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## MULTIFAMILY MARKET ANALYSIS

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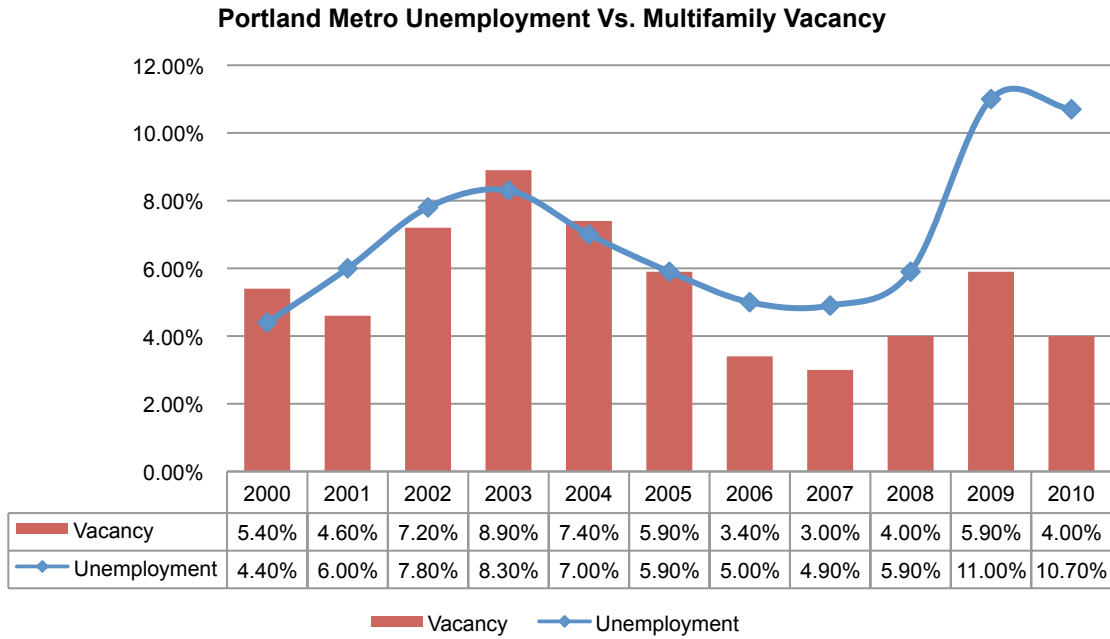
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Norris, Beggs & Simpson report that, in the fourth quarter of 2010, multifamily vacancy has dropped to 3.09 percent in the metropolitan Portland market, down from 4.0 percent from the previous quarter and down from last year's 5.45 percent. For new downtown units, vacancy fell nearly two percentage point to 6.46 percent as occupancy of newer buildings in the last two years stabilize. The average vacancy rate for 2010 was 4.05 percent. The multifamily market is gaining strength and rent is growing. Several major sales transactions closed during the fourth quarter including the Ladd Tower (\$79 million) and Park 19 (\$28.8 million) in downtown Portland. Fannie Mae and Freddie Mac still remain the most active lenders while banks such as Washington Federal, Sterling Bank, and Chase Bank are beginning to lend more.

The average rents for the fourth quarter of 2010 were \$738 (\$1.04/SF) up from \$727 (\$1.02/SF) in the third quarter for a 1BR/1BA. For a 2BR/2BA, rent increased from \$739 (\$0.83/SF) in the third quarter to \$744 (\$0.84/SF). Rent increased from \$996 to \$1,002 for a 3 BR/2BA, however the price per square foot remained constant at \$0.81.

Decreased vacancy rates have stirred new interest in multifamily investment.

