
MULTIFAMILY MARKET ANALYSIS

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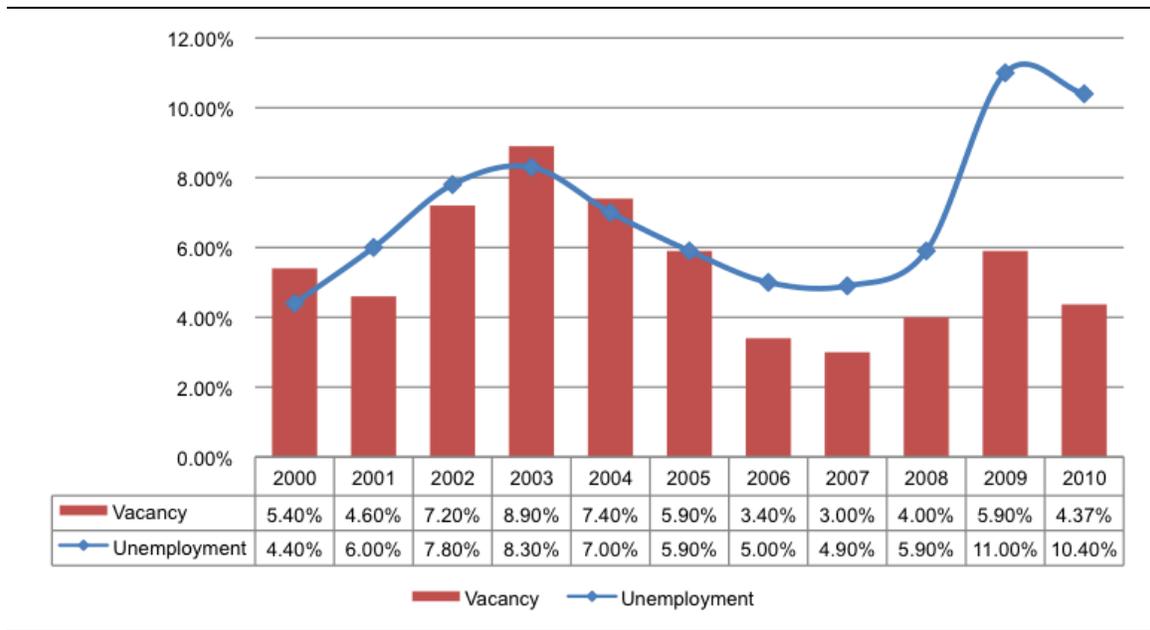
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Through the third quarter of 2010 the local multifamily market, according to the Spring 2010 survey by the Metropolitan Multifamily Housing Association (MMFHA), vacancy has dropped to 4.0% percent in the metropolitan Portland market, down from 5.1% in the second quarter 2010. Similar results are seen in a more recent survey completed by Norris & Stevens, a local brokerage firm specializing in multifamily. The summer 2010 Norris & Stevens survey showed that the Portland area vacancy rate dropped to 5.75 percent, down 1.14 percent from the last survey in the fall of 2009. While most submarkets are seeing some concessions to encourage new move in, rents seem to be holding steady or increasing slightly. In the aftermath of major economic changes, apartments are gaining a stronger share of the housing market with many apartment complexes with occupancy above 95%+ or better in many cases. This could be due to families and individuals being force to reevaluate their housing costs and seeking apartments to meet their housing needs. It is crucial for apartments to make strategic decisions to improve the overall value of their property by reducing costs and stabilizing the income stream because the biggest program that that is impact landlords in the multifamily market is tenants who have lost their job and are forced to move out.

According to Norris, Beggs & Simpson's Third Quarter 2010 Multifamily Report, the overall multifamily vacancy rate has decreased to 3.65% from 4.64% in the second quarter of 2010 and is down from 4.11% this time last year. The year to date average vacancy rate is 4.37% for the three quarters of 2010. The average rents for the quarter are \$727 (\$1.02/SF) for a 1BR/1BA, \$739 (\$0.83/SF) for a 2BR/1BA, \$936 (\$0.89) for a 2BR/2BA and \$996(\$0.81) for a 3 BR/2BA. These numbers are up

slightly from the previous quarter. Average 2BR/2BA new units rent for \$1,582 per unit and seasoned 2 BR/2BA units rent for an average \$855 per unit. Decreased vacancy rates have stirred new interest in multifamily investment. The Daily Journal of Commerce reports on a survey of 1,500 apartment complex owners in the Portland-metro area conducted by a local multifamily investment real estate firm HFO, it is found that 24% of respondents would consider buying an apartment complex in the next six month with 46% saying they would consider is the right deal arose; 65% said they were looking for apartment properties within five miles of downtown with the recently 2% decrease in vacancy from the second quarter and 49% said they are able to make a minimum down payment of \$1 million for their next apartment venture.

