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## MULTIFAMILY MARKET ANALYSIS

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Norris, Beggs & Simpson reported that, in the first quarter of 2010, multifamily vacancy has dropped to 2.69 percent in the metropolitan Portland market, down from 3.09 percent from the previous quarter and down from last year's 5.45 percent. For new downtown units, vacancy fell nearly three percentage points to 3.14 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 in all Portland submarkets. Several major sales transactions closed during the first quarter including Russelville Commons (\$31.6 million) in Southeast Portland and 1700 SW Marlow Avenue (\$10 million) in Southwest Portland.

The average rents for the first quarter of 2011 were \$834 (\$0.96/Sq.Ft) up from \$825 (\$0.95/Sq.Ft) in the fourth quarter for overall average. For a 2BR/2BA, rent increased from \$950 (\$0.91/Sq.Ft) in the fourth quarter to \$964 (\$0.92/Sq.Ft). Rent increased from \$1,002 to \$1,010 for a 3 BR/2BA, and the price/ Sq.Ft increased from \$0.95 to \$0.96.

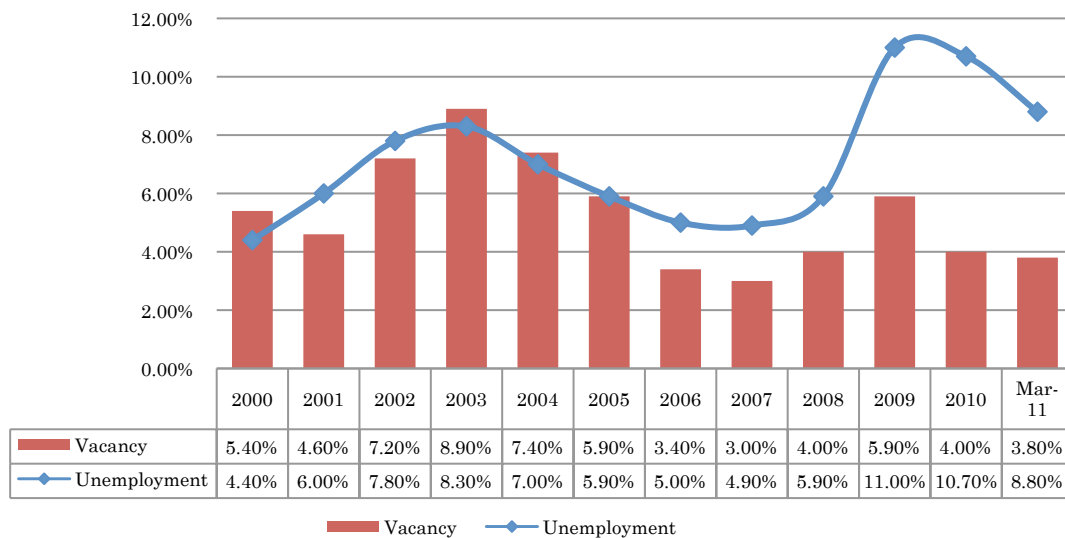
Norris & Stevens reported similar trends in the spring 2011 Newsletter. It was found that rents increases occurred in the majority of markets since the last survey, and vacancy rates have dropped further. It was reported that while some buildings are offering concessions, especially larger communities, these are in the minority.

Decreased vacancy rates and increased rent have stirred new interest in multifamily investment although the apartment market is still catching up to this increased demand which is driving rent rates. Reis, Inc. predicts apartment rents will jump 4.3 percent this year, marking the biggest annual increase in four years.

MPF Research, which also monitors apartment rents, expects them to rise more than 5 percent this year.

Apartment investment has seen positive trends in recent months where a few projects in under-built, close in submarkets were leased up and stabilized relatively quickly. These projects include Tupelo Alley and ecoFLATS in North Portland, The 20 on Hawthorne and 2121 Belmont in Southeast Portland. Financing for 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. In recent months, long proposed that have been postponed by the recession have broken ground or have plans to. These projects include The Albert on N. Williams, and a 90-unit project by Phase Two Development on NW Pettygrove, and Block 49 at South Waterfront by Reach Community Development Corporation.

