
MULTIFAMILY MARKET ANALYSIS

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The multifamily market in Portland is improving with rents increasing in all local submarkets. According to the October 2011 Metro Multifamily Housing Association report, the Portland area currently has a 3.34% vacancy rate, which is among the lowest vacancy rates in the US. Demand is strongly fueled by new residences in the 20-34 year old demographic and fewer buyers drawn to the single-family market.

New apartment construction is trending to approximately 1,500 units in 2011, which is more than 2010, but significantly lower than 4,000 units annually average over the past 15 years. According to MMHA, the majority of activity is in close-in, urban Portland. Developers have projects in the pipeline, but economic issues and the long development process may result in some projects being delayed or put on hold.

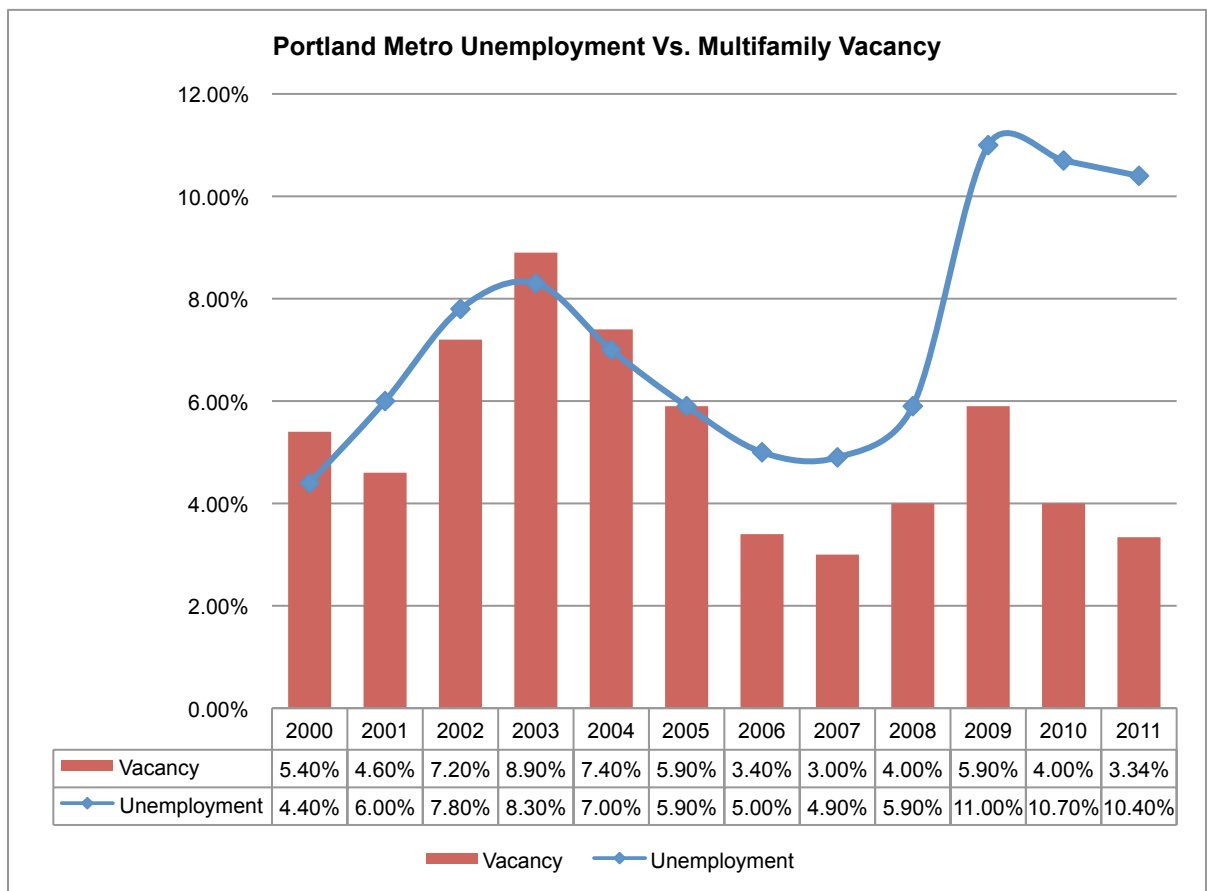
With more and more potential single-family buyers opting to rent instead of own, the demand for apartments is very promising. Nationally there are an estimated 77,600 apartment and condo units projected to come online in 2012, but according to the director of multifamily economics and market research for Fannie Mae, the supply is not sufficient to meet demand. According to real estate research firm,

