
MULTIFAMILY MARKET ANALYSIS

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As I read through the numerous articles and data about the apartment market across the nation and especially Portland I began to see correlations to the Tech bubble of the late 90's. There are obvious difference, however. We are creating and building things of real value whereas the tech bubble was filled with worthless startups and speculators trying to cash in on the insatiable demand of investors. The tech bubble was spurred on by inexperienced entrepreneurs creating companies and what was thought to be new paradigms. Micro apartments and the relentless pursuit of sustainability regardless of cost or return both in monetary and environmental measures are different. Many would argue they are a response to proven long term demand.

Rents continue to rise as more and more people flock to the Portland area. I grew up here in the Portland area and remember a time when we did not welcome "outsiders" to our city or state. Despite our urban growth boundary and our anti-growth philosophies we grew and we continue to grow. There is rarely a top 10 list that Portland is not a part. Time and attitudes have changed and we now welcome

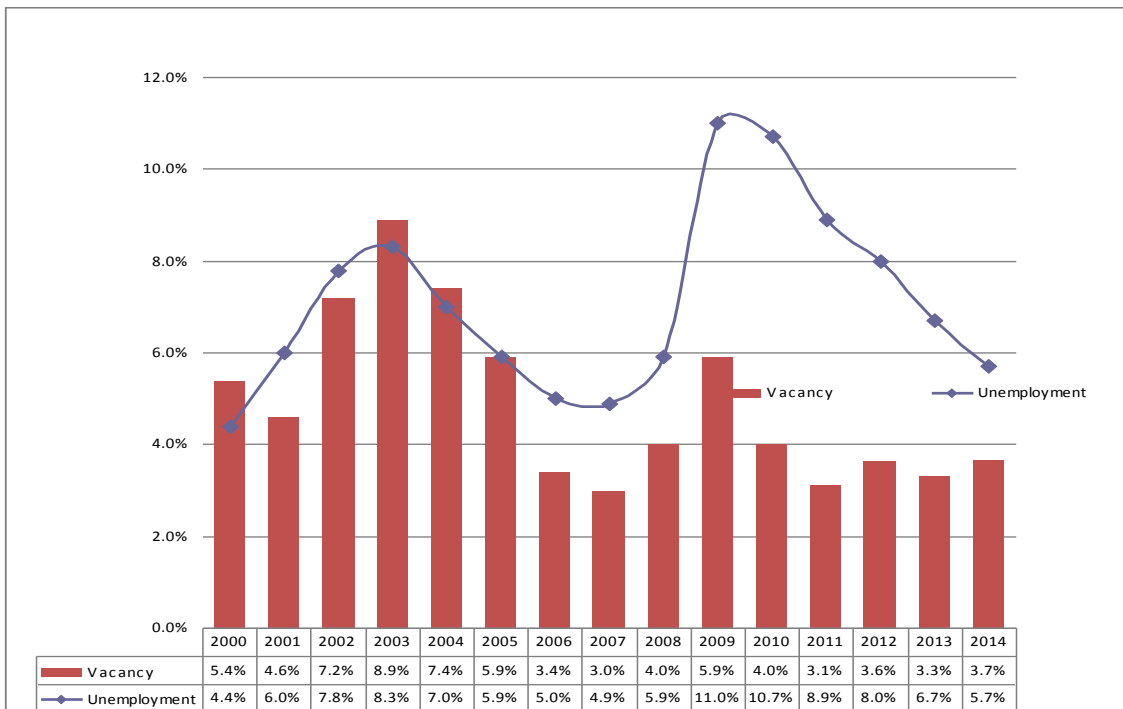
■ Scott Holden is a Senior Relationship Manager at First Republic Bank. He is currently working towards the Master of Real Estate Development degree through a joint program of the School of Business Administration and the School of Urban Studies and Planning where he is an RMLS Student Fellow. Any errors 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.

growth but now that we want it can we maintain it. Can we build and grow in a way that is economically, as well as socially and sustainably viable?

On the lending front it is now easier to qualify and buy a 5 unit property than to buy a 1-4 unit property. Many of the new rules in single family lending have created such barriers to entry that the average investor can more easily qualify for a 5 unit apartment than a rate and term refinance of their primary residence. In an area where a small apartment building will sell for \$80,000 a door a 4 unit property is going for \$125,000 a door.