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



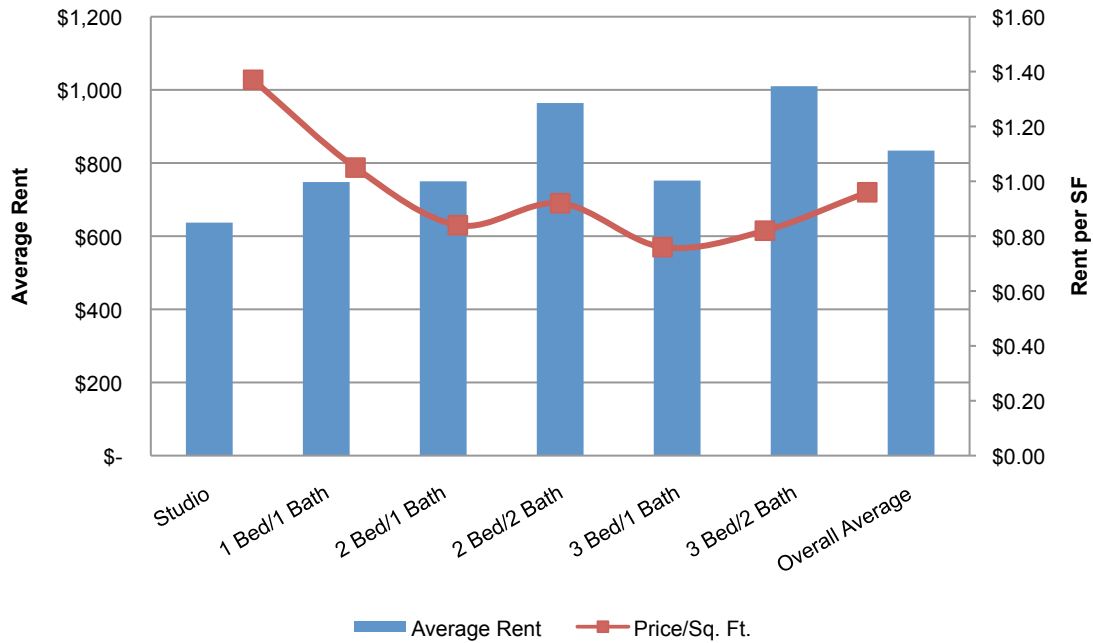
Source: Norris, Beggs & Simpson

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 from 10.70 percent in 2010 to 8.80 percent in March 2011. This is also reflected in the vacancy rates.

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 fell 1.8 percent to 6.2 percent in the first quarter of 2011. Nationwide rent rose almost 2 percent from the first quarter of 2010. They attributed this rise in apartment rent to the limited number of new apartment units with only 40,000 new apartment units expected to be added to the

U.S. supply this year, down from the 130,000 new units each year for much of the past decade.

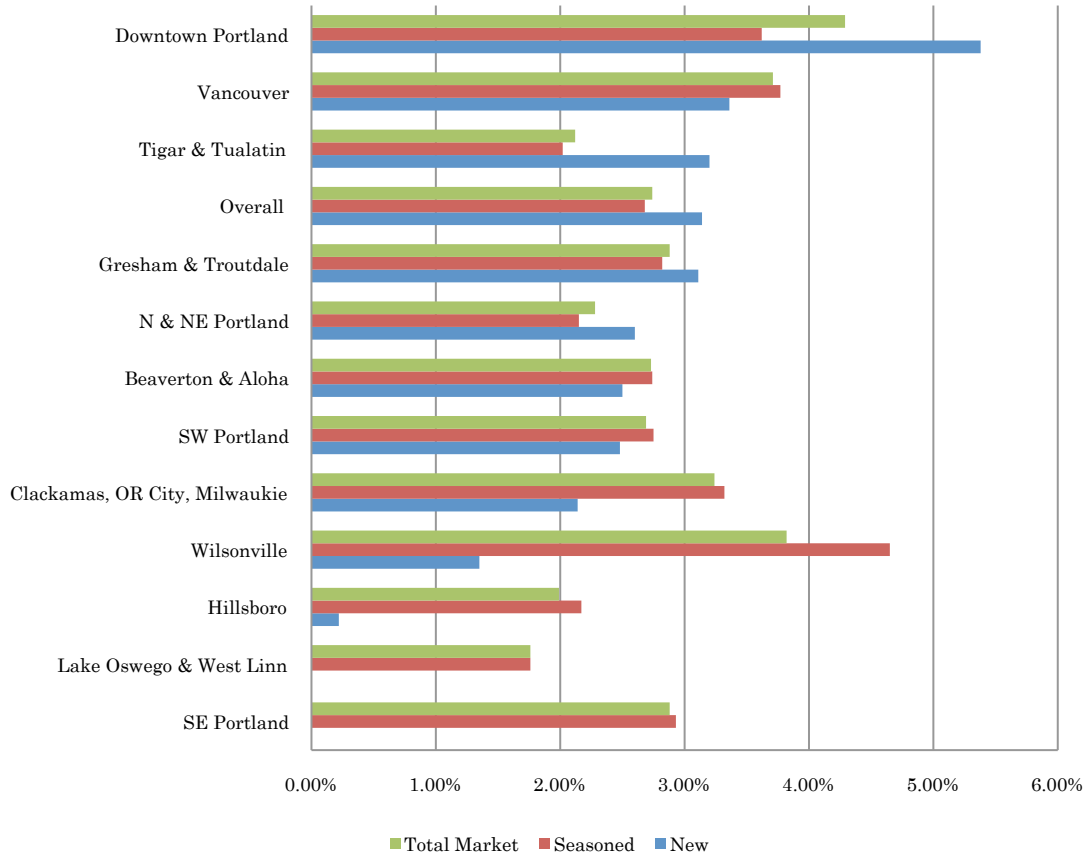
**Figure 2: Average rent and Price/Sq.Ft, 1st Quarter, 2011, Portland metropolitan area**