**Figure 1: Unemployment and multifamily vacancy, Portland metropolitan area**

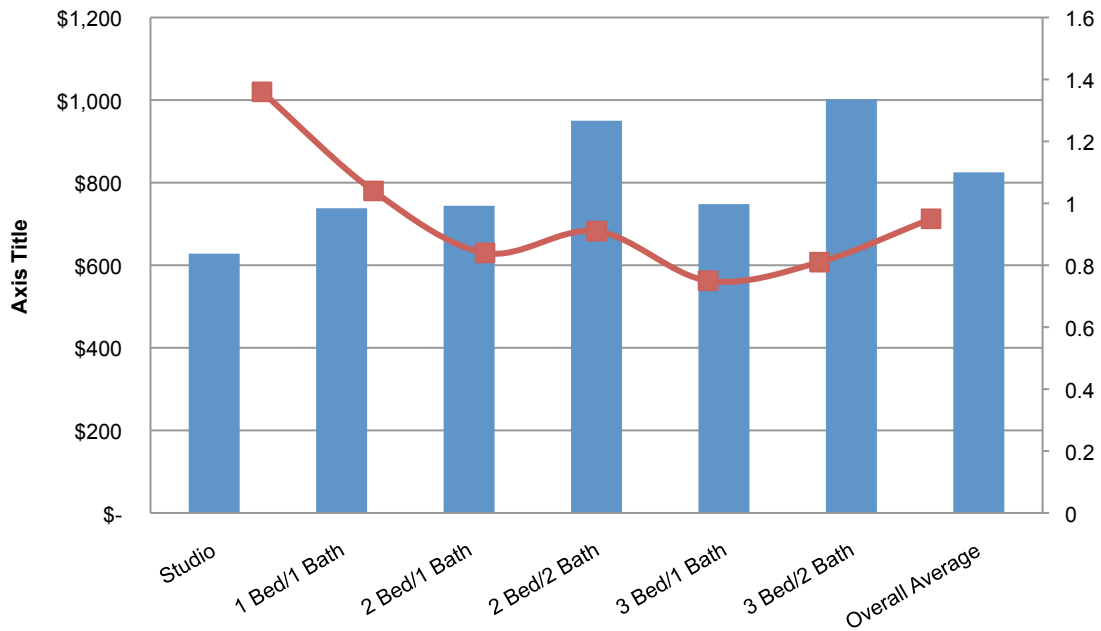


Source: Norris, Beggs & Simpson

Unemployment rates are positively correlated with vacancies as shown in the chart below, and dramatically rose from 5.9 percent in 2008 to 11 percent in 2009, but have declined to 10.70 for 2010 which also shows the decrease in vacancy rates. While unemployment rates have decreased for 2010, we have actually lost 7,500 wage and salary jobs since January 2010.

The drop in the local vacancy rate reflects similar conditions in the national apartment market. Data released by Reis Inc., a New York real estate research firm, showed that the U.S. apartment vacancy rate rose to an almost 30-year high of 8 percent in the fourth quarter, and rents dropped 0.7 percent in the fourth quarter.

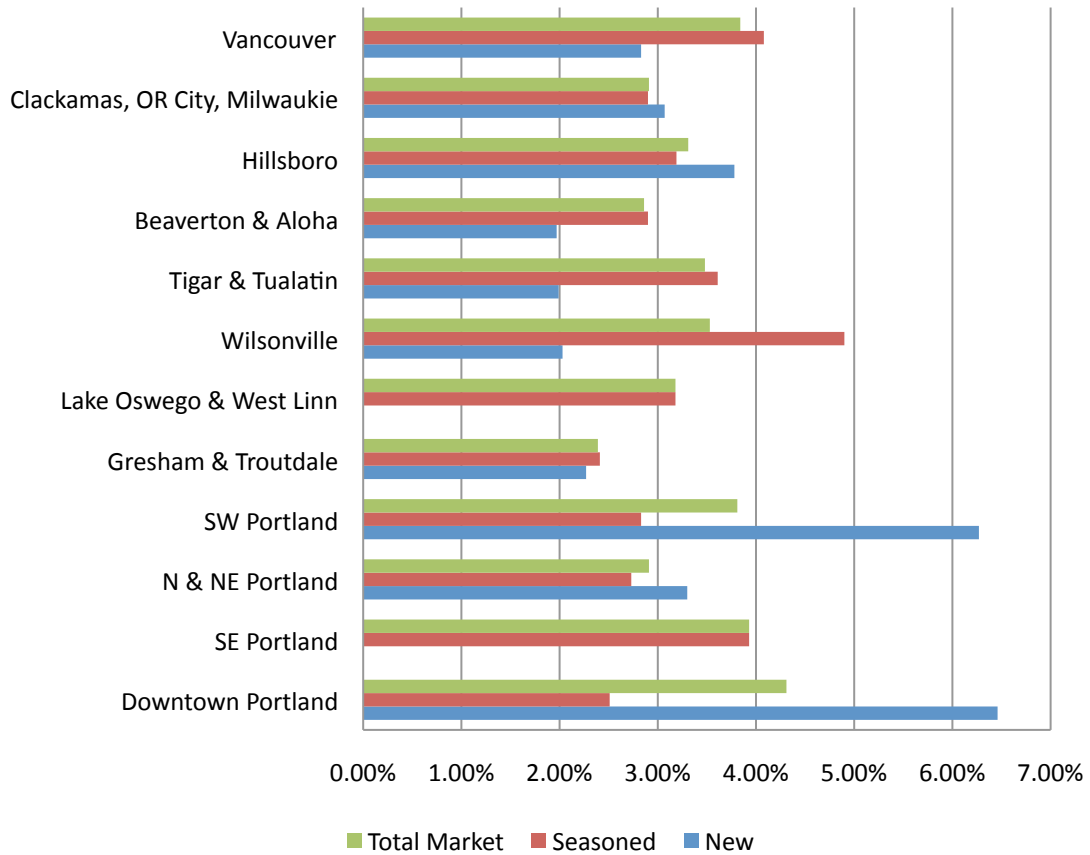
**Figure 2: Average rent and price per square foot, 4<sup>th</sup> Quarter, 2010, Portland metropolitan area**