Figure 1: Unemployment and multifamily vacancy, Portland metropolitan area



Source: Norris, Beggs & Simpson

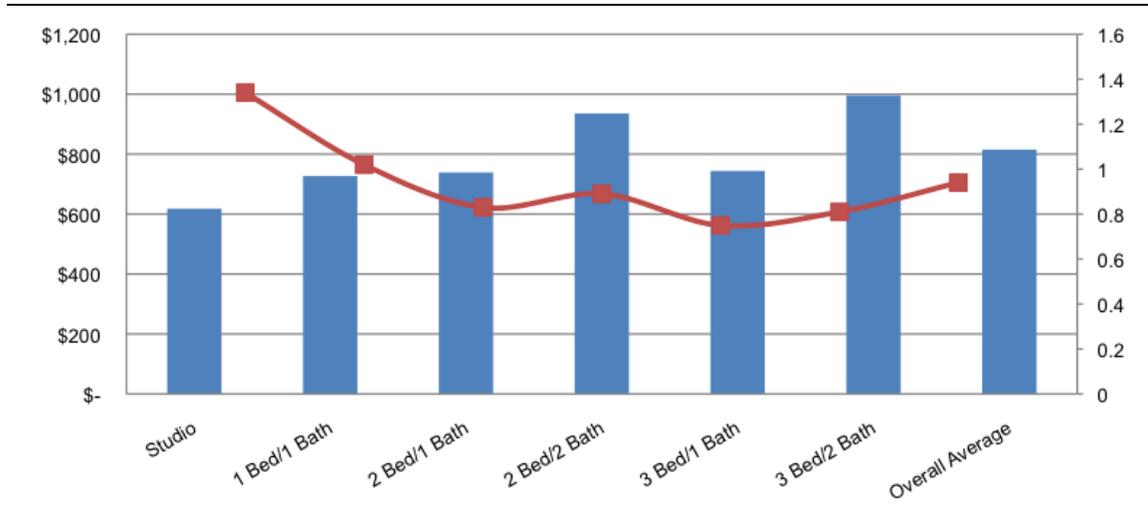
Unemployment rates are positively correlated with vacancies as shown in the chart below, and dramatically rose from 5.9 % in 2008 to 11% in 2009, but have declined to 10.40 for 2010 YTD which also shows the decrease in vacancy rates. While unemployment rates have decreased for 2010, we have actually lost 7,500 wage and salary jobs since January 2010. On the up side, IBM recently announced that they will be adding 600 jobs in Beaverton, Daimler announced they will continue manufacturing trucks at their Swan Island plant, Greenbrier will be adding 260 jobs, and Vestas decided to proceed with a \$66 million headquarters project in the Pearl.

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 national multifamily vacancy rate fell to 7.2% from 7.9% a year earlier and 7.8% in the second quarter.

Rent rates increased by \$9 overall to \$815 from last quarter, or \$0.94 per square foot. The largest increase for quarter three was downtown where overall rent increased by \$26 to \$1,374, or \$1.64 per square foot.

