 bth: .....\$1325

#### MARKET CONDITIONS:

The average number of days that a unit will stay vacant for the entire area is 34. The close in east side areas continue to see very quick turnover times, with vacant days averaging less than 12. Landlords benefit from very little lost rent days if they can turn their units quickly. The areas of Hillsboro, Aloha, Clackamas and Oregon City all experience close to two months vacancy between tenants.

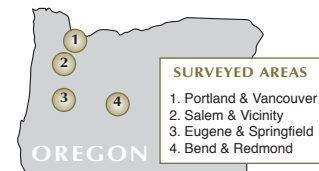
Passing through the cost of water and sewer to tenants has continued to increase in suburban markets and Downtown projects, with 60%-70% of projects adopting the practice. Inner east side properties lag behind, with

less than 36% of owners charging RUBS. Garbage collection costs follow this same trend. Some good healthy news for residents and landlords alike; over 75% of the surveyed properties have now instituted smoke free policies. One year ago, only half of the surveyed properties had a smoke free policy.

#### Other Areas

The Bend/Redmond area is starting to see a more stabilized vacancy factor, increasing from 1.5% last Spring to 2.9%. Eugene/Springfield remains very stable, with a 3.1% vacancy, and average rents have increased by 14% in just six months! The Salem market continues to improve with a 2.5% vacancy and rent increases of 10% since last Spring. Average rent rates in Salem are now at \$1.13 psf. and the average number of days vacant has come down from 53 to 34.

(continued on page 2).....



## SURVEY SAYS!

- Portland Vacancy Under 3%
- Rents Escalate
- Cap Rates Averaging 5.2%
- More Smoke Free Housing

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# PORTLAND METRO AREA

## MULTNOMAH COUNTY

- 5 DOWNTOWN PORTLAND
- 1 NW PORTLAND
- 13 INNER & CENTRAL SE (PORTLAND)
- 17 INNER & CENTRAL NE (PORTLAND)
- 18 NORTH PORTLAND | ST. JOHNS
- 6 SW PORTLAND
- 14 OUTER SE (PORTLAND)
- 16 OUTER NE (PORTLAND)
- 15 TROUTDALE | FAIRVIEW
- WOOD VILLAGE | GRESHAM

## CLACKAMAS COUNTY

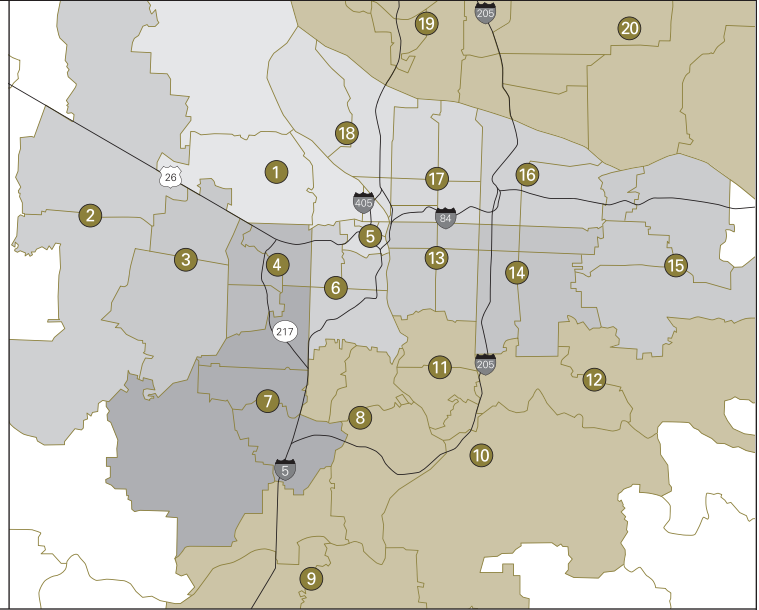
- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

## WASHINGTON COUNTY

- 3 ALOHA
- 4 BEAVERTON
- 2 HILLSBORO | NORTH OF HWY 26
- 7 TIGARD | TUALATIN | SHERWOOD

## CLARK COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER



(continued from page 1).....

### Our Contributors

**Doug Marshall**, from Marshall Commercial Funding, Inc. has written an article describing the commercial real estate cycle and likens our current market to the “Silly-Stupid” phase. This expansion phase, with high rent growth in a tight market, is characterized by cap rate compression and lender aggressiveness. Doug has some good advice for the astute investor.

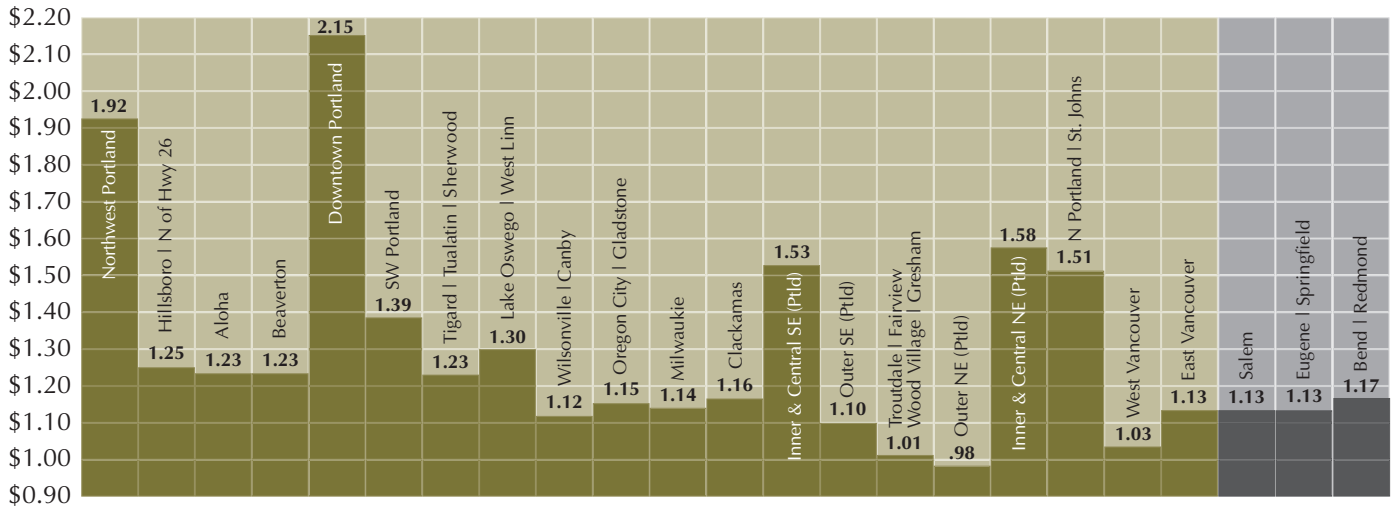
**Amy Vander Vliet** from the Oregon Employment Department notes that Portland area jobs are increasing at a pace that hasn't been seen since 2005, making Portland's job-growth the second fastest-growing large metro area in the country. Along with the jobs increase, wage growth is picking up steam and relative wages have not been this high since the early 1980's.

