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## MULTIFAMILY MARKET ANALYSIS

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Strong market fundamentals persist in multifamily and new construction continues. For now, Portland remains one of the tightest markets in the nation with a vacancy rate of 3.11%. Both local and national investors are seeking to position equity, and have been drawn to the market conditions that make apartments an attractive, low-risk investment. However, with thousands of units in the planning, permitting, or construction phases, there is concern that the market could become overbuilt. According to appraiser Mark Barry: “Many developers are chomping at the bit to get back in the game. In 2013, we’re in a sweet spot. When we get into 2014 and 2015, the apartment market will be more in balance. It will no longer be a landlord’s market.”

The Barry’s forecast that apartment vacancies will increase to 4% to 4.5% by the end of 2013 and possibly as high as 5.5% by the end of 2014. This will result in a shift from a landlord’s market to a more balanced market over the next 18 to 24 months.

Multifamily construction has been ramping up, but still below 2004-2008. In 2012 there were multifamily building permits issued for 2,687 units in the tri-county area. In 2011 permits were issued for 1,696 units in the metro area, compared to

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1,100 in 2010, according to the Barry Report. From 2004-2008 an average of 4,700 units came online annually.

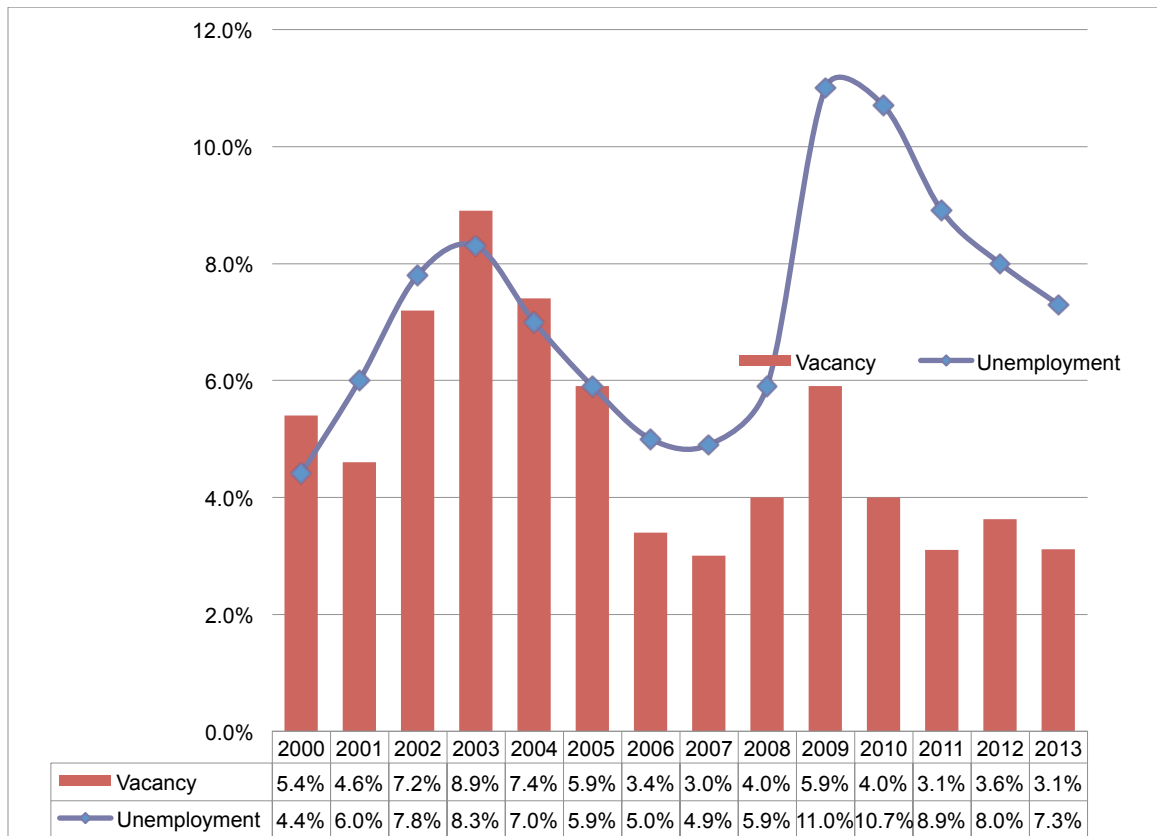
The high demand for rentals is expected to persist over the next several years and absorb the new construction projects. Strong fundamentals including low interest rates, low vacancy rates, and increasing rents have spurred new projects, as developers work to capitalize.