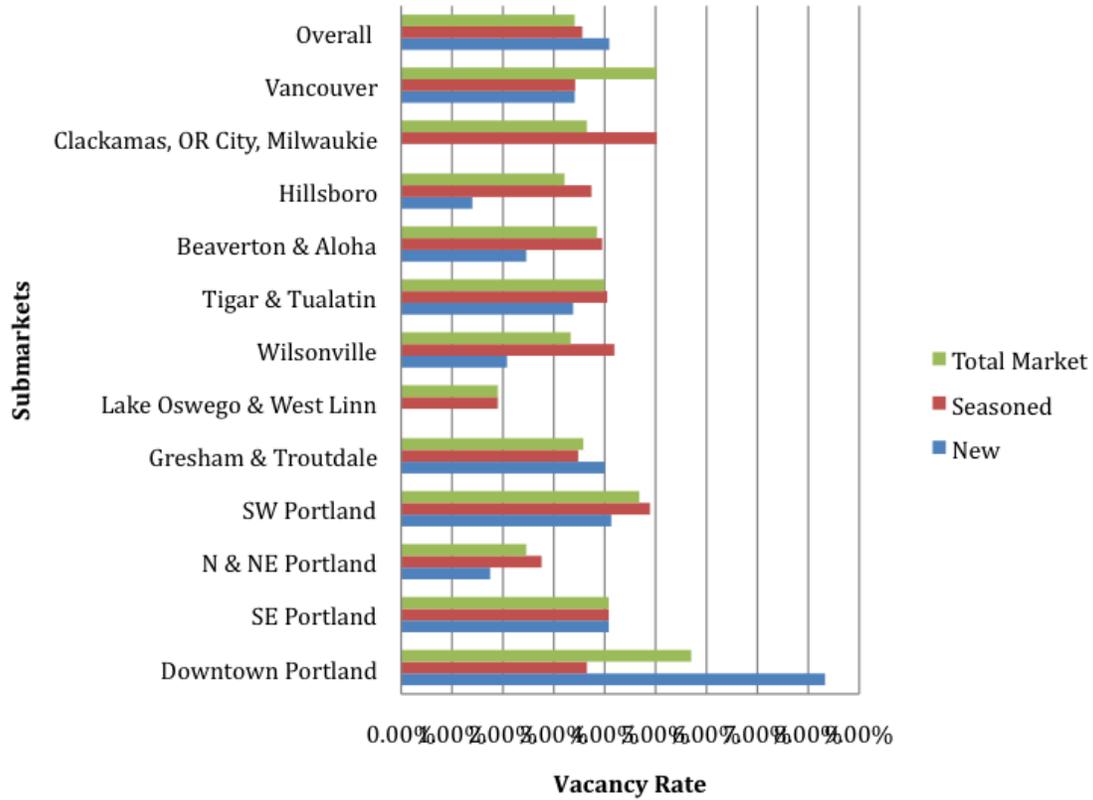
Figure 2: Average rent and price per square foot, 3rd Quarter, 2010, Portland metropolitan area



Source: Norris, Beggs & Simpson

The downtown Portland submarket shows the highest total vacancy rate at 5.7%, while Lake Oswego/West Linn has the lowest submarket vacancy at 1.90%. Downtown Portland has the highest new unit vacancy at 8.33% while Lake Oswego/West Linn have the lowest vacancy rate at 0%. Clackamas, OR City and Milwaukie have the highest vacancy rates for seasoned units at 5.02% while Lake Oswego/West Linn have the lowest at 1.90%.

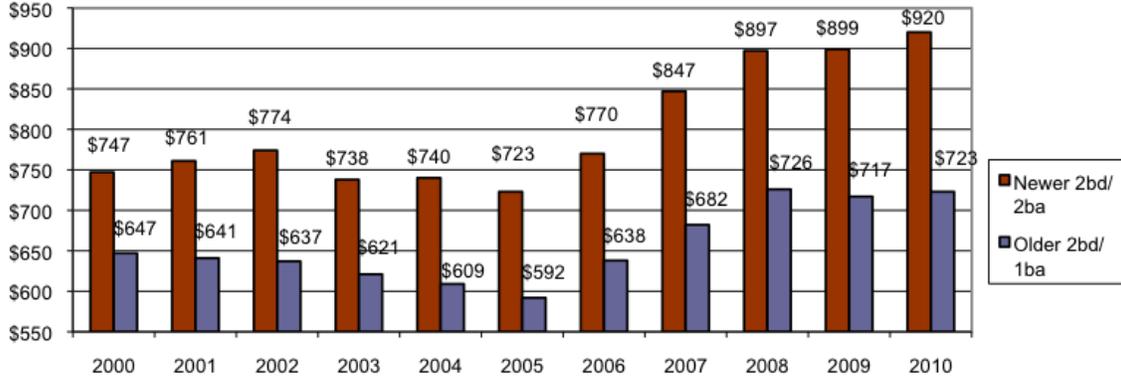
Figure 3: Vacancy rates, 3rd Quarter, 2010, Portland metropolitan area, by submarket



Source: Norris, Beggs & Simpson

The recent Norris & Stevens survey shows asking rents for older two-bedroom/one-bath units to have decreased slightly from 2008 from \$726 to \$723. Asking rents for newer two-bedroom/two bath units have increased slightly over this time period, going from \$897 per month to \$920 per month in 2010.