Source: Norris, Beggs & Simpson

In the first quarter of 2011, the downtown Portland submarket showed the highest overall vacancy rate at 4.29 percent, while Lake Oswego & West Linn had the lowest submarket vacancy at 1.76 percent. Downtown Portland had the highest new unit vacancy at 5.38 percent (an increase from 16.7 percent in the fourth quarter) while Lake Oswego/West Linn had virtually no vacancy. Wilsonville has the highest vacancy rate for seasoned units at 4.65 percent followed by Vancouver at 3.77 percent, while Downtown Portland had 3.62 percent. Rent rates increased by \$14 overall to \$964 from last quarter, or \$0.92/Sq.Ft.

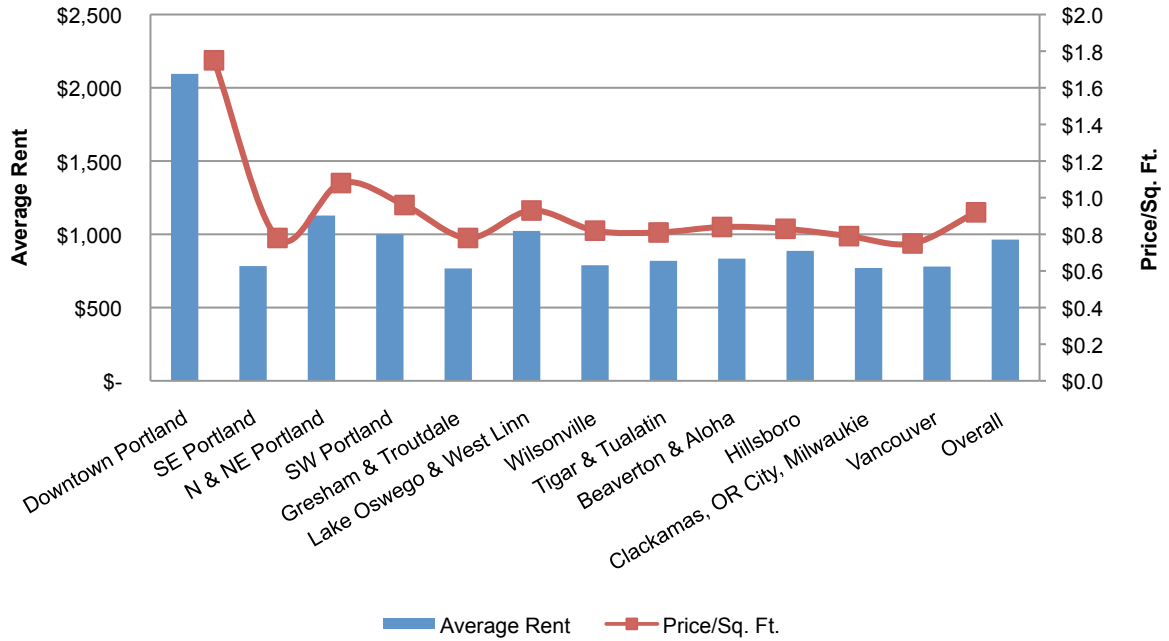
**Figure 3: Vacancy rates, 4th Quarter, 2010, Portland metropolitan area, by submarket**



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 \$2,095 at \$1.75/Sq.Ft up from the \$1.75/Sq.Ft from fourth quarter 2010, followed by Lake Oswego and West Linn at \$1,023 at \$0.93/Sq.Ft and N & NE Portland at \$1128 at \$1.08/Sq.Ft. The lowest rent average for two-bedrooms/two-baths is in Gresham & Troutdale for \$767 at \$0.78/Sq.Ft. Rent prices and \$/Sq.Ft increased for every submarket in Portland from the fourth quarter of 2010 to the first quarter of 2011.

**Figure 4: Average rents and Price/Sq.Ft, 1<sup>st</sup> Quarter, 2011, Portland metropolitan area, by submarket**



Source: Norris, Beggs & Simpson

Major apartment sale transactions for the first quarter of 2011 include five transactions for 100 units. These include the Russelville Commons (283 units) in Southeast Portland for \$30.62 million, Thunderbird Village Apartments (182 units) in Vancouver for \$9.07 million, The Village Apartments (124 units) in Gresham/Troutdale for \$6.2 million, 1700 SW Marlow Avenue (100 units) in Southwest Portland for \$10.0 million, and Gardenbrook Apartments (120 units) in Beaverton/Aloha for \$5.50 million.