Source: Norris, Beggs & Simpson

In the fourth quarter of 2010, the downtown Portland submarket showed the highest overall vacancy rate at 4.31 percent (a decrease from 5.7 percent in the third quarter), while Gresham and Troutdale had the lowest submarket vacancy at 2.39 percent. Downtown Portland had the highest new unit vacancy at 6.46 percent (a decrease from 8.33 percent in the third quarter) while Lake Oswego/West Linn had virtually no vacancy. Wilsonville and Vancouver had the highest vacancy rates for seasoned units at 4.90 percent while Downtown Portland had the lowest at 2.51 percent. Rent rates increased by \$10 overall to \$825 from last quarter, or \$0.95 per square foot.

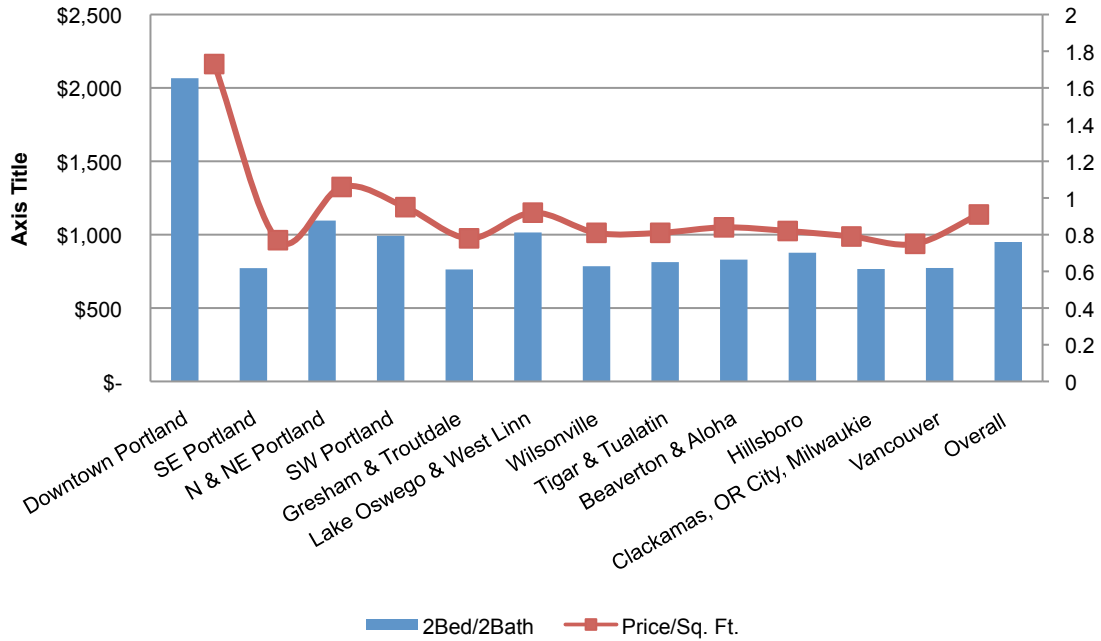
**Figure 3: Vacancy rates, 4th Quarter, 2010, Portland metropolitan area, by submarket**



Source: Norris, Beggs & Simpson

The recent Norris, Beggs & Simpson survey shows asking rents for two-bedroom/two-bath are highest in the Downtown Portland area at \$2,066 at \$1.73/sq.ft followed by N & NE Portland at \$1,096 at \$1.06/sq.ft and Lake Oswego at \$1,015 at \$0.92/sq.ft. The lowest rent average for two bedroom/two-bath is in Gresham & Troutdale for \$763 at \$0.78/sq. ft.

**Figure 4: Average rents and Price Per Sq. Ft, 4th Quarter, 2010, Portland metropolitan area, by submarket**



Source: Norris, Beggs & Simpson

Norris, Beggs & Simpson’s list of major apartment sale transactions for the fourth quarter of 2010 include five transactions for 100 units. These include the Ladd Tower (332 units) in Downtown Portland for \$70.35 million, the Palladia Apartments (497 units) in Hillsboro for \$70.25 million, Park 19 (101 units) in Downtown Portland for \$28.8million, Sunnyside Village (132 units) in Clackamas for \$10.63 and NE 138<sup>th</sup> Ave. (114 units) in Vancouver for \$7.12 million.