Figure 4: Average rents, Portland metropolitan area



Source: Norris & Stevens

Norris, Beggs & Simpson’s list of major apartment sale transactions for the 3rd quarter which include four transactions for 100 units. These include the Clackamas Village (372 units) in Clackamas for \$20.7 million, the Twin Creek Apartments (220 units) in Clackamas for \$17 million, Pine Square (127 units) in N/NE Portland for \$6.135 million, and 539 SW 13th Ave. (132 units) in Downtown Portland for close to \$2 million.

Table 1: Major sales transactions, 3rd Quarter, 2010, Portland metropolitan area

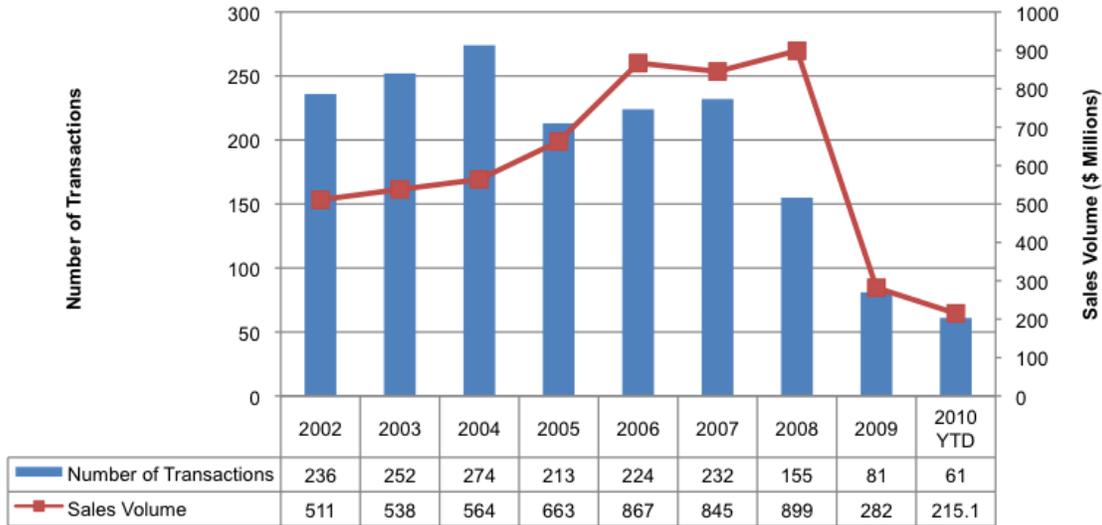
Building	Buyer	Price	Units	Price/Unit	Submarkets
Clackamas Village	The Matteson Companies	\$20,700,000	372	\$55,645	Clackamas
Twin Creek	South Court Properties	\$17,000,000	220	\$77,273	Clackamas
Pine Square	Pine Square Investments, LLC.	\$6,135,000	127	\$48,307	N/NE Portland
Mississippi Avenue Lofts	Winkler Development Corporation	\$5,925,000	32	\$185,156	N/NE Portland
Jeanne Anne	Housing Authority of Portland	\$2,765,000	46	\$60,109	Gresham/Troutdale
Reedville Meadows	Reedville Meadows Apartments, LLC.	\$2,005,000	28	\$71,607	Beaverton/Aloha
539 SW 13th Ave.	DP Alder House, LLC.	\$1,971,660	132	\$14,937	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 year to date is at \$215.1 with only 61 transactions as compared to \$254 million and 77 transactions for 2009. But while YTD 2010 has continued to be a challenge, there has been noticeable improvement in the second and third quarter. Through the first eight months of 2010, there was been 61 apartment sales for \$251.1 while there was a total of 81 sales for \$281.8 million in 2009. 2010 sales volume is off by around 60% from the \$800 million per year average from 2003 to 2008.