**Patrick Barry**, with Barry and Associates, has provided a careful analysis of apartment construction activity in the Metro area. He points out that there is a current shortage of approximately 5,850 units in Portland Metro. New construction has primarily occurred in close-in locations, but as rents increase, he expects to see increased activity in outlying areas. Because construction is lagging behind demand, he predicts a “landlords market” will remain in place for the short term future and vacancy rates will stay below the 5% mark for another 12 to 18 months.

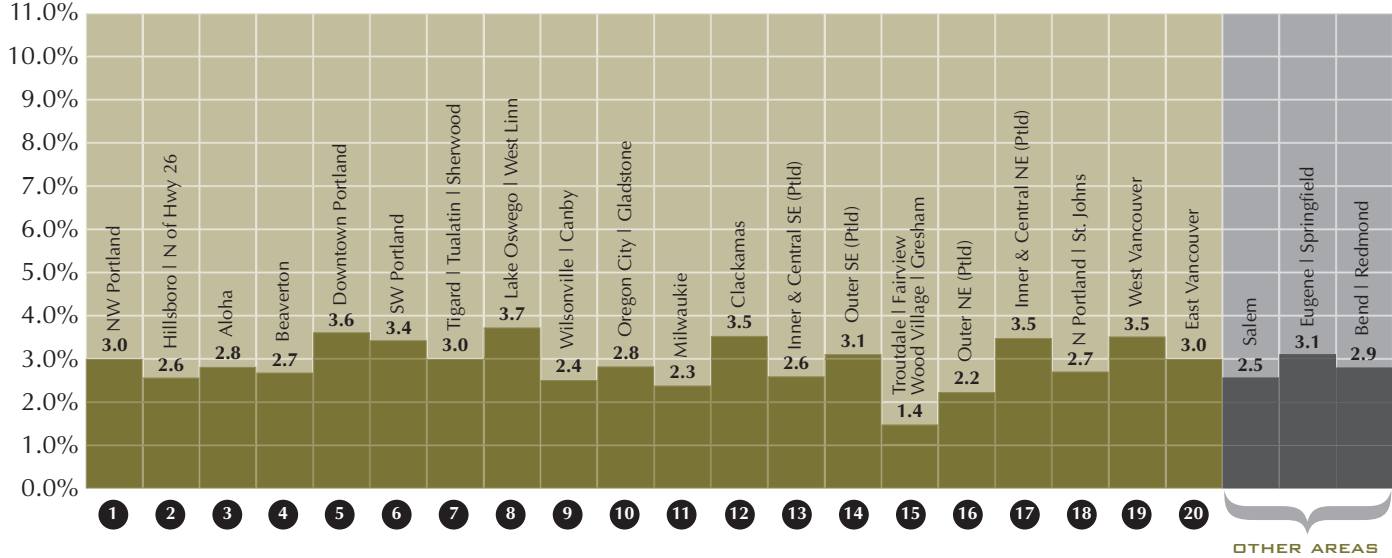
This survey represents a total of 70,777 units from 952 properties. All of the articles have been reprinted without editing the content, in order to present unbiased opinions. We'd like to thank all of the management companies and property owners who have submitted information. Their participation is critical in insuring the accuracy of our data and the continued success of this report. ■

MAP AREA	TENANT PAID UTILITIES		
	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	61.4%	90%	54.3%
HILLSBORO   N OF HWY 26	76.2%	100%	66.7%
ALOHA	83.3%	100%	72.9%
BEAVERTON	74.1%	91.4%	51.7%
DOWNTOWN PORTLAND	56.8%	84.1%	54.6%
SW PORTLAND	68.6%	91.4%	51.4%
TIGARD   TUALATIN   SHERWOOD	72.9%	98.3%	64.4%
LAKE OSWEGO   WEST LINN	64.3%	92.9%	57.1%
WILSONVILLE   CANBY	81.8%	100%	54.6%
OREGON CITY   GLADSTONE	53.9%	100%	23.1%
MILWAUKIE	73.5%	100%	41.2%
CLACKAMAS	77.8%	100%	55.6%
INNER & CENTRAL SE PTLD	35.5%	61.7%	25.5%
OUTER SE PORTLAND	62.1%	96.6%	20.7%
TROUTDALE   FAIRVIEW WOOD VILLAGE   GRESHAM	59.5%	100%	27%
OUTER NE PORTLAND	69.2%	96.2%	42.3%
INNER & CENTRAL NE PTLD	27.5%	49%	20.6%
NORTH PTLD   ST. JOHNS	18.2%	63.6%	9.1%
WEST VANCOUVER	69.2%	100%	57.7%
EAST VANCOUVER	80%	100%	55%
SALEM   VICINITY	39.1%	96.6%	32.2%
EUGENE   SPRINGFIELD	35.3%	98.8%	34.1%
BEND   REDMOND	50%	80%	10%