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RealFacts, 38 of the 47 markets surveyed posted gains in rent, and 33 increased occupancy.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Locally, the vacancy rate has been declining with the unemployment rate since 2009. Despite a consistently high unemployment rate, Portland’s relative lack of supply and high demand for rentals has contributed to a decreasing vacancy rate. In 2009 the vacancy rate was 5.9% and the unemployment rate was 11% and the current vacancy rate is 3.34% and the unemployment rate was 10.4% at the end of September.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



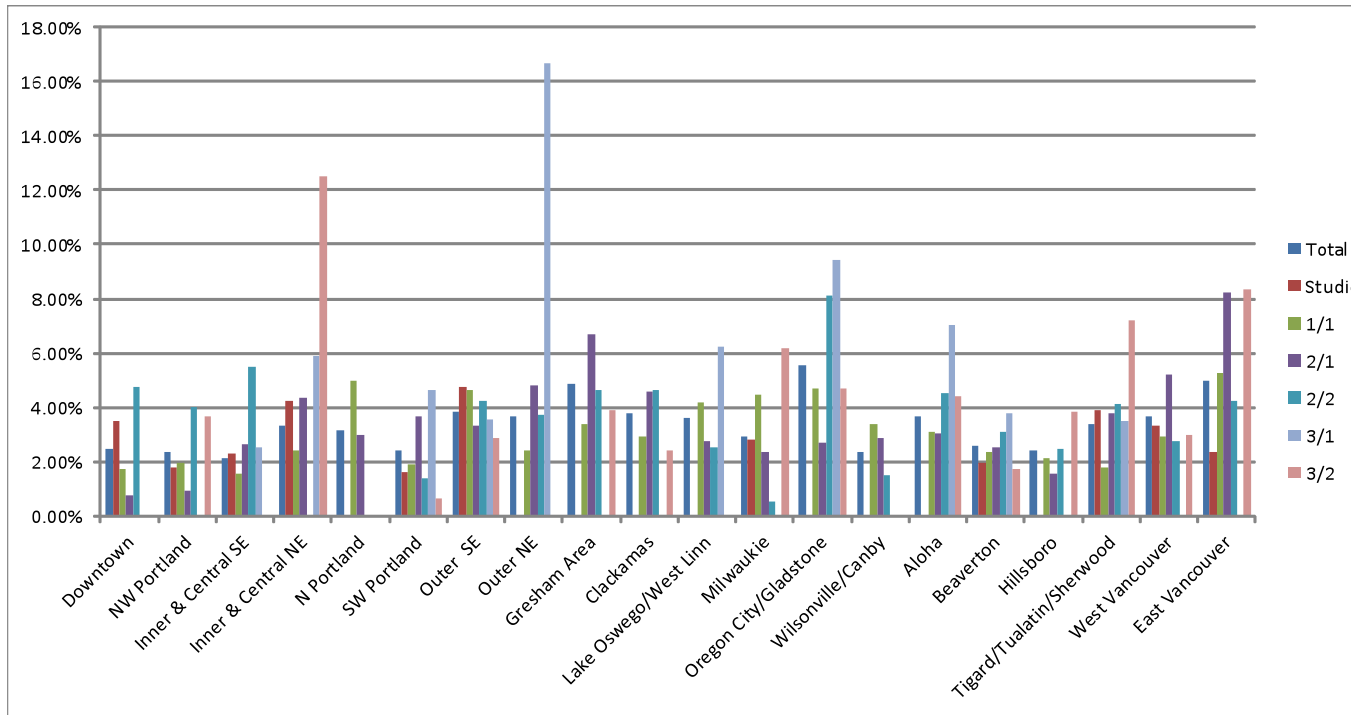
Decreased vacancy rates and increased rent have spiked interest in multifamily investment. The apartment market is still catching up to this increased demand which is driving rent rates. In addition, owners are raising rents to compensate for increasing operating expenses, notably property taxes and utilities. MPF Research reported that effective rents for new leases increased 5.3% from third quarter 2010 rates in Portland. Rent growth slowed from 1.2% the second quarter of 2011 to 0.3% this quarter. According to MPF, owners are easing back on rent growth, and their

analysis indicated that the market fundamentals are strong and rent growth is projected to increase at a higher rate in 2012. Nationally, rent growth also slowed in August to 0.34% the lowest rate since December 2010.

“We’re still showing a very strong apartment market,” says Jay Denton, vice president of research at Axiometrics. “We’re about to start seeing a normal seasonal pattern of growth rates slowing in the third quarter. We haven’t seen a big hit on the industry.”