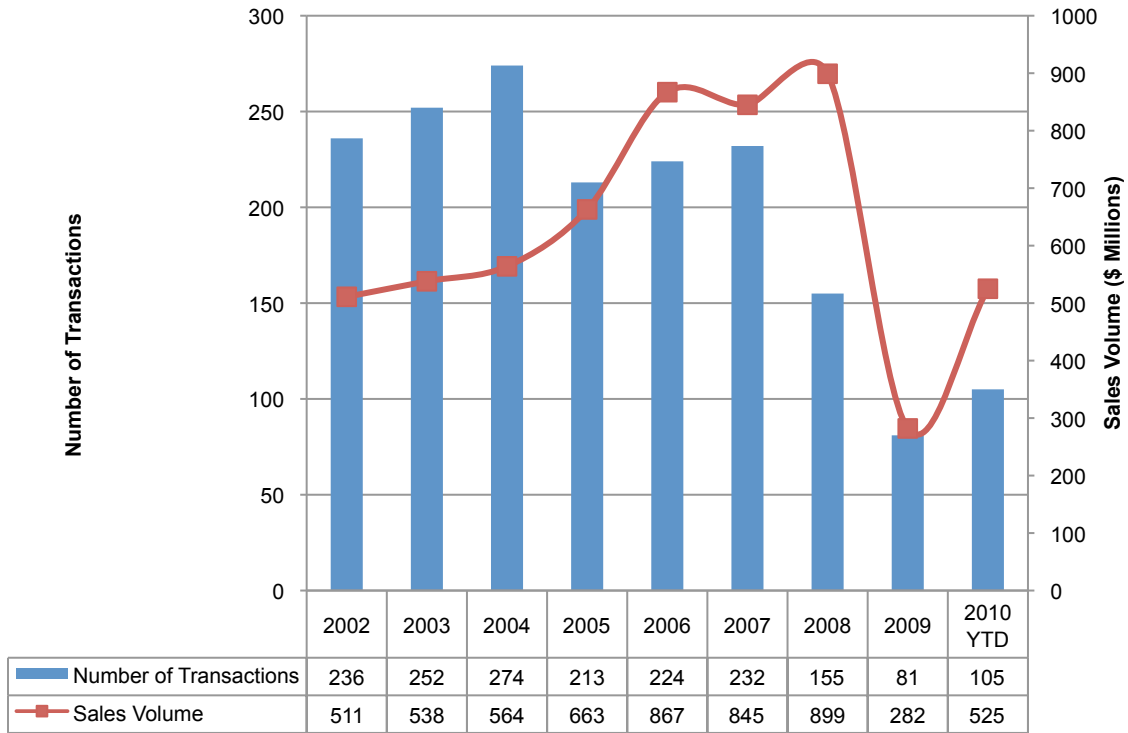
**Table 1: Major sales transactions, 4th Quarter, 2010,  
Portland metropolitan area**

<b>Major Sale Transactions</b>				
Buyer:	Building:	Price:	Units:	Submarket:
INVESCO	Ladd Tower	\$79,350,000	332	Downtown Portland
UBS Realty Investors LLC	Palladia Apartments	\$70,250,000	497	Hillsboro
TIAA-CREF	Park 19	\$28,800,000	101	Downtown Portland
Sunnyside 145 LLC	Sunnyside Village	\$10,625,000	132	Clack., Oregon City, Milwaukie
Cascade Woods LLC	2412-2508 NE 138th Avenue	\$7,175,000	114	Vancouver
Weston Investment Co. LLC	Tabor Pointe Condos	\$2,857,500	44	Southeast Portland
1230 NW 21st Ave LLC	The Plymouth	\$2,200,000	30	Downtown Portland

Source: Norris, Beggs & Simpson

Despite the recent large multifamily sales, apartment sales volumes were down significantly in 2009 relative to the prior six years as well as the number of transactions within the current market is still down significantly from levels seen in 2002 through 2008. The graph below shows the sharp drop-off in transactions and total dollar value in 2009 and continuing through the third quarter of this year. Sales volume for 2010 picked up substantially in the fourth quarter and resulted in a sales volume of around \$525 million with just over 100 sales compared to \$282 million and 81 transactions for 2009. 2010 sales volume is off by around 34 percent from the \$800 million per year average from 2003 to 2008.

**Figure 5: Multifamily transactions and sales volume, Portland metropolitan area**



Source: The Barry Apartment Report

As shown by the graph above, multifamily permits experienced a strong drop-off in 2009 when only 945 multifamily units were permitted within the city. This was well below the yearly average of 1,982 permits issued between 2000 and 2008. Through the first six months of 2010, only 312 multifamily units have been permitted in Multnomah County, with 152 units and 35 units permitted in Washington and Clackamas County, respectively. The end of the year picked up and total building permits in Portland increased 22.4 percent from 2009 to 1,157 permits issued although this number still falls short of the high average from earlier years. 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 4.0 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 residential permits issued**