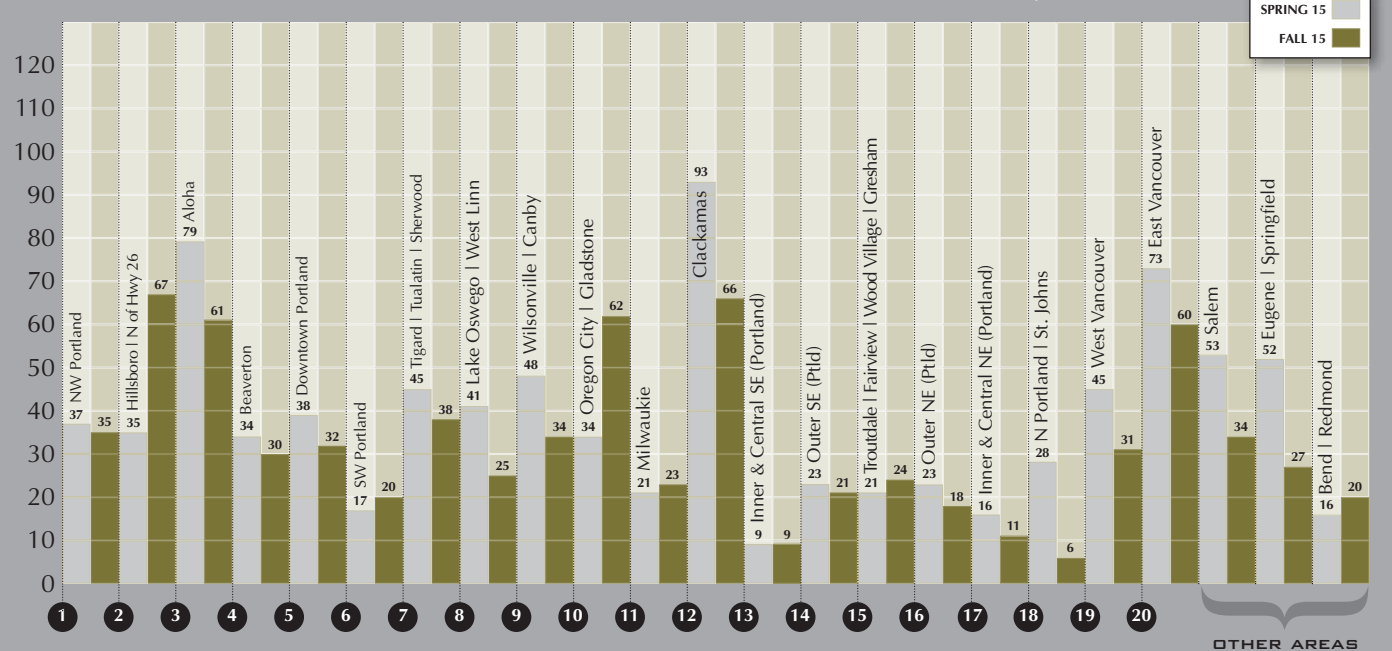
### AVERAGE RENT PER SQUARE FOOT \$



### AVERAGE MARKET VACANCY RATE %



### AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



## SURVEY RESULTS—FALL 2015

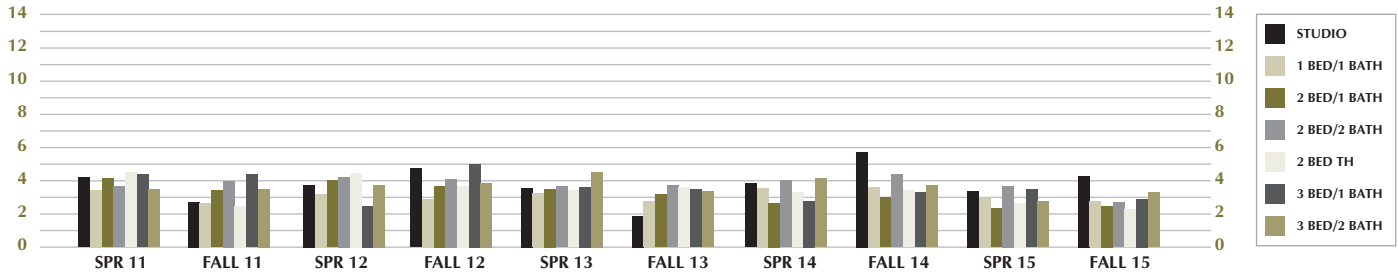
### PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 15 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND (5)	37	AVG MARKET VACANCY RATE %	3.56	5.02	-0.29	4.09	3.42	3.61	1.19	6.67	0	0
		AVG RENT PER SQ FOOT \$	2.15	2.12	0.01	2.42	2.04	1.82	2.1	1.99	2.73	2.6
		AVG RENT PER UNIT TYPE \$				969	1194	1458	2121	2414	3420	3289
		SUM OF UNITS SURVEYED	2809	1632		1026	1229	360	168	15	2	9
NW PORTLAND (1)	56	AVG MARKET VACANCY RATE %	2.96	3.46	-0.14	4.62	2.29	3.46	2.41	2	4.17	4.55
		AVG RENT PER SQ FOOT \$	1.92	1.75	0.10	2.71	1.98	1.3	1.61	1.44	1.13	1.38
		AVG RENT PER UNIT TYPE \$				1336	1454	1138	1692	1530	1211	1707
		SUM OF UNITS SURVEYED	4223	3742		801	1706	376	1038	100	48	154
INNER & CENTRAL SE (PORTLAND) (13)	135	AVG MARKET VACANCY RATE %	2.58	2.72	-0.05	3.19	2.8	2.15	3.14	1.3	2.56	0
		AVG RENT PER SQ FOOT \$	1.53	1.51	0.01	2.19	1.6	1.23	1.63	1.17	1.05	1.04
		AVG RENT PER UNIT TYPE \$				927	1042	1045	1720	1072	1184	1162
		SUM OF UNITS SURVEYED	3143	3117		376	1429	932	191	154	39	22
INNER & CENTRAL NE (PORTLAND) (17)	95	AVG MARKET VACANCY RATE %	3.5	1.92	0.82	6.85	2.41	3.17	6.7	0	4.35	4.17
		AVG RENT PER SQ FOOT \$	1.58	1.47	0.07	2.12	1.55	1.26	1.73	1.38	1.28	1.49
		AVG RENT PER UNIT TYPE \$				1031	1033	1092	1720	1223	1229	1670
		SUM OF UNITS SURVEYED	2429	3751		336	1285	473	209	79	23	24
N PORTLAND   ST JOHNS (18)	16	AVG MARKET VACANCY RATE %	2.73	2.21	0.24	2.99	2.17	0.89	0	0	11.11	-
		AVG RENT PER SQ FOOT \$	1.51	1.59	-0.05	1.85	1.66	1.18	1.62	2.36	1.2	-
		AVG RENT PER UNIT TYPE \$				837	1036	965	2185	2750	1066	-
		SUM OF UNITS SURVEYED	366	679		67	138	112	6	7	36	0
SW PORTLAND (6)	32	AVG MARKET VACANCY RATE %	3.4	2.97	0.14	5.63	2.38	2.44	4.11	5.71	6.98	6.47
		AVG RENT PER SQ FOOT \$	1.39	1.29	0.08	2.07	1.48	1.15	1.37	1.02	0.92	1.09
		AVG RENT PER UNIT TYPE \$				951	958	1000	1405	890	1040	1314
		SUM OF UNITS SURVEYED	1944	1953		160	800	451	316	35	43	139
OUTER SE (PORTLAND) (14)	46	AVG MARKET VACANCY RATE %	3.11	3.16	-0.02	2.76	4.57	2.8	1.55	2.28	0	5.19
		AVG RENT PER SQ FOOT \$	1.10	1.09	+0.01	1.68	1.19	0.96	1.05	1.05	0.87	1.08
		AVG RENT PER UNIT TYPE \$				711	792	817	1027	1109	889	1343
		SUM OF UNITS SURVEYED	3084	3135		181	897	963	582	263	44	154
OUTER NE (PORTLAND) (16)	24	AVG MARKET VACANCY RATE %	2.18	2.06	0.06	0	1.27	2.59	0.91	1.92	6.67	10.26
		AVG RENT PER SQ FOOT \$	0.98	0.93	0.05	1.55	1.03	0.98	0.86	0.84	1	1.05
		AVG RENT PER UNIT TYPE \$				636	709	871	845	928	1137	1125
		SUM OF UNITS SURVEYED	1330	1309		15	394	580	220	52	30	39
TROUTDALE   FAIRVIEW WOOD VILLAGE   GRESHAM (15)	28	AVG MARKET VACANCY RATE %	1.38	2.11	-0.35	1.72	0.86	1.06	1.78	2.56	0	2.75
		AVG RENT PER SQ FOOT \$	1.01	0.97	+0.04	1.56	1.18	0.98	0.9	0.98	1.12	0.9
		AVG RENT PER UNIT TYPE \$				666	752	823	896	806	953	1047
		SUM OF UNITS SURVEYED	2317	2225		58	582	658	844	39	27	109
CLACKAMAS (12)	8	AVG MARKET VACANCY RATE %	3.45	2.51	0.37	6.67	4.26	4.18	1.55	0	0	3.67
		AVG RENT PER SQ FOOT \$	1.16	1.09	0.06	1.36	1.23	1.13	1.09	0.73	1.02	1.14
		AVG RENT PER UNIT TYPE \$				625	828	994	1067	823	1170	1278
		SUM OF UNITS SURVEYED	1130	757		45	352	287	323	6	8	109
LAKE OSWEGO   WEST LINN (8)	14	AVG MARKET VACANCY RATE %	3.73	2.4	0.55	6.06	2.09	5.49	5.26	3.61	0	2.82
		AVG RENT PER SQ FOOT \$	1.3	1.21	0.07	1.72	1.46	1.18	1.26	1	1.42	1.14
		AVG RENT PER UNIT TYPE \$				878	996	1083	1232	1088	1511	1409
		SUM OF UNITS SURVEYED	966	1166		33	382	237	152	83	8	71
MILWAUKIE (11)	30	AVG MARKET VACANCY RATE %	2.27	1.92	0.18	1.64	2.81	1.86	2.82	2.78	0	1.37
		AVG RENT PER SQ FOOT \$	1.14	1.05	+0.09	1.49	1.23	1.09	1.1	0.89	1	1.13
		AVG RENT PER UNIT TYPE \$				650	824	941	1025	930	951	1258
		SUM OF UNITS SURVEYED	2338	2092		61	676	1020	319	108	8	146
OREGON CITY   GLADSTONE (10)	12	AVG MARKET VACANCY RATE %	2.78	2.23	0.25	0	2.72	2.61	2.63	0	5.26	4.71
		AVG RENT PER SQ FOOT \$	1.15	1.07	0.07	1.98	1.3	1.05	1.14	1.04	1.06	1.12
		AVG RENT PER UNIT TYPE \$				965	918	914	1187	860	1021	1478
		SUM OF UNITS SURVEYED	1333	1300		20	294	268	418	104	38	191
WILSONVILLE   CANBY (9)	8	AVG MARKET VACANCY RATE %	2.39	4	-0.40	0	2.5	2.3	2.4	5.88	0	1.61
		AVG RENT PER SQ FOOT \$	1.12	1.12	0	0.9	1.24	1.09	1.11	0.81	1.06	1.1
		AVG RENT PER UNIT TYPE \$				810	928	975	1081	895	995	1233
		SUM OF UNITS SURVEYED	963	1299		1	200	435	167	34	2	124
ALOHA (3)	41	AVG MARKET VACANCY RATE %	2.83	4.45	-0.36	7.69	2.58	3.04	2.58	5.26	3.03	3.65
		AVG RENT PER SQ FOOT \$	1.23	1.17	0.05	1.65	1.43	1.13	1.18	0.94	1.13	1.09
		AVG RENT PER UNIT TYPE \$				703	940	986	1152	1134	1000	1233
		SUM OF UNITS SURVEYED	5834	5957		13	1781	1251	2096	57	33	603