Axiometrics, the leading provider of apartment data and research, reports that national effective rent growth, which had increased in May and June after a slowdown in April, once again moderated in July to a rate of 3.41%. The occupancy rate held steady at 94.8%.

“All classes of apartments (A, B, and C) showed signs of moderation for the month as compared to June results,” said Jay Denton, vice president of research for Axiometrics. “However, only Class A properties decreased in annual effective rent growth as compared to July of 2012, slowing from growth of 4.12% last year to 3.20% this July. Interestingly, occupancy is up 37 basis points (bps) since July 2012.”

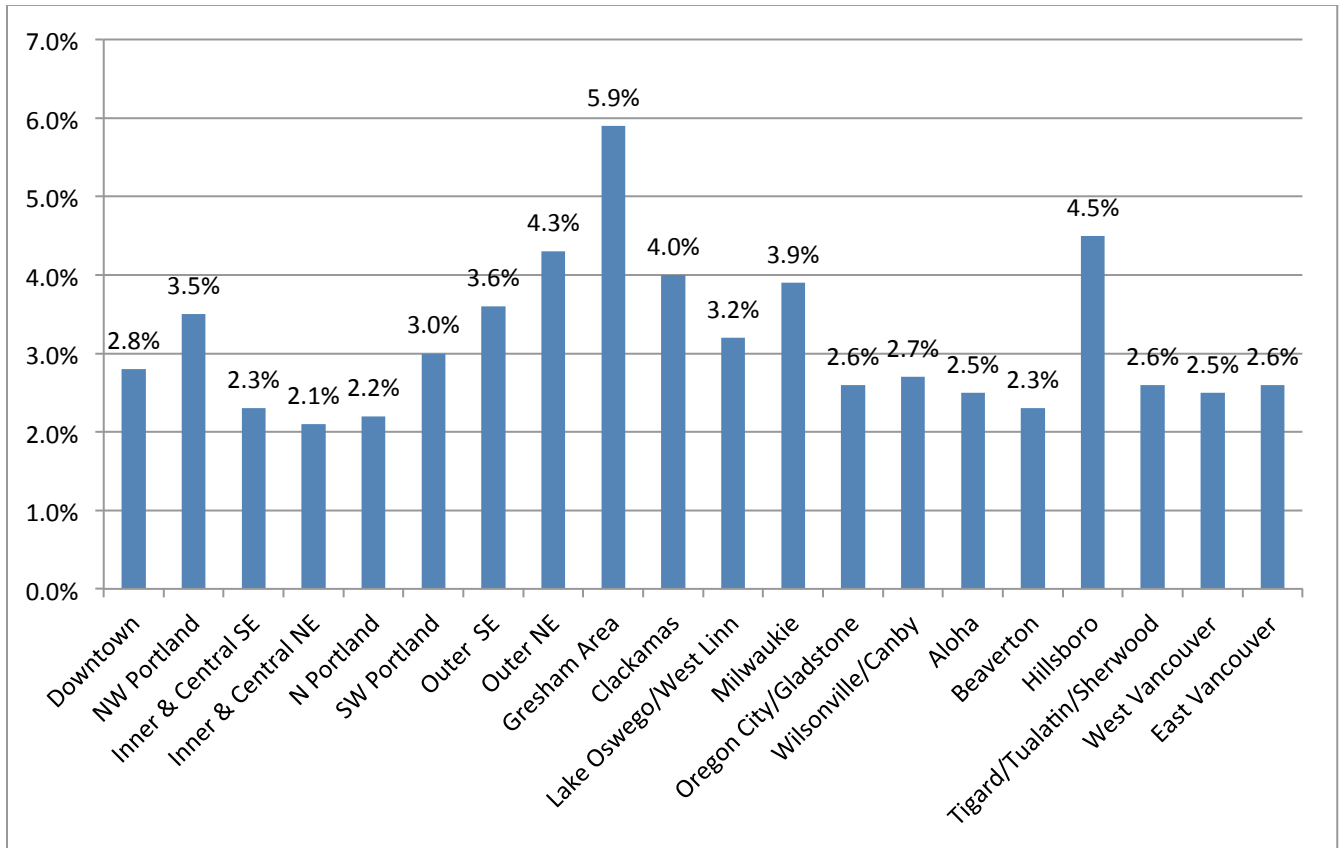
Unemployment rates are positively correlated with vacancies as shown in the chart below. As of August 2013, Portland currently had an unemployment rate of 7.3 percent, which was lower than the state average of 8.1 percent and the same as the national average of 7.3 percent.

**Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area**



These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 5.9 percent in the Gresham area and the lowest was Inner & Central NE at 2.1 percent.

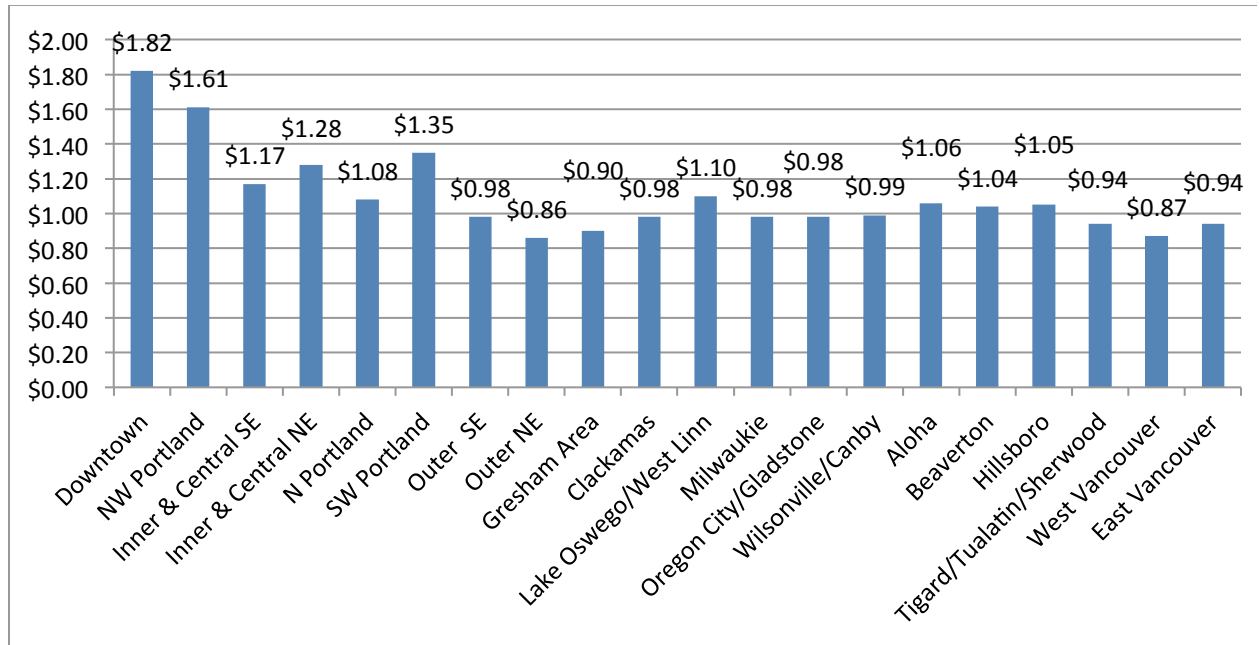
**Figure 2: Vacancy Rates by Submarket Fall 2013 Portland Metro Area**



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a \$1.82 average, followed by NW Portland at \$1.61. The lowest overall rent/SF is shared between Outer NE at \$0.86 per square foot.

