

# Portland Apartment

## Market Forecast



## Highlights

New developments are beginning to come online at an increased pace and demand remains strong.

The market is expected to remain tight through the early months of 2014.

Continuing economic expansion, though slow, will keep the market stable.

Fannie Mae & Freddie Mac to cut back on multifamily loans by 10% in order to spur private sector lending. ■

With multifamily land values in the Portland market pushing owners to sell, there are relatively ample available sites. There are many projects underway and proposed, and increases in employment have helped bolster the rental market. Though rental rates appear to be stabilizing, demand remains healthy. With Intel, Nike, and Oracle announcing expansions this year, the Portland economy is slowly but steadily improving. Unemployment is down to 8% from 8.8% one year ago and is now just 50 basis points above the national average. Leisure & hospitality and professional & business services are both sectors that have shown significant increases in hiring.

Although home prices are on the rise, along with building permits, hiring in the construction industry is lagging. While economists are generally optimistic in their forecasts, higher energy and commodity prices, coupled with uncertainty in the Eurozone, have tempered their positive outlook.

According to the Spring 2013 Portland Multifamily NW Report, over 5,300 units are under construction. This number reflects approximately 3% of total apartment unit stock in the Portland Metro Area. There are over 7,000 units in the planning or proposal stages over the next three years.

The next two years are slated to see a wave of new product come online in the greater Portland area. The apartment sector continues to be a stable and attractive vehicle of investment with year-over-year vacancy rates consistently shrinking and rental rates edging upward.

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# Area Review

## First Half 2013 Transactions

Property	City	# Units	Sale Price	Price/Unit	Year Built	Sale Date	Cap Rate
Rivercrest Meadows Apartments	Tualatin	338	\$46,650,000	\$138,018	1991	Jan-13	confidential
Westbury Apartments	Beaverton	260	\$28,500,000	\$109,615	2004	Jan-13	5.35%
Green Leaf Springs Apartments	Portland	266	\$16,100,000	\$60,526	1973	April-13	confidential
Parklane Apartments	Vancouver	260	\$14,500,000	\$55,769	1978	Mar-13	confidential
Fountain Park Apartments	Beaverton	216	\$14,400,000	\$66,667	1969	Mar-13	5.90%

The ongoing favorable market performance in the apartment sector has been attributed to several demand factors including:

- Changing “rent” vs. “own” psychology, where potential home buyers are remaining in rental properties due to longer term lack of confidence in the home market brought on by the foreclosure crisis.
- Return toward traditional lending regulations with large down payment requirements has postponed many home purchases and will likely keep a portion of the population as renter households.
- Recession has relieved many qualified households of their savings, pushing off home affordability.
- Many younger households prefer the mobility of renting, especially in a slow home sales market.
- Households age 25 to 34 are expected to dominate growth over the next five years and this group is traditionally mostly renters.

These factors point toward continued demand for apartment units over the next few years, especially better quality apartments, given renters are looking at longer stays which justify a flight to quality.

However, the first quarter of 2013 and into the second quarter was the slowest period the market has experienced for a while in terms of transaction volume. Jordan Carter, a Kidder Mathews real estate broker specializing in apartment properties, says the first quarter slowdown can likely be attributed to political considerations and new tax rules. In addition, seller hesitation may be caused, at least partially, by the fear of being unable to find a suitable exchange property or refinance capital at low rates for their current properties. Despite the recent transactional slowdown, the second quarter appears to be gaining momentum and 2013 should remain healthy, with year-end numbers similar to 2012.

General consensus supports the notion that the multifamily market will remain very strong throughout the rest of the year and into early 2014. The outlook beyond 18 months remains positive, but few can say with certainty that the market will duplicate the successes of 2011 and 2012.

In the coming months, issues such as the increase of permit fees and taxes, coupled with rising construction costs and land values, may put a damper on new apartment development. Close-in markets may also see some slight constriction in development, as proposed and recently implemented increases in parking requirements have caused some building permits to be revoked.