**PORTLAND/VANCOUVER METRO AREA**

AREA NAME	# OF PROP	DATA	ALL	SPR 15 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEAVERTON (4)	48	AVG MARKET VACANCY RATE %	2.69	2.52	0.07	4.62	2.95	2.79	3.38	1.09	0	0
		AVG RENT PER SQ FOOT \$	1.23	1.08	0.14	1.31	1.42	1.09	1.19	1.02	0.98	1.11
		AVG RENT PER UNIT TYPE \$				634	978	1010	1186	1152	1078	1396
		SUM OF UNITS SURVEYED	5957	4944		65	2071	1577	1451	275	78	440
HILLSBORO   N OF HWY 26 (2)	18	AVG MARKET VACANCY RATE %	2.56	3.05	-0.16	0	2.87	1.38	2.8	2.38	0	1.66
		AVG RENT PER SQ FOOT \$	1.25	1.18	0.06	1.21	1.4	1.21	1.15	1.04	1.22	1.12
		AVG RENT PER UNIT TYPE \$				605	1014	1029	1243	1106	1035	1331
		SUM OF UNITS SURVEYED	2382	1673		6	906	218	963	42	6	241
TIGARD   TUALATIN SHERWOOD (7)	51	AVG MARKET VACANCY RATE %	3.03	4.61	-0.34	4.26	3.33	2.95	2.9	2.23	0	3.33
		AVG RENT PER SQ FOOT \$	1.23	1.19	0.03	1.89	1.35	1.16	1.15	0.99	1	1.21
		AVG RENT PER UNIT TYPE \$				831	924	976	1143	989	1012	1380
		SUM OF UNITS SURVEYED	4784	6071		94	1620	1355	1138	179	98	300
WEST VANCOUVER (19)	24	AVG MARKET VACANCY RATE %	3.47	1.49	1.33	-	4.5	3.23	3.6	1.25	-	2.99
		AVG RENT PER SQ FOOT \$	1.03	0.98	+0.05	-	1.18	0.99	0.99	0.96	-	0.93
		AVG RENT PER UNIT TYPE \$				-	822	852	1069	997	-	1172
		SUM OF UNITS SURVEYED	2045	2613		0	489	496	666	160	0	234
EAST VANCOUVER (20)	18	AVG MARKET VACANCY RATE %	2.98	2.39	0.25	2.17	2.71	2.55	3.37	3	10	4.44
		AVG RENT PER SQ FOOT \$	1.13	1.05	+0.08	1.59	1.24	1.05	1.08	1.04	0.79	1.12
		AVG RENT PER UNIT TYPE \$				735	876	957	1086	928	1141	1275
		SUM OF UNITS SURVEYED	3226	2471		138	812	901	683	434	10	248
TOTAL AVG MARKET VACANCY RATE %			2.87	3.09	-0.07	4.23	2.83	2.68	2.79	2.2	2.93	3.13
TOTAL AVG RENT PER SQ FOOT \$			1.33	1.24	0.07	2.24	1.48	1.12	1.19	1.06	1.05	1.12
TOTAL AVG RENT PER UNIT TYPE \$						1000	998	978	1207	1058	1076	1325
TOTAL SUM OF PROPERTIES SURVEYED			741	721		180	593	508	220	108	92	180
TOTAL SUM OF UNITS SURVEYED			52603	51886		3496	18043	12950	11950	2226	581	3357