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



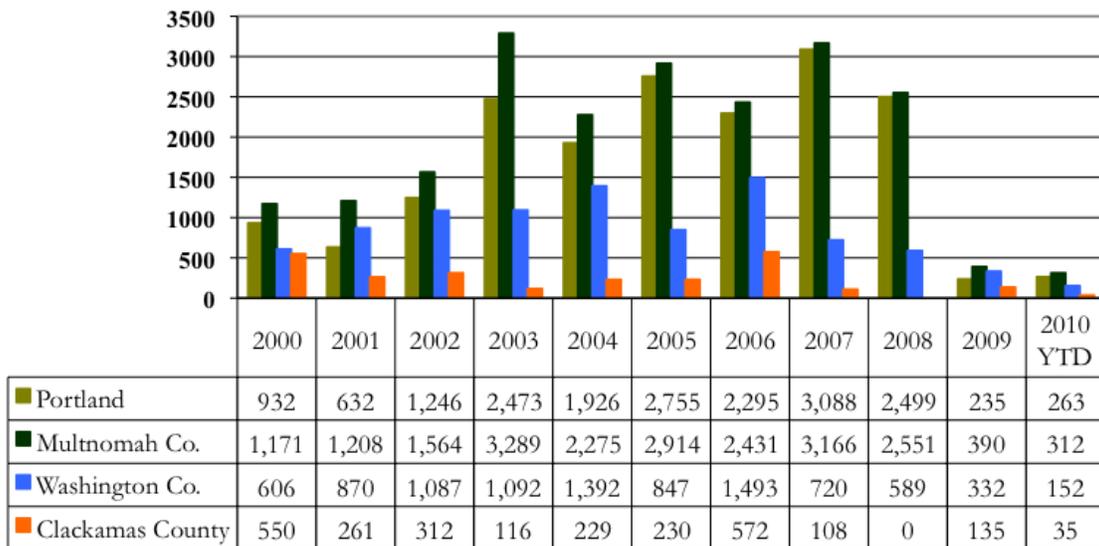
Source: Barry & Barry

Apartment construction has followed a similar trend to multifamily sales with 2010 being the slowest year for apartment construction since the early 1960' s. Permits have been issued for just 460 apartment units in the four county metro areas for 2010 through July vs. an average of around 4,000 units per year for the previous ten years according to Mark Barry and Phillip Barry.

As shown by the graph above, multifamily permits experienced a strong drop-off in 2009 when only 235 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. Based on these numbers, 2010 will be another slow year for apartment construction. Factors contributing to the current void 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 5.1 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



CONDOMINIUM AND ATTACHED MARKET

The number of condominium sales in the Portland metropolitan market is up 17.17% to 348 transactions from 297 transactions in the second quarter of 2010. Suburban East number of transactions is up 47.7% while Suburban East is up 65.4% and Vancouver is up 100% to 74 transactions from 37 transactions. The number of transactions is up annually as well from the third quarter last year for the four submarkets reported with the highest increase in Vancouver at 12.12% followed by Suburban East at 10.26%, Suburban West at 7.21% and Inner PDX at 4.5%.

The Portland metropolitan area’s price per square foot is at \$150, a decrease of 5.3% quarterly and down 15.4% from 2009. The median price per Portland metro condominium unit is \$182,178 down 8.9% from last quarter which was reported at

\$199,999 and down 3.5% from the same time last year, reported at \$188,700. Vancouver, at a price per square foot of \$110, is up 4.5% for the quarter but down 0.5% for the year. Vancouver’s median price per condominium is up to \$25,450 a decrease of 19.1% for the quarter and 1.2% decrease from third quarter 2009.

Recently developments in the attached market include the 88 new townhomes development in Summer Creek subdivision in Tigard by the Pulte Group, Inc. out of Bloomfield Hills, Michigan. While national development firms have tended to stay away from this region, market demand is far outweighing the difficulties of strict development guidelines and many are now seeking to establish a presence in Portland-metro area. While there are interests for new developments, current developers are still resorting to sizeable discounts through biddings to move their units. In late October, thirty more Portland condominiums hit auction block with starting bids at \$165,000 for waterside units that was initially priced at \$840,000.