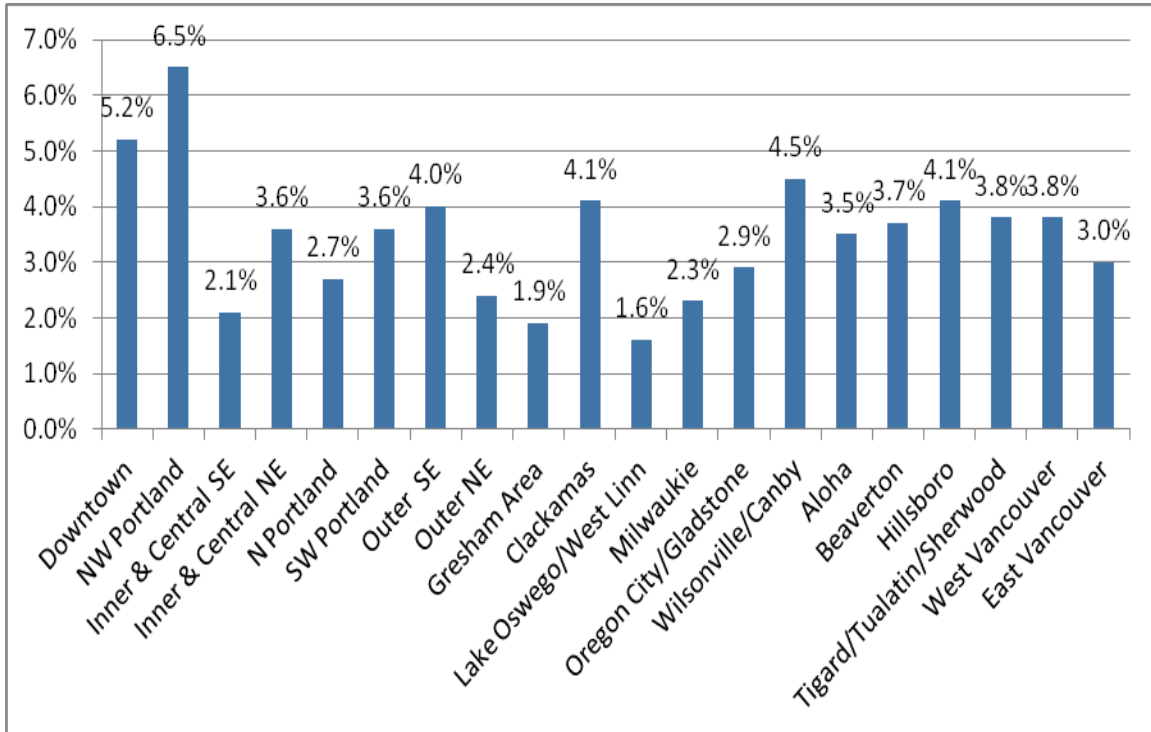
Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 5.7%; this is now below the national average of 5.9%. In addition, job growth in the Portland Metro area sits at 1.59%. The U.S. as a whole continues to lag at 1.18%.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



Overall vacancies rose slightly in the third quarter to 3.66% from 3.45% in the second quarter. Downtown and NW Portland have the highest vacancies at 5.2% and 6.5%. Lake Oswego and Gresham have to lowest vacancies at 1.6% and 1.9% respectively. 1 bed/1 bath units have the lowest vacancy by unit type at 1.55%. While 2 bed/1 bath units have the highest vacancy rate at 4.13%.

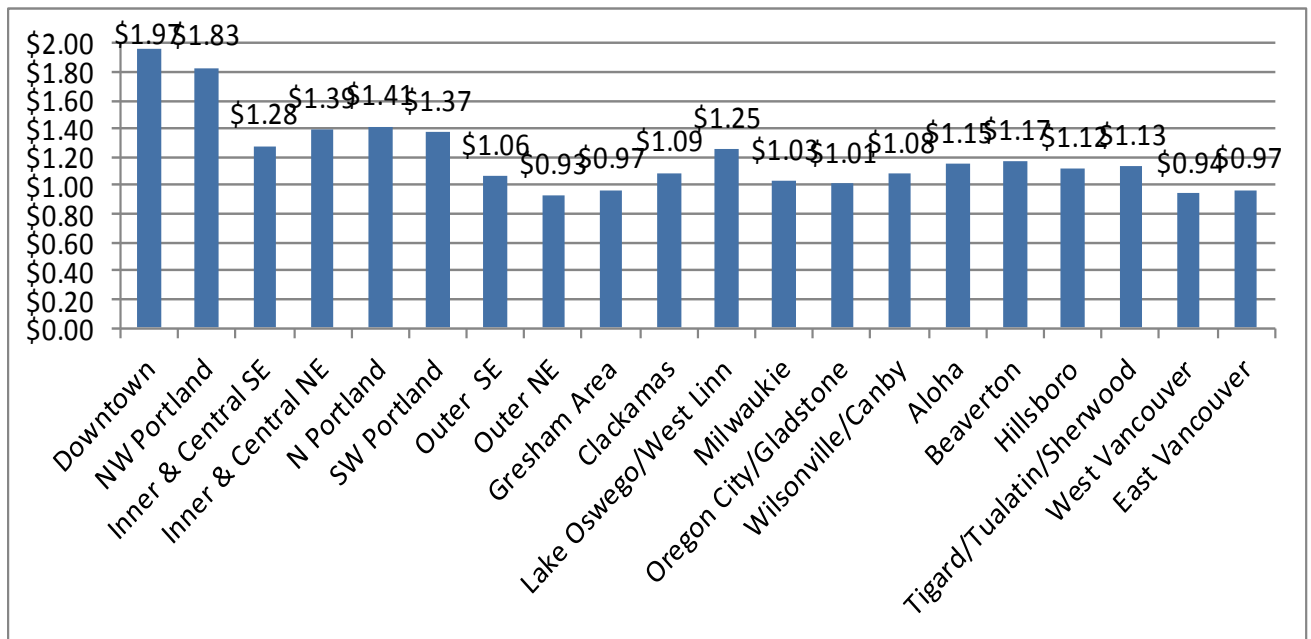
Figure 2: Vacancy Rates by Submarket Fall 2014 Portland Metropolitan Area