**Figure 3: Rent / SF by Submarket Fall 2013 Portland Metropolitan Area**



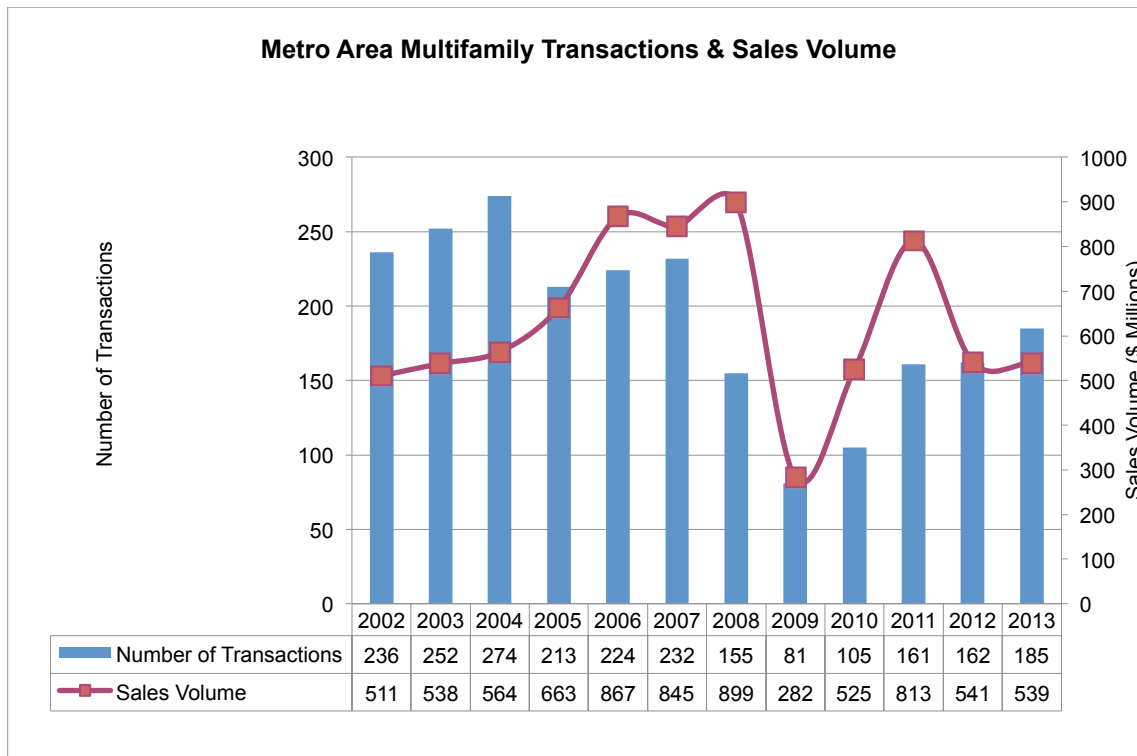
Source: MMHA

In Portland, approximately 70 percent of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the \$50,000-\$80,000 per unit range depending on rents, location, condition, and other factors. In the third quarter of 2013 the median sold price per unit was \$61,500. The average number of units sold per property was 42 in third quarter 2013 and 37 in the second quarter of 2013.

There have been five deals with a sales price over \$10 million in the third quarter of 2013. The NE 72<sup>nd</sup> Ave portfolio consisting of three properties (584 total units) in Vancouver, WA sold for \$64.5 million. Phase 2 of the Jones Apartments (193 units) in Hillsboro sold for \$39.3 million. The Madison Park Apartments (336 units) sold for \$30.1 million and the Arnada Pointe Apartments (200 units) sold for \$17.2 million, both in Vancouver. The 20 on Hawthorne (51 units) in SE Portland sold for \$14.9 million.

In 2012 there were 162 transactions and \$541 million in sales volume compared with 161 transactions and \$813 million in 2011. As of the third quarter 2013, there have been 185 transactions and \$539 million in volume year to date. Due to the solid market fundamentals, apartments remain the favored asset class of investors in Portland and throughout the nation. Experts are projecting that the increases in sales volume and transactions will continue to be strong for the remainder of 2013 and over the next several years.

**Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, 3Q Year to Date**



Source: Costar

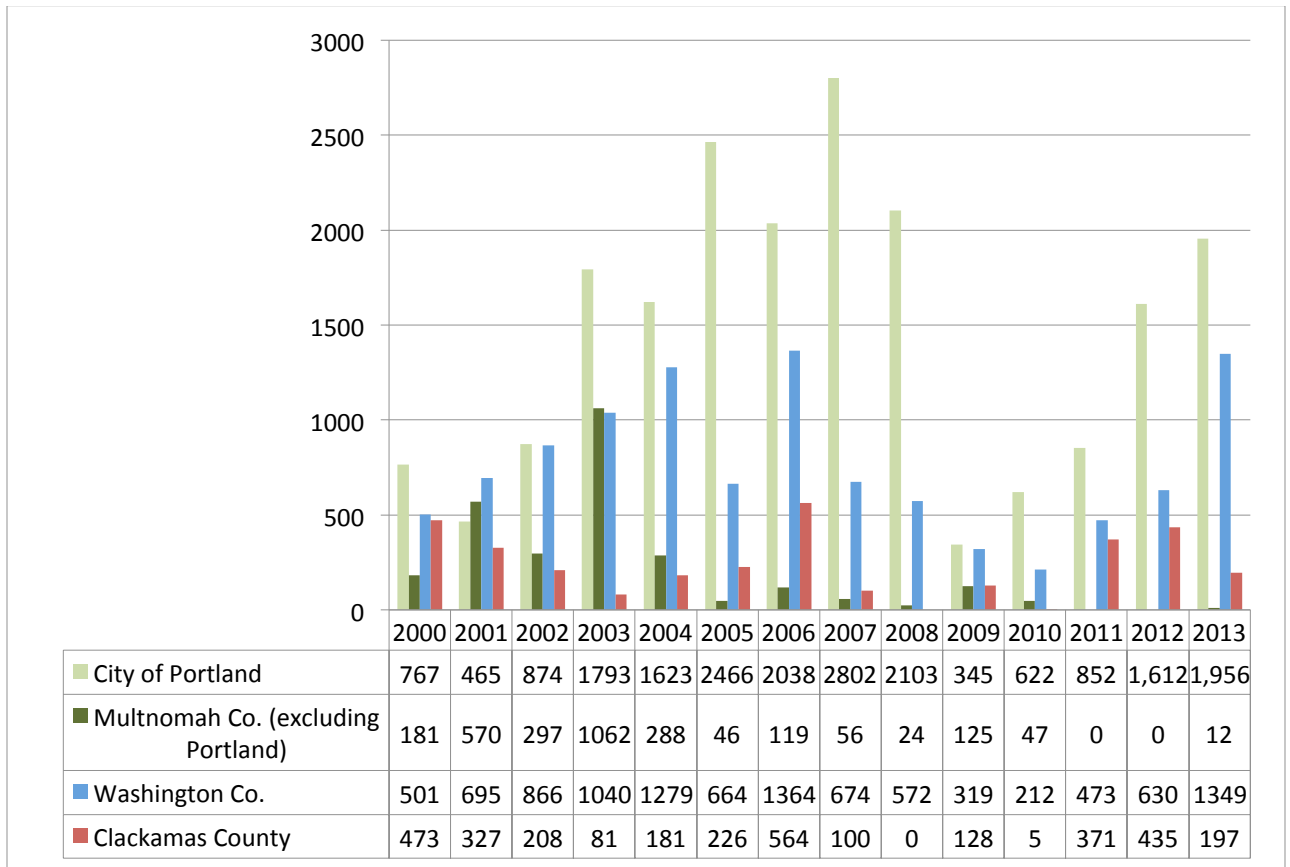
Through August 2013, multifamily building permits have increased within the metro area compared to 2012. Permits have been issued for 1,956 multifamily units built in the City, which has already surpassed last year’s total of 1,612. According to the Barry Report there are 8,000 new units projected in 2013 and 2014 with half of these slated for Multnomah County. Washington County has already surpassed 2012 for the number of new units this year at 942 units through May.

In the 2013 MMHA Report Mark and Patrick Barry astutely observed a number of trends that have emerged in new apartment construction:

- Currently there are twice as many units under construction as units that have been recently completed.
- Almost three times as many units have been proposed as recently completed.
- Close-in east Portland accounts for almost 1/3 of the proposed units.
- Very little activity in market rate apartment construction in East Multnomah County area.
- Average size is approximately 50 units in urban east side and 100 units in urban west side.

- In the suburbs, most projects under construction or recently completed are over 150 units.

**Figure 5: Multifamily Building Permits Issued, August 2013 Year to Date**



Source: US Census

Mark and Patrick Barry predict that despite the uptick in new apartment construction, the market will not become overbuilt. They emphasize the projected population growth of 25,000-30,000 per year and that the new units will be delivered in intervals. They expect that some neighborhoods will experience slow absorption, higher vacancies, and possible concessions until there is sufficient time for the new units to be absorbed.