### Vacancy Trends

The Spring 2013 Portland Multifamily NW Report conducted a survey of 20 submarkets in the Portland Metropolitan area. Their findings show average vacancy rates that range from 2.5% in the North Portland/St. Johns submarket to 5.4% in the Lake Oswego/West Linn submarket. These figures exemplify the strength of Portland’s market with Hillsboro and Lake Oswego remaining in line with the national average while the Tigard/Tualatin/Sherwood and N Portland/St. Johns submarkets rank among the nation’s lowest. The overall vacancy rate for the market stands at 3.55%.

Vacancy rates generally have an inverse relationship with changes in rent; as vacancy rates increase the rate of rent growth generally decreases.

### Rental Rate Trends

Over the past 12 months the average regional rent on a per square foot basis increased from \$1.00 to \$1.04/sf/month (4.0% increase) in tandem with vacancy falling by 17 basis points. Rental rates have recovered to above prerecession levels and both use and quantity of concessions have decreased, resulting in increasing overall effective rents.

## 2nd Quarter 2013 Portland/Vancouver Metro Area Apartment Market Data (Selected Submarkets)

	# of Properties	Data	All	Fall 2012 Report	Change	Studio	1 Bed/ 1 Bath	2 Bed/ 1 Bath	2 Bed/ 2 Bath	2 Bed/ TownH.	3 Bed/ 1 Bath	3 Bed/ 2 Bath
<b>N Portland/St. Johns</b>												
11		Avg. Vacancy Rate %	2.50	3.54	-29.38%	-	3.21	2.04	-	-	0	-
		Avg. Rent/SF	1.13	0.97	0.16	-	1.34	0.96	-	-	1.04	-
		Avg. Rent/Unit Type				-	\$751	\$778	-	-	\$936	-
		Sum of Units Surveyed	360	396		0	156	196	0	0	8	0
<b>Downtown Portland</b>												
27		Avg. Vacancy Rate %	3.42	3.31	3.32%	3.34	3.16	5.6	3.54	0	0	-
		Avg. Rent/SF	1.88	1.68	0.20	1.94	1.96	1.55	1.43	1.47	1.06	-
		Avg. Rent/Unit Type				\$704	\$1,117	\$1,301	\$1,656	\$1,730	\$1,170	-
		Sum of Units Surveyed	1,756	1,612		659	824	144	113	5	11	0
<b>Inner &amp; Central SE</b>												
150		Avg. Vacancy Rate %	2.85	2.29	24.45%	5.02	2.72	3.0	1.47	1.27	3.51	0.00
		Avg. Rent/SF	1.17	1.23	-0.06	1.86	1.24	1.01	1.04	1.01	0.87	0.93
		Avg. Rent/Unit Type				\$626	\$791	\$884	\$1,056	\$929	\$1,023	\$1,025
		Sum of Units Surveyed	2,669	2,533		219	1,102	978	135	158	57	20
<b>Inner &amp; Central NE</b>												
91		Avg. Vacancy Rate %	3.89	2.58	50.78%	5.30	3.60	5.26	1.92	0	5.26	0.00
		Avg. Rent/SF	1.19	1.1	0.06	1.59	1.23	0.97	1.41	1.06	0.90	0.69
		Avg. Rent/Unit Type				\$711	\$797	\$873	\$1,439	\$884	\$1,041	\$786
		Sum of Units Surveyed	1,772	2,342		151	1,056	399	52	57	19	38
<b>NW Portland</b>												
47		Avg. Vacancy Rate %	3.34	4.42	-24.43%	3.62	2.47	2.77	4.69	3.79	0	5.43
		Avg. Rent/SF	1.37	1.50	-0.13	1.90	1.44	1.11	1.25	1.09	0.94	1.1
		Avg. Rent/Unit Type				\$994	\$1,065	\$1,037	\$1,355	\$1,212	\$902	\$1,443
		Sum of Units Surveyed	3,799	4,325		469	1,541	542	853	132	41	221
<b>SW Portland</b>												
29		Avg. Vacancy Rate %	2.83	3.30	-14.24%	1.52	2.78	2.79	1.60	6.1	3.33	3.82
		Avg. Rent/SF	1.06	1.01	0.05	1.59	1.18	0.93	1.07	0.9	0.81	0.89
		Avg. Rent/Unit Type				\$667	\$725	\$770	\$984	\$810	\$862	\$1,068
		Sum of Units Surveyed	1,414	1,547		66	504	430	187	66	30	131
<b>Total Average Market Vacancy Rate</b>			3.55	3.63	-2.20%	3.57	3.20	3.58	3.66	3.29	3.64	4.66
<b>Total Average Rent/SF</b>			1.04	1.03	0.01	1.74	1.17	0.91	0.94	0.89	0.84	0.89
<b>Total Average Rent/Unit Type</b>						\$740	\$784	\$798	\$949	\$902	\$888	\$1,062
<b>Total Sum of Properties Surveyed</b>			722	774		133	583	513	200	100	102	161
<b>Total Sum of Units Surveyed</b>			45,515	48,691		1,991	14,835	12,193	10,423	2,008	655	3,410