The market conditions have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. In the third quarter of 2011 Portland had an average vacancy rate of 3.34%. The highest overall vacancy submarket was 5.52% in Oregon City / Gladstone and the lowest was Inner SE at 2.11%. The highest vacancy rate among studios was Outer Southeast at 4.76%, while five submarkets (Outer NE, Clackamas, Lake Oswego / West Linn, Aloha, and Hillsboro) reported 0% vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was East Vancouver at 5.28%, while the lowest was Inner SE with 1.57%. For 2 BD, 1 BA the highest vacancy was East Vancouver at 8.25% and the lowest was downtown Portland at 0.76%. Eight submarkets reported 0% vacancy for 3 BD, 1 BA, while the highest vacancy was in Outer NE at 16.67%. Five submarkets (Inner SE, N Portland, Outer NE, Lake Oswego / West Linn, and Wilsonville / Canby, reported 0% vacancy for 3 BD, 2 BA, while the highest vacancy was in Inner NE at 12.5%.

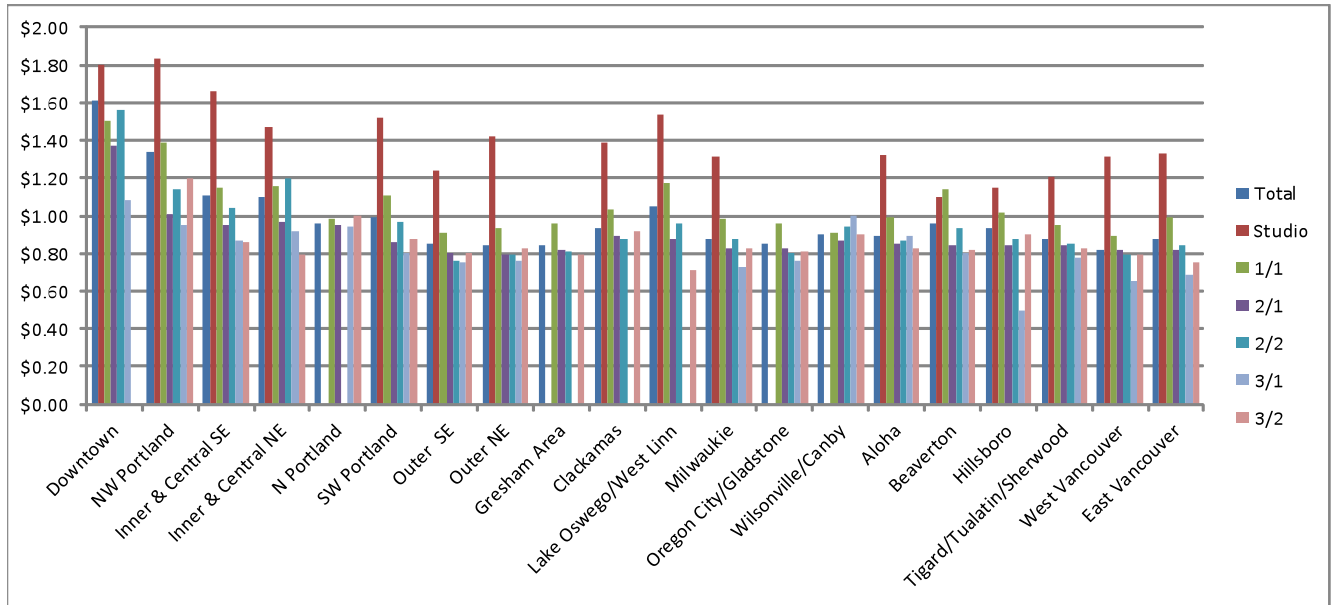
Figure 2: Vacancy Rates by Submarket October 2011 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a \$1.61 average, followed by NW Portland at \$1.34. The lowest overall rent/SF is West Vancouver at \$0.81, followed by Outer Northeast and West Vancouver at \$0.82. The highest rent/SF for studios was NW Portland at \$1.83 and the lowest was Beaverton at \$1.10. The highest rent/SF for 1 BD, 1 BA was downtown at \$1.50 and the lowest was West Vancouver at \$0.89. The highest rent/SF for 2 BD, 1 BA was downtown at \$1.37 and the lowest was \$0.79 in Outer Northeast.

Figure 3: Rent / SF by Submarket October 2011 Portland Metropolitan Area



Source: MMHA

In this high demand market, investors seem to be seeking quality, well-located properties. Apartments are viewed as a relatively safe investment to gain a higher return than bonds, or conventional Treasuries. Several 100+ unit, Class A, institutional quality properties traded in the third quarter of 2011. These major sales transactions included Town Center Village in Portland (\$37 million), The Cove at Fisher’s Landing (\$27 million) in Vancouver, and Sunstone Parc (\$14 million) in Beaverton.