Source: MMHA

As expected downtown and NW Portland continue to garner the most dollars per square ft at \$1.97 and \$1.83 respectively. Outside the inner areas of Portland West Linn and Lake Oswego deliver the highest rents per square ft at \$1.25. Gresham and Vancouver are at the bottom of spectrum ranging between \$.94 and \$.97 per square ft.

Figure 3: Rent / SF by Submarket Spring 2014 Portland Metropolitan Area



Source: MMHA

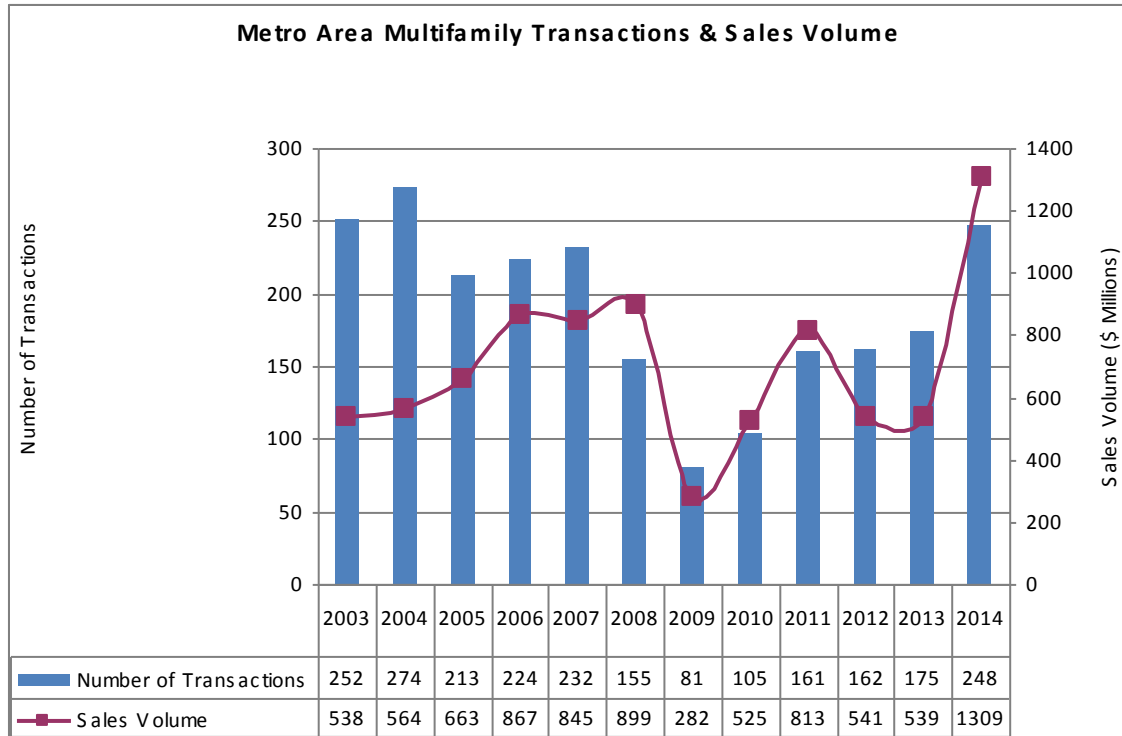
Transactions continue to be strong and are dominated by the large institutional players who now find Portland a worthwhile endeavor to invest their clients' money. Portland's growth in both population and jobs along with the presence of significant Fortune 500 companies such as Nike and Intel are all contributors to the interest. The main contributor, however, is the lack of opportunity and higher competition in the other west coast metropolitan areas. Portland is smaller than its neighbors but provides fundamentals and a west coast location that are currently hard to pass up.