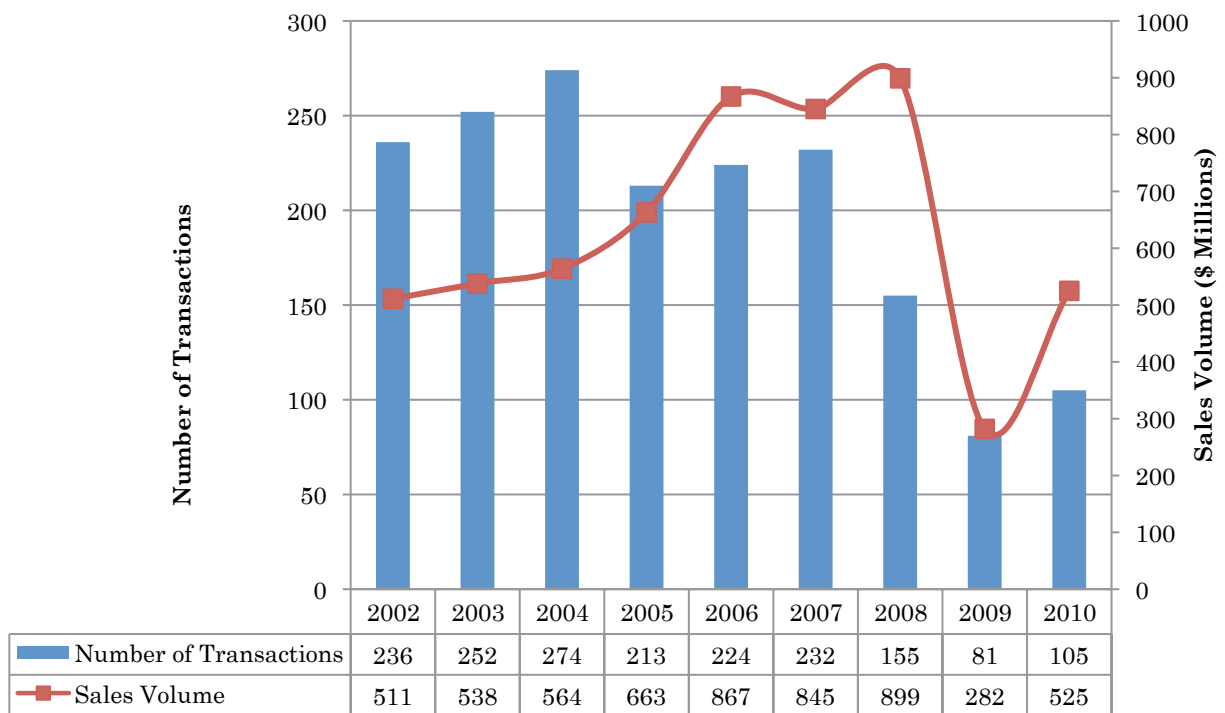
**Table 1: Major sales transactions, 1<sup>st</sup> Quarter, 2011, Portland metropolitan area**

| <b>Major Sale Transactions</b>       |                                |              |        |                          |
|--------------------------------------|--------------------------------|--------------|--------|--------------------------|
| Buyer:                               | Building:                      | Price:       | Units: | Submarket:               |
| The Reliant Group                    | Russelville Commons            | \$31,625,000 | 283    | Southeast Portland       |
| Pacific Insurance Investment Company | 1700 SW Marlow Avenue          | \$10,000,000 | 100    | Southwest Portland       |
| Thunderbird Investments LLC          | Thunderbird Village Apartments | \$9,075,000  | 182    | Vancouver                |
| K & F Development LLC                | The Village Apartments         | \$6,200,000  | 124    | Gresham/Troutdale        |
| Santa Barbara Capital                | Gardenbrook Apartments         | \$5,500,000  | 120    | Beaverton/Aloha          |
| Santa Barbara Capital                | Meridian Village Apartments    | \$4,646,000  | 59     | Tigard/Tualatin          |
| Graeme Rael                          | Woodland Park Apartments       | \$4,390,000  | 74     | North/Northeast Portland |

Source: Norris, Beggs & Simpson

Despite the recent large multifamily sales, apartment sales volumes were down significantly in 2010 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 through 2009 that picked up in 2010.

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



Source: The Barry Apartment Report

As shown by the graph below, 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 three months of 2011, only 187 multifamily units have been permitted in Multnomah County, with 35 units in Washington County and no units permitted in Clackamas County. For the 2011 year to date, a total of 308 building permits have been issued. 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 residential permits issued**