SOURCE: SPRING 2013 MULTIFAMILY NW REPORT

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At \$1.88/sf, rents in downtown Portland are \$0.51 higher than in the neighboring Northwest district, a near 12% increase over Fall 2012. Close-in submarkets remain at the upper end of the range. Meanwhile Oregon City, Troutdale/Gresham, East Vancouver and the outlying communities of the eastern metro area have average asking rates below \$0.90/sf.

#### Investment Trends

Thus far in 2013, the average market capitalization rate for a sold multifamily project stands at 6.71%, based on CoStar data. Private lending is easing up with interest rates between 3.75% to 4.5% and 70% to 80% LTV. Government sponsored enterprises (GSE's) Fannie Mae and Freddie Mac, however, have been instructed to reduce their multifamily lending by 10% this year to help continue this increased private lending activity. Funding through HUD is also projected to end during the third quarter of this year unless additional funding from Congress becomes available.

#### New Development

In addition to close-in projects, the suburbs are getting a multifamily makeover. Significant development by Holland is underway with more in the pipeline in Hillsboro as they look to piggy-back off Intel's expansions. Platform 14 at Orenco Station opened last November with 191 units. Tessera Apartments is in the midst of construction and will total 304 units. The Platform District at Orenco, a proposed \$120 million mixed-use development, recently passed a major hurdle with the approval of a development agreement by the City of Hillsboro. The project will be phased in with hopes that the first two buildings will open by late 2014 or early 2015. The project is proposed to include 894 residential units with almost 25,000 sf of retail space. It will be located on Orenco Station Pkwy next to the light rail station on Portland MAX's new Westside light rail line and is scheduled to break ground in August of this year. Coupled with a 45-unit affordable senior housing

center and REACH Community Development's proposed 160 units of low-income housing, 1,279 units are expected at Orenco Station in the coming years.

Other projects include:

- Art House (north park blocks), student apartments (50 units) – under construction – completion scheduled for Fall 2013
- Cook Street Apartments, market rate (206 units) – North Portland – construction scheduled to start Fall 2013
- Medena, student housing (25 units) – Barbur Blvd – under construction
- Grant Park Village, market rate (220 units) – North Portland – construction scheduled to start June 2013
- Mason Williams, market rate apartments (76 units) – North Williams – construction scheduled to start June 2013
- Burnside Bridgehead Block 67, (250 units) – Central Eastside – construction start anticipated late 2013/early 2014
- Park, Retrofit, affordable (140 units) - downtown – construction scheduled to complete August 2013
- Lexington, Retrofit, affordable (25 units) – downtown – construction scheduled to complete August 2013

#### Summary

The regional apartment market appears to be reaching the pinnacle of its ascendant phase of the real estate cycle. The general long-term outlook for the Portland Metro area continues to be better than most markets nationwide and it's expected the peak may be more of a plateau. Rental rates have returned to historic highs and use of concessions is minimal in most markets. In response, new development has ramped up. Although vacancy has remained at very low levels for the past two years, accelerating future apartment deliveries should begin to put upward pressure on the market vacancy.