**VACANCY RATE SINCE SPRING 2011—PORTLAND/VANCOUVER METRO AREA**



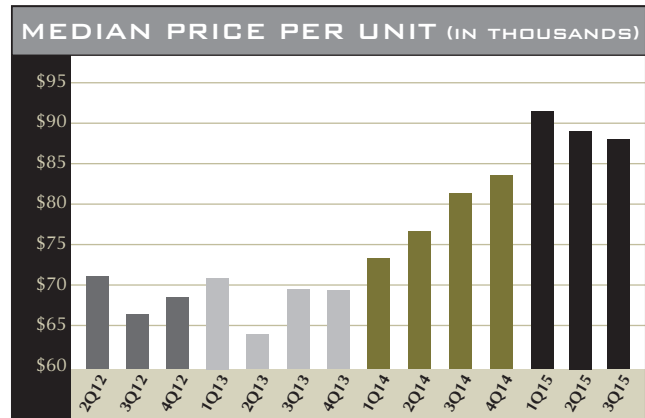
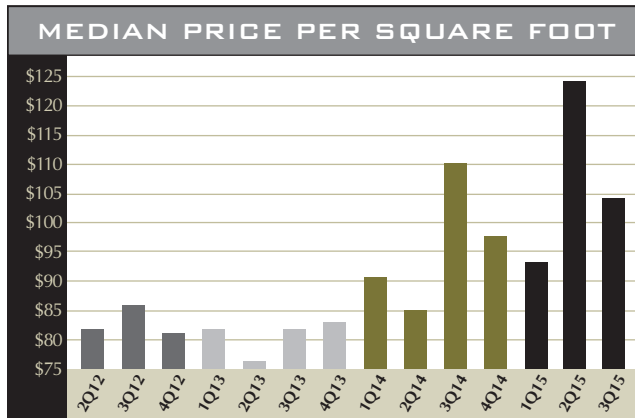
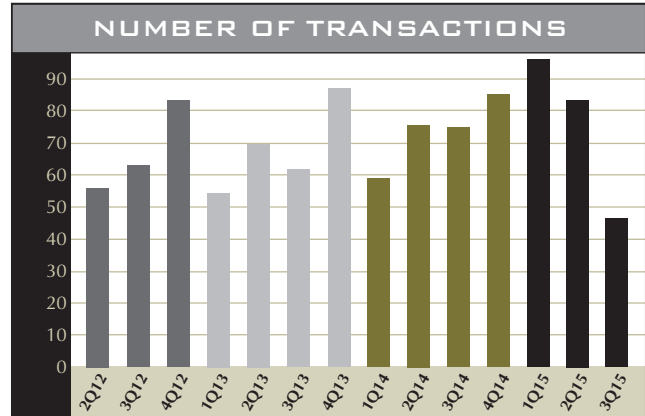
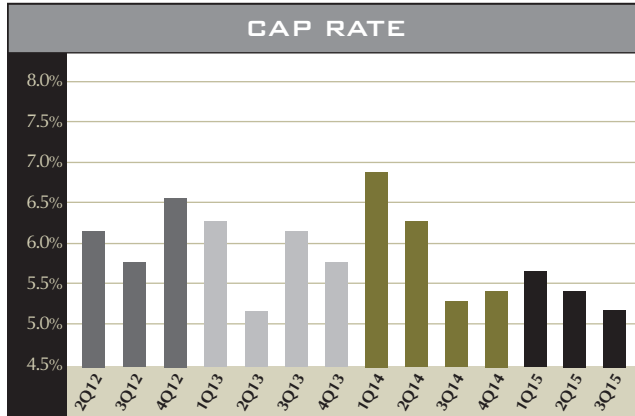
**OTHER AREAS**

SALEM & VICINITY	74	AVG MARKET VACANCY RATE %	2.52	2.91	-0.13	8.23	2.65	1.6	2.45	1.69	5.45	3.38
		AVG RENT PER SQ FOOT \$	1.13	1.03	+0.1	2.41	1.3	0.99	0.97	0.8	1.35	1
		AVG RENT PER UNIT TYPE \$				736	778	818	931	861	1020	1143
		SUM OF UNITS SURVEYED	5038	5628		316	906	2308	979	178	55	296
EUGENE   SPRINGFIELD	66	AVG MARKET VACANCY RATE %	3.07	2.79	0.1	4	3.94	2.13	2.04	6.67	4.35	3.9
		AVG RENT PER SQ FOOT \$	1.13	0.99	+0.14	1.78	1.21	0.99	1.05	1.05	1.01	1.12
		AVG RENT PER UNIT TYPE \$				656	771	800	1081	1085	1036	1371
		SUM OF UNITS SURVEYED	5279	4403		325	1626	1406	1326	165	46	385
BEND   REDMOND	8	AVG MARKET VACANCY RATE %	2.89	1.51	0.91	0	1.77	0.87	2.94	0	-	8.22
		AVG RENT PER SQ FOOT \$	1.17	1.05	0.11	1.27	1.27	1.16	1.15	1.06	-	1.09
		AVG RENT PER UNIT TYPE \$				548	900	1038	1163	1400	-	1401
		SUM OF UNITS SURVEYED	589	397		8	113	115	272	8	0	73
TOTAL AVG MARKET VACANCY RATE %			2.81	2.81	0	6.01	3.4	1.78	2.29	3.99	4.95	4.11
TOTAL AVG RENT PER SQ FOOT \$			1.13	1.01	+0.12	2.08	1.25	1	1.03	0.92	1.2	1.07
TOTAL AVG RENT PER UNIT TYPE \$						694	779	818	1033	979	1027	1284
TOTAL SUM OF PROPERTIES SURVEYED			148	173		28	94	87	48	18	27	39
TOTAL SUM OF UNITS SURVEYED			10906	10428		649	2645	3829	2577	351	101	754

\*Surveys received from Sec 42, Sec 8 and other subsidized affordable housing programs are not included in the current survey data.

# TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 6/2012—8/2015; unit: 5 units and greater.



YEAR	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
# OF TRANS	55	62	82	53	70	61	87	59	75	73	85	97	82	48
TTL \$ VOLUME	\$148,176,870	\$248,272,645	\$343,844,310	\$195,978,150	\$238,340,334	\$255,891,328	\$526,776,697	\$195,757,285	\$408,850,710	\$521,813,240	\$485,904,825	\$485,877,342	\$576,942,150	\$336,933,570
TTL BLDG SF	1,421,793	2,310,918	3,915,559	2,756,493	2,331,873	2,605,147	5,124,238	1,756,246	3,076,305	3,721,454	3,920,204	3,464,867	3,602,949	2,011,875
TTL UNITS	1,545	1,916	3,561	2,242	2,440	2,687	5,531	1,683	3,042	3,682	4,553	3,589	4,621	2,176
AVG PRICE	\$2,694,125	\$4,004,398	\$4,193,223	\$3,697,701	\$3,404,862	\$4,194,940	\$6,054,905	\$3,317,920	\$5,451,343	\$7,148,127	\$5,716,527	\$5,009,045	\$7,035,880	\$7,019,449
AVG # OF SF	26,330	37,273	48,340	52,009	34,292	43,419	58,899	29,767	41,572	51,687	46,120	35,720	43,938	41,914
AVG PRICE BLDG SF	\$103.81	\$107.43	\$87.43	\$71.10	\$101.71	\$97.05	\$102.80	\$111.46	\$131.78	\$140.14	\$123.95	\$140.23	\$160.13	\$167.47
MED PRICE P/SF	\$81.23	\$85.59	\$81.18	\$81.52	\$75.56	\$81.89	\$82.73	\$90.38	\$85.09	\$110.29	\$97.00	\$93.73	\$124.96	\$104.67
AVG PRICE P/UNIT	\$90,225	\$104,364	\$83,435	\$86,012	\$92,594	\$86,547	\$94,046	\$109,639	\$131,685	\$133,836	\$106,255	\$132,739	\$124,322	\$154,220
MED PRICE P/UNIT	\$70,561	\$66,111	\$68,500	\$70,833	\$63,944	\$69,062	\$69,000	\$73,438	\$76,607	\$80,900	\$83,330	\$91,518	\$89,087	\$87,500
AVG # OF UNITS	32	39	53	48	41	54	67	32	44	58	56	40	58	46
ACTUAL CAP RATE	6.13%	5.73%	6.52%	6.28%	5.19%	6.17%	5.70%	6.86%	6.29%	5.32%	5.46%	5.57%	5.39%	5.12%
AVG GRM	10.35	8.55	9.35	8.96	8.15	7.88	8.85	8.91	8.28	8.70	8.99	9.52	9.36	8.85
AVG GIM	—	—	9.20	8.95	10.76	7.71	12.03	—	—	8.38	—	8.78	8.63	8.89

## ECONOMIC UPDATE: RUNNING AT FULL THROTTLE

Amy Vander Vliet, Oregon Employment Department

Portland's economy continues on the upswing. Jobs are increasing at a pace that we haven't seen since 2005; about 4 percent annually as of the summer. This ranks us as the second fastest-growing large metro area in the nation, trailing only San Jose.

Meanwhile, our unemployment rate has declined to 5.5 percent. Unlike the employment situation—which has made a full recovery and is now 70,000 jobs (6.7%) above the pre-recession peak—the jobless rate is lingering above mid-2000s norms. This is largely the result of the region's strong population growth. People moved here throughout the recession despite businesses hemorrhaging tens of thousands of jobs. Population growth picked up following the recession, with 2014 seeing the largest influx of new residents since 2006. If and when our job growth can absorb our expanding labor force, the unemployment rate will settle back to historic norms.

While the region and state may have regained all the jobs lost during the recession, employment growth isn't the only component of a healthy recovery. We also need wage growth in order to regain solid economic footing. According to the state Office of Economic Analysis (OEA), we're finally getting there after years of decline or stagnation. Wages for the average Oregonian worker are not only increasing, growth is outstripping the average state. Furthermore, OEA points out that wages haven't been this high (relatively) since before the severe recession of the early 1980's when the bottom fell out of the timber industry.

The region's and state's current pace of job growth is expected to continue in the near term. Looking further out, IHS Economics has an optimistic outlook for Oregon. They expect growth in the state's Real Gross State Product to be the third fastest in the country. They call for job growth to outpace all but nine states, with the manufacturing sector expanding faster than all but one. Several critical factors contribute to our edge: our labor supply, industrial structure, and start-up climate. ■

*Amy Vander Vliet is an Economist for the Oregon Employment Department, covering the Portland metropolitan area. She produces and analyzes employment trends, including the unemployment rate and monthly job growth in the region's major industries.*



### DO YOU OFFER INCENTIVES?

MAP AREA	SPRING 2015	FALL 2015
NW Portland	3.5%	7.1%
Hillsboro/North of Hwy 26	6.7%	0%
Aloha	11.6%	8.3%
Beaverton	4.7%	1.7%
Downtown Portland	3.2%	2.3%
SW Portland	11.6%	5.7%
Tigard/Tualatin/Sherwood	9.7%	8.5%
Lake Oswego/West Linn	15.4%	7.1%
Wilsonville/Canby	7.1%	0%
Oregon City/Gladstone	0%	0%
Milwaukie	5.7%	2.9%
Clackamas	0%	0%
Inner & Central SE (Portland)	3.7%	2.1%
Outer SE (Portland)	3.3%	3.5%
Troutdale/Fairview/Wood Village/Gresham	0%	2.7%
Outer NE (Portland)	0%	0%
Inner & Central NE (Portland)	1%	1%
North Portland/St. Johns	0%	4.6%
West Vancouver	3%	7.7%
East Vancouver	0%	0%
Salem/Vicinity	15.9%	11.5%
Eugene/Springfield	16.5%	9.4%
Bend/Redmond	0%	0%

### SECTION 42 SURVEY RESULTS • FALL 2015

TOTAL # OF PROPERTIES = 63 • TOTAL # OF UNITS = 7268

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT (\$)
STUDIO	1.39	1.93
1 BED / 1 BATH	1.67	1.24
2 BED / TH	2.10	0.96
2 BED / 1 BATH	3.16	1.05
2 BED / 2 BATH	0.65	0.99
3 BED / 1 BATH	2.70	0.94
3 BED / 2 BATH	1.66	0.89
TOTALS	1.93	1.21

# PORTLAND METRO APARTMENT CONSTRUCTION UPDATE

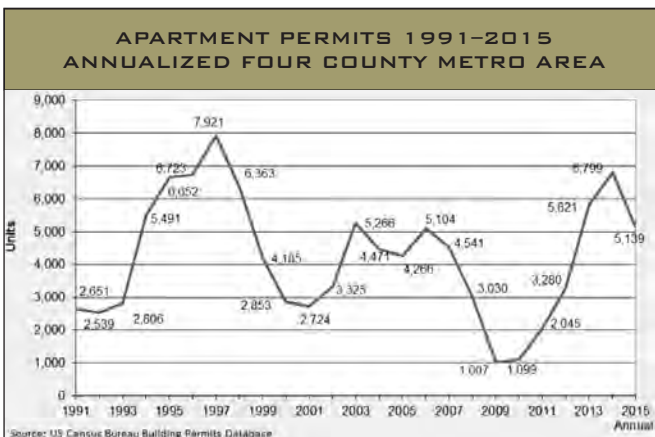
Patrick O. Barry, Barry & Associates

The Portland Metropolitan area is entering its third consecutive year of sustained apartment construction. Given the strong apartment market fundamentals in the Portland-Metro area, which are well supported by The Fall 2015 Apartment Report, there is little reason for construction to slow anytime soon. This article analyzes where we are in the current construction cycle and what impact it has had thus far on the Portland Metro apartment market.