YTD 2014 Major Sale Transactions				
Building	City	Price	Units	Price/Unit
Asa Flats and Lofts	Portland	\$ 105,500,000	231	\$ 456,710
Reflections at Summer Cree	Beaverton	\$ 53,000,000	351	\$ 150,997
Monteray Springs	Happy Valley	\$ 51,250,000	390	\$ 131,410
Seneca Village	Hillsboro	\$ 51,000,000	264	\$ 193,182
Westview Heights	Portland	\$ 44,800,000	198	\$ 226,263
Kempton Downs Apartments	Gresham	\$ 27,000,000	278	\$ 97,122
The Addy	NW Portland	\$ 26,650,000	105	\$ 253,810
Lewis Ridge	Vancouver	\$ 15,790,000	112	\$ 140,982

Source: MMHA Fall 2014 Apartment Report

Sales volume is being driven by institutional buyers. The number of transactions is up over last year and if it remains on its current pace will hit 248. The volume tells the real story. At the current pace volume will end the year up 243% while the number of transactions will rise just 71%.

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, Through September 2014 (annualized)

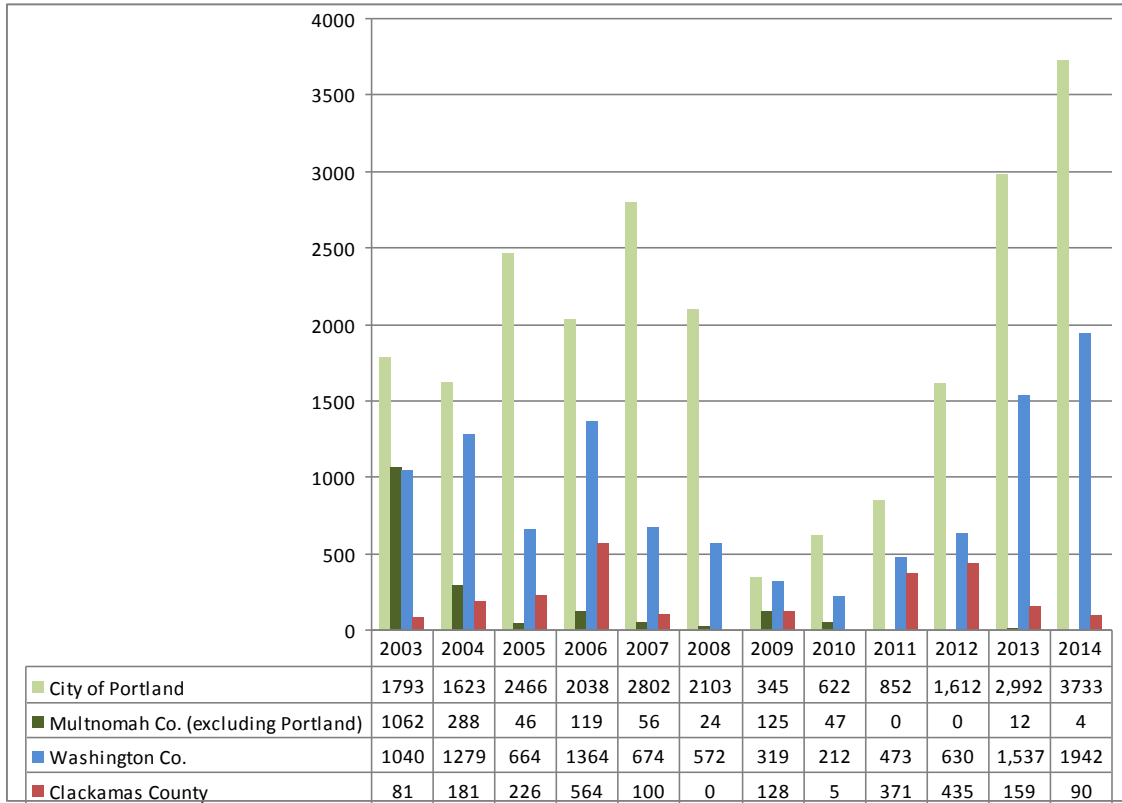


Source: Costar

Washington County and Portland continue to build although at a slower pace than in the second quarter. Portland is on pace to issue 3733 multifamily building permits in 2014 and Washington County is on pace for 1942 in 2014. That would be an increase over 2013 of 25% and 26% respectively. Multnomah County (excluding Portland) and Clackamas County continue to lag well behind.

Figure 5: Multifamily Building Permits Issued, March 2014

Number of permits through September 2014 is annualized



Source: US Census