Figure 7: Number of transactions, condominiums

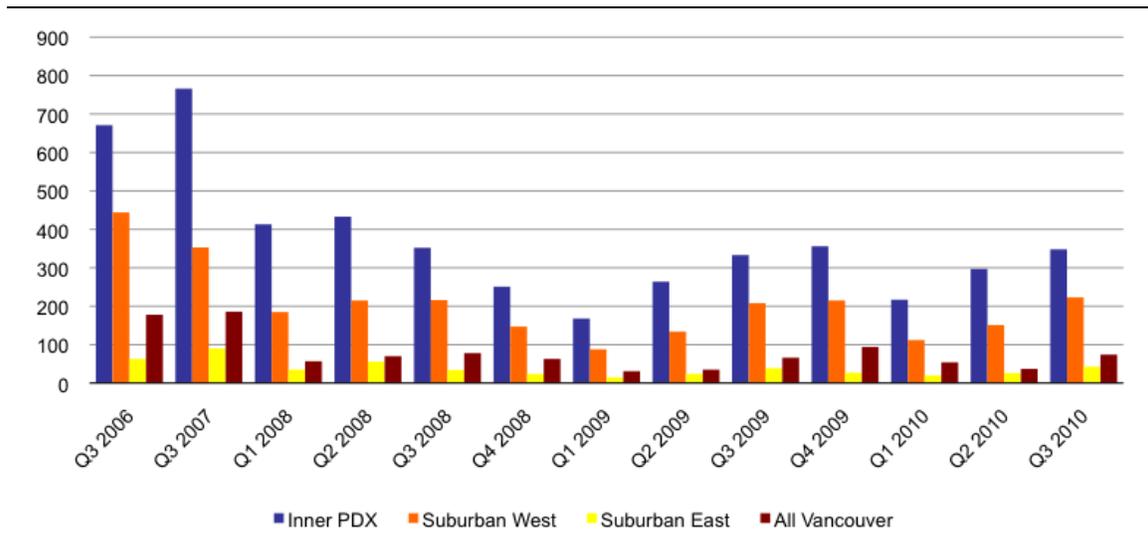
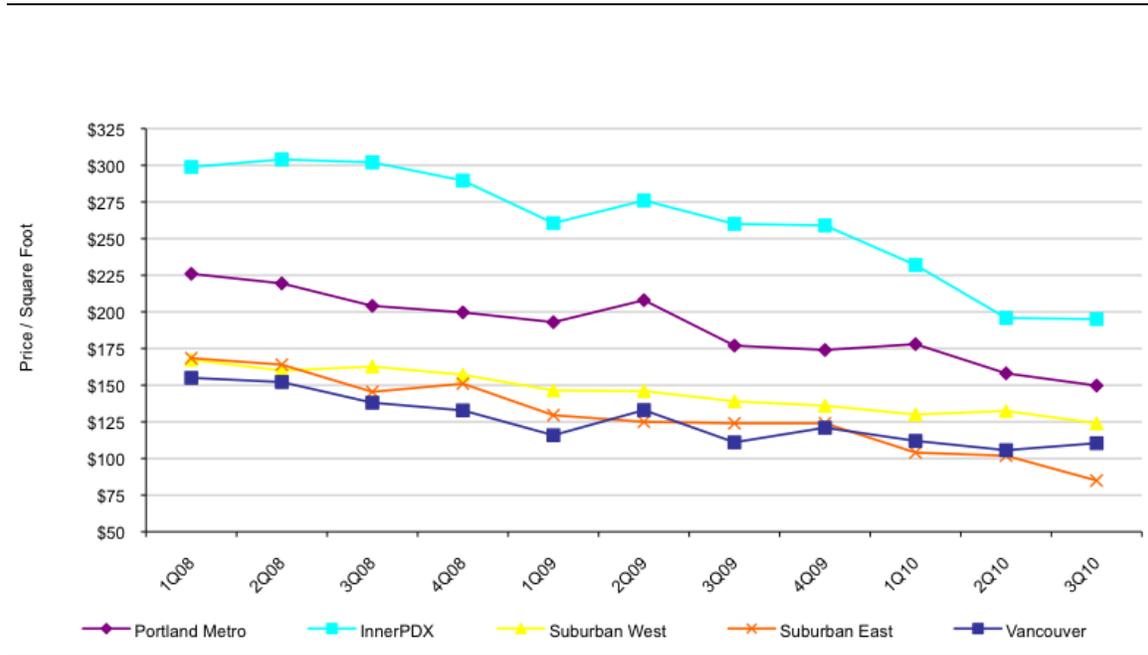


Figure 8: Median price per square foot, condominiums



Results for single-family attached housing are down both quarterly and annually. The number of attached home sales in the Portland metropolitan area decreased 42% from the second quarter to 250 transactions and 37.2% annually from 398 transactions during the third quarter of 2009. The median sale price has decreased 17.8% to \$220,000 from \$267,800 from the second quarter and has increased 0.02% from the same time last year. The Vancouver area number of transactions decreased to 80 from 82 in the second quarter. For Portland metro, the price-per-square-foot is down 5.1% to \$115 and down 12.1% from 2009. Vancouver is at \$98 per square foot, and saw a quarterly decrease of 1.7% and an annual decrease of 11.3%. The median price for attached homes in Vancouver is \$169,900.

Figure 9: Number of transactions, attached single family