## Inventory and Vacancy

Based on information provided by the 2013 US Census and with adjustment for apartment permits in more recent years, the Portland-Metro area has approximately 275,000 multi-family units in total. Using the 2.87% market wide apartment vacancy rate from the Fall 2015 Multifamily NW Apartment Report, that equates to roughly 7,900 vacant units. If one assumes that a market in balance will show a 5.0% vacancy rate, then there is a current shortage of 5,850 units.



## Recent Apartment Permits Trends

Apartment construction came to a screeching halt in 2008 and didn't pick up again until late 2012. In 2013, permits were issued for 5,821 units and the permit activity increased to 6,799 units in 2014.

Through July 2015, permits have been issued for 2,998 units. This equates to around 5,150 units on an annualized basis. This is a decrease from 2013 and 2014, which may come as a surprise to some. However, we expect permit activity to increase in the second half of the year and the final permits numbers will likely be near the 2013 levels.

In addition to the current construction cycle, the Portland-Metro Area has seen two additional apartment construction cycles since 1991. These occurred from 1994-1999 and 2003-2007. These cycles, along with the slower years, are summarized as follows.

PORTLAND METRO AREA APARTMENT CONSTRUCTION CYCLES		
YEARS	AVG # OF PERMITS ISSUED FOR NEW APT UNITS PER YEAR	LENGTH OF PERIOD (YEARS)
1991-1993	2,665	3
1994-1999	6,223	6
2000-2002	2,967	3
2003-2007	4,730	5
2008-2012	2,092	5
2013-2015	5,920 (includes 2015 annualized)	3

The recent increase in apartment construction is by no means unprecedented. However, the difference in this current cycle is that the apartment construction is focused in the urban core where the projects are highly visible and are the center of many debates. While adding the same number of units, five 40-unit buildings under construction along SE Division, impact a far greater number of people, than a 200 unit property under construction in Hillsboro. As rents continue to increase, one question that remains is how deep is the Portland apartment market for new Class A units, which command top of the market rents?



LOCATION	PROPOSED	UNDER CONSTRUCTION
North Portland	1,305	912
Close in East Portland	4,747	1,592
Close in West Portland	4,793	3,336
Suburban West	4,146	1,272
Suburban East	995	141
Suburban South	1,556	180
Clark County	2,550	1,347
<b>TOTAL</b>	<b>20,092</b>	<b>8,780</b>

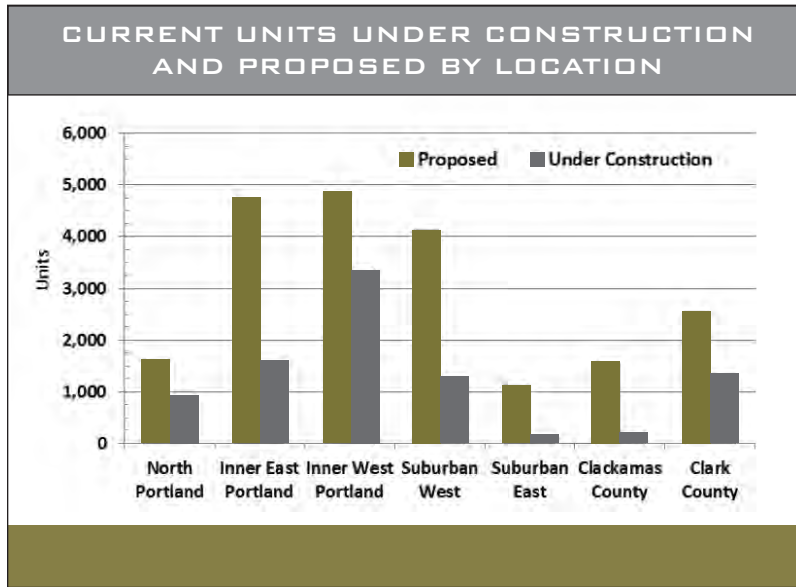
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### New Apartment Construction

Apartment construction can be difficult to track on a project level. Based on the public records from individual counties, we've attempted to capture all the projects throughout Multnomah, Washington, Clackamas, and Clark Counties. Our figures show there are at least 92 projects under construction, with totaling nearly 8,800 units, and an additional 235 projects proposed, totaling over 20,000 units. While some of these projects may never be built, additional new projects not yet announced, or still in the planning stage, are likely to emerge. The chart and graph below summarizes the new units by submarket as of the early fall of 2015.



As illustrated by the chart above, a majority (66.5%) of the units under construction are located in Inner-East, Inner-West and North Portland submarkets. This current construction cycle has seen a higher concentration of urban units than past cycles. However, as rents continue to rise across the entire metro area, expect to see an increase in apartment construction in more outlying areas, as these projects will now financially make sense to developers.

### New Units and Impact On Apartment Vacancy Rates

From 2012 to September 2015, approximately 18,000 new apartment units were introduced to the Portland-Metro area. During this same time period, the overall metro apartment vacancy rates have ranged from 2.87% to 3.97%. The new units have had little impact on the overall vacancies and the vacancy rate has actually declined over the past twelve months.

Economists for the State of Oregon continue to forecast the Portland-Metro population to grow at 25,000 to 30,000 people per year through 2020. Assuming the home ownership rate is around 60% and renter household size is around 2.10 persons, this population growth translates in to demand for around 4,750 to 5,700 units per year. The demand from population growth is similar to current levels of apartment construction. However, the current supply of new apartments is struggling to make up ground on the pent up demand due to limited apartment construction from 2008 to 2012.

### Conclusions on Expected Apartment Vacancies

Given the current construction levels for apartments versus demand from population growth, coupled with a shortage of around 5,850 units, the apartment market will likely remain a landlords market for at least the short term future. This is due to a strong jobs market, low interest rates and loan costs, robust population growth,

a decreasing rate of home ownership, and apartment construction which appears to be lagging behind demand. Apartment construction near the urban core is expected to continue in the coming years. However, with rising land values, we expect some shift in apartment construction to outlying areas as rents continue to increase and developers seek additional opportunities. We do not expect vacancy rates to approach 5% for at least the next 12 to 18 months and possibly longer. ■

*Patrick O. Barry (pb@barryapartmentreport.com) is an Appraiser Assistant with Barry & Associates, which specializes in apartment appraisal work in the Portland metropolitan area. Patrick is an engineering graduate of the University of Colorado.*



# PREPARING FOR WHAT IS BEYOND THE SILLY-STUPID PHASE OF THE REAL ESTATE CYCLE

*Doug Marshall, CCIM, Marshall Commercial Funding, Inc.*

As a commercial mortgage broker I've noticed a growing trend this past year in commercial real estate that investors and real estate professionals need to discuss. Years ago, Federal Reserve Chairman Alan Greenspan called it "irrational exuberance" when describing a euphoric stock market. Today we are experiencing something similar in commercial real estate. I personally use a highly technical term to describe this part of the real estate market cycle. I call it, "The Silly-Stupid Phase."