Figure 4: Major Sales Transactions, 3rd Quarter, 2011, Portland Metropolitan Area

Q3 2011 Major Sale Transactions						
Building	Buyer	Price	Units	Price/Unit	Submarkets	
Town Center Village	Kevin Maddron	\$ 37,956,854	363	\$ 95,724	Hillsboro	
The Cove at Fisher’s Landing	29 th Street Cove LLC	\$ 27,500,000	253	\$ 149,707	Vancouver	
Sunstone Parc	Steve Mozinkski	\$ 14,700,000	158	\$ 93,037	Beaverton	

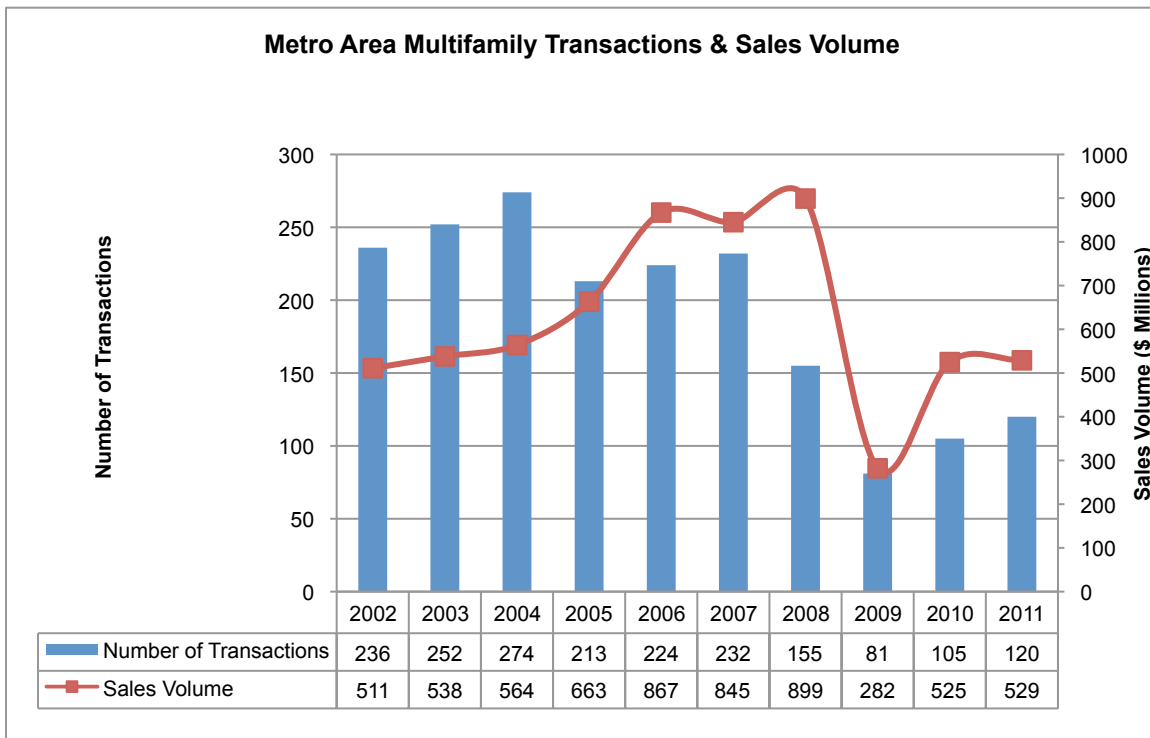
Source: Costar

There were 44 multifamily transactions completed in the third quarter, up from 33 in the second quarter. There were 1,797 units transacted in the third quarter, a decrease compared to 2,255 units in the second quarter. The third quarter produced

\$136 million in sales volume, due to fewer large institutional assets trading which resulted in \$516 million in second quarter.

The number of transactions and sales volume has rebounded nicely since 2009. Based on the numbers through September, the year 2011 has already surpassed 2010 in number of transactions. The current year is on track to approach the high activity years of 2006-2008 in terms of sales volume. Financing for multifamily properties is becoming easier as Fannie Mae and Freddie Mac join with major banks, regional banks and life insurance companies as a good source for development financing. Banks are generally lending at 75% loan to value for qualified buyers of apartments. The buyer's history of owning apartments, credit rating, proof of income, and net worth are criteria that the bank considers when determining the number of dollars to loan.