A useful tool called the Cycle of Market Emotions helps us understand how market phases are interconnected with prevailing moods like optimism, excitement, fear, panic and hope. If you can imagine an emotional roller coaster, well that's just what this looks like.

And on this roller coaster, I believe our current apartment market is reaching the top of the incline, where the predominant emotions are "thrill" and then "euphoria."

And in the apartment market we have good justification for euphoria. Rents have increased dramatically over the last couple of years, interest rates remain historically low and developers have been slow to meet the demand.

**THIS PHASE IN THE REAL ESTATE CYCLE, THE SILLY-STUPID PHASE, IS CHARACTERIZED BY TWO FACTORS:**

*The first factor is cap rate compression.*

But why is it happening? I believe buyers are getting caught up in the euphoria. They are assuming that this particular phase in the real estate cycle will continue on forever. They justify their prices assuming rents will continue to rise and that their unrealistic pro forma projections will come to pass.

*The second factor associated with the Silly-Stupid Phase is lender aggressiveness.*

Financial institutions are offering rates and terms that are reminiscent of the years prior to the Great Recession – interest-only loans, higher loan-to-value ratios, lower debt coverage ratios, and compressing of their spreads on interest rates. They hope that offering these "blue light specials" will help them hit their loan quotas.

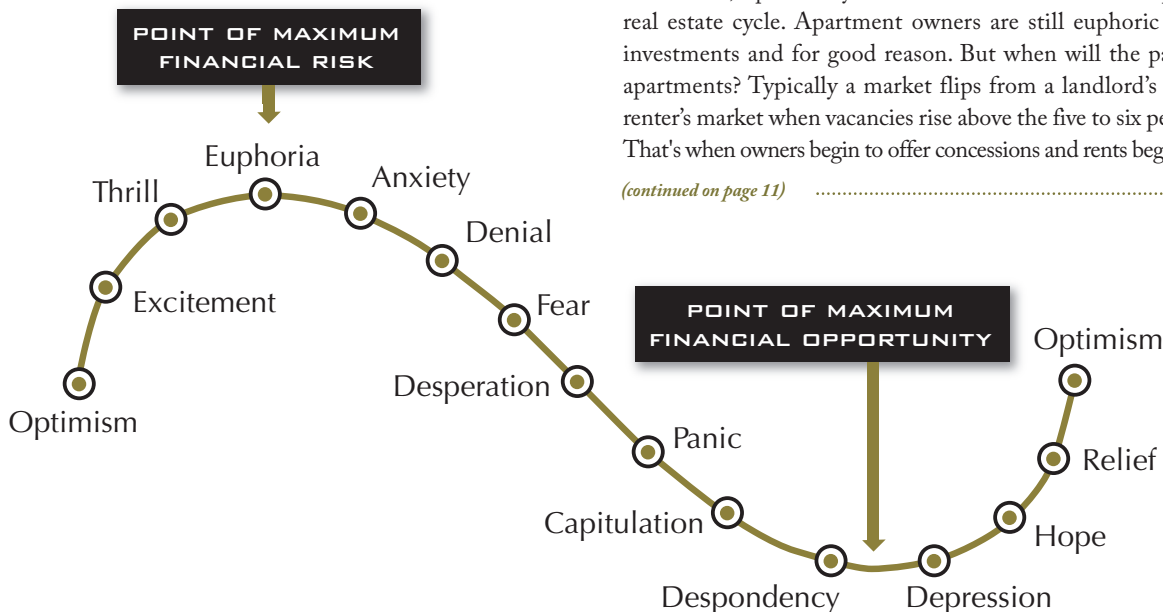
So this is where we are now. But as I talked about before, the real estate cycle moves in definable phases, and while the timing is a bit unpredictable, the next one is coming.

The next phase in the real estate cycle is called the Hypersupply Phase, and will still feature increasing rents, but the rate of growth will begin to decline. On the Cycle of Market Emotions, the corresponding mood is "anxiety" followed by "denial."



As for now, I personally don't believe we are at the next phase in the real estate cycle. Apartment owners are still euphoric about their investments and for good reason. But when will the party end for apartments? Typically a market flips from a landlord's market to a renter's market when vacancies rise above the five to six percent range. That's when owners begin to offer concessions and rents begin to decline.

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***What could trigger higher vacancy rates?***

I don't think overbuilding will be a problem anytime soon. Our land use laws, the urban growth boundary, and other regulations do put a pretty good job of keeping a tight lid on overbuilding. Nor is the apartment market going to tip to a renter's market because millennials have changed their opinion more favorably towards home ownership instead of renting.

No, I believe the market will transition into a renter's market as a result of the next recession which will increase vacancies. Remember, recessions occur as part of the normal economic cycle. So even while the last recession still feels so raw for many of us, it's important to be realistic. A new one is on the way.

When? It's hard to say. We do know this: The typical economic expansion since World War II has averaged 58 months in duration. We are currently in the 76th month since the end of the last recession with positive economic growth for the foreseeable future. But the recession could occur next year. Or it could be two or more years away.

***So the million dollar questions are: Should investors stop buying? And should developers stop building?***

No, I don't think so and here's why: This phase of the real estate cycle, the Silly-Stupid Phase, could easily last a couple more years.

Even with all the cautions I've shared, I believe people should continue to invest as long as they stay patient and find those properties that still make sense to buy. While finding good deals in the market is not as easy as it once was, it's not impossible. There will always be sellers who poorly manage their properties. Often it just takes an investor who can bring the right vision and new management to the property to raise its value to the next level.

***What about investors who are looking to sell?***

I think this could be a great time to offload properties purchased during the last time the market topped out in 2007.

So today, while our apartment market is still zooming along, remember there are some moves you can make now to leave you in a better position when things begin to soften. And the market will soften. It's only a matter of when.

***So I have 3 suggestions:***

1. If you're selling properties, it's the perfect time to sell those "beauties" you over paid for at the top of the last market cycle.
2. If you are looking to buy be patient. Seek out properties that you're confident you have a vision for increasing the property's value.
3. There's one important caution I must share before I finish up. Take advantage of all the "blue light specials" lenders are offering except for one: Don't overleverage your properties. Avoid that temptation. But do lock in long term rates, the longer the better. Overleveraging your properties can come back to haunt you when vacancies rise and cash flow dwindles.

Remember the lesson of the last recession:

"Pigs get fat. Hogs get slaughtered." ■

*A veteran commercial real estate professional of 30 years, 22 of which are related to commercial real estate finance, Doug Marshall is enjoying the opportunity to control his own destiny with this company. Doug's higher education began at the University of Idaho. He earned his MBA and his webbed feet at the University of Oregon.*



*Thank you to all who contributed to the making of this report.*

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