Figure 5: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, October 2011 Year to Date



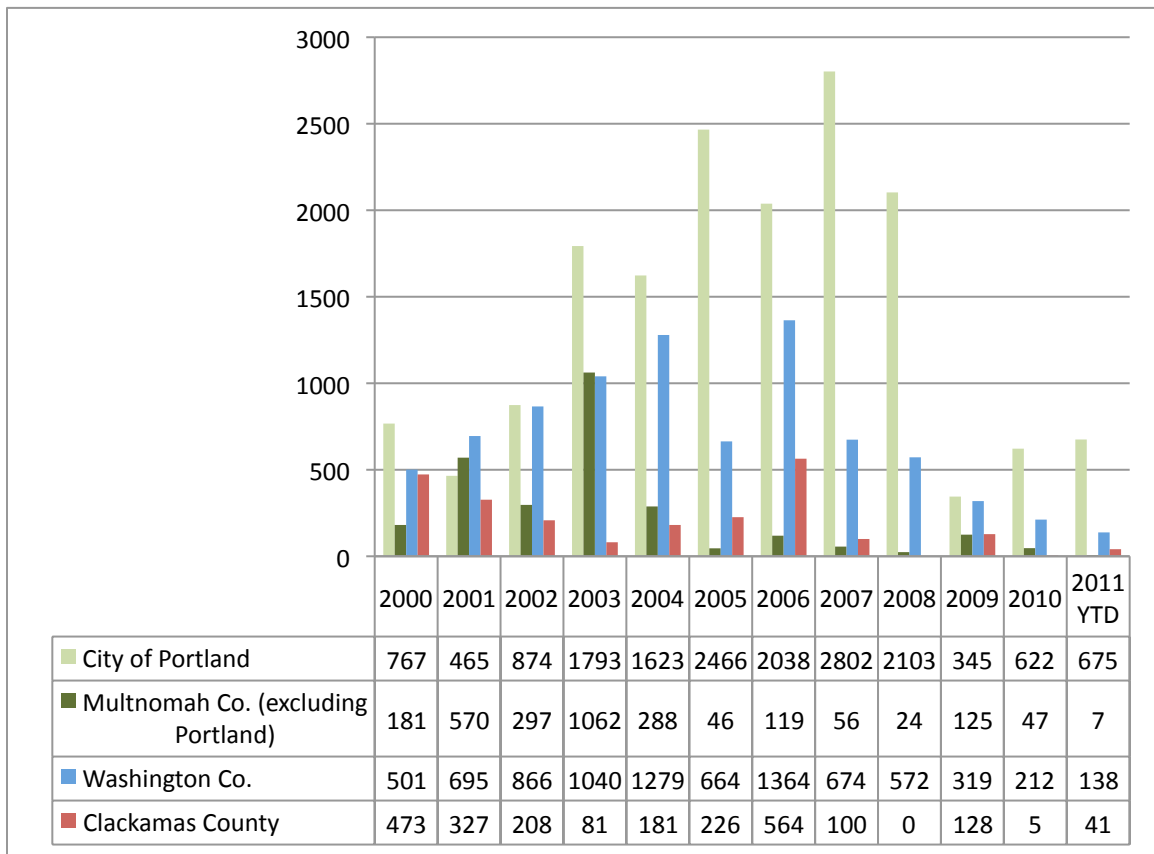
Source: The Barry Apartment Report

Through the first eight months of 2011, multifamily building permits are on pace to exceed 2010 levels within the City of Portland. Most of the new permits have been built in the City of Portland and Washington County year to date. For the 2011 year to date, total building permits for 675 units have been issued in the City of Portland. In the City of Portland, the number of permits is on pace to be the highest since 2008, but remains significantly below 2003-2008. Washington County

has had multifamily permits for 138 units issued, with 106 units spread over 7 projects in Hillsboro. Clackamas County has 41 units issued so far this year, a significant increase from 2010 when only 5 units were permitted.

Factors contributing to the current lag in new construction include the weak economy, difficulty obtaining financing, and the current gap between replacement cost and market value. In light of the current low 2.69 percent vacancy rate in the metropolitan region and lack of new construction, many knowledgeable multifamily brokers and investors are predicting a shortage in apartments by 2012. This shortage will be felt first within the urban core and later in the suburbs, where there is slightly more inventory.

Figure 6: Multifamily Building Permits Issued, June 2011 Year to Date



Owners and investors are positioning their portfolios for the sharp rent increases projected by most multifamily experts in late 2012. Many investors are projecting 3-6% annual income growth over the next several years due to the market conditions of supply and demand. Buyers are active in the Portland metro market looking to capitalize on historically low interest rates and rent growth in the market.