

Portland Apartment

Market Forecast

		Projection
Construction	6,500 units	↑
Rental Rate	\$1.16/sf*	↑
Cap Rate Trends	flat	↔
Concessions	almost none	↓

* all ages and classes

Highlights

The Portland Metro area has 6,500 units currently under construction and 14,000 units proposed.

With a vacancy rate at 3.46%, the Portland market ranks among national leaders.

The forecast is for capitalization rates to remain stable and rental rate growth to continue to increase but at a slower pace given an increase in available units.

Investor demand remains strong due to low interest rates and favorable rent growth.

Supply of for sale properties remains low due to excellent landlord market conditions, favorable refinancing terms and perceived lack of 1031 exchange properties available for sale. ■

The apartment market has been on the upswing for several years, with its construction, sales, and rent growth continuing to outshine other real estate sectors.

The Metro area vacancy rate stands at 3.46% and rental rates have continued to increase. In 2013, there were more apartment permits issued in the Portland metro area than at any time since the 1990s. This deluge of new product is expected to bump vacancy up slightly, but strong rental rate growth and investor appetite for multifamily properties should keep values strong throughout the year.

Vacancy & Market Trends

The Spring 2014 Portland Multifamily NW Report conducted a survey of 20 submarkets in the Portland Metropolitan Area. The N Portland/St. Johns submarket recently surpassed the Close-In Southeast submarket for the lowest vacancy rate in the market, currently at 2.3%. The Tigard/Tualatin/Sherwood submarket has the highest vacancy rate, currently at 4.37%.

The overall Portland market average vacancy rate is 3.46%, which reflects a 35 basis point (11.25%) increase since the Fall 2013 Multifamily NW Report was released. However, this reflects a decrease of 2.6% since one year ago when the market average was 3.55%.

As home prices continue to escalate, many would-be purchasers remain in the renter pool. Other factors impacting the local apartment market include the apparent durability of a changed “rent” vs. “own” psychology, due to more transitory lifestyles and residual lack of confidence in the housing market. Household creation will peak in the 25 to 34 age bracket over the next five years and this group is traditionally mostly renters. The 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

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Area Review

2nd Quarter 2014 Portland/Vancouver Metro Area Apartment Market Data

	Spring 2014 Report	Fall 2013 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
Total Average Market Vacancy Rate	3.46%	3.11%	11.25%	3.90%	3.51%	2.71%	4.00%	3.25%	2.86	4.06%
Total Average Rent/SF	\$1.16	\$1.10	\$0.06	\$1.88	\$1.32	\$0.98	\$1.06	\$0.94	\$0.89	\$0.97
Total Average Rent/Unit Type				\$914	\$898	\$852	\$1,068	\$966	\$943	\$1,161
Total Sum of Properties Surveyed	694	757		160	565	478	203	115	103	166
Total Sum of Units Surveyed	49,371	54,203		2,873	16,499	12,256	11,322	2,428	782	3,211

SOURCE: SPRING 2014 MULTIFAMILY NW APARTMENT REPORT.

households. Finally, a lack of affordable condominium inventory in the neighborhoods most desirable to many of the potential entry-level buyers has spurred close-in development in the market. These factors point toward continued demand for apartment units over the next few years.

Rental Trends

Average asking rents in the Portland Metro Area have risen by 11% in the last year. At \$1.93/s.f., rents in downtown Portland are \$0.16 higher than in the neighboring Northwest district. The average rental rate in the market is \$1.16 per s.f.

Rental rates are expected to continue to escalate over the next year, though the general consensus based on market participant interviews is that there is not a lot of room for additional rental rate growth. Looking forward, it is expected that NOI revenue growth will come at least in part from the institution of bill-back programs and the elimination of tenant incentive concessions.

In general, Class A properties are experiencing the highest vacancy while Class C have the lowest vacancy. Apartment demand is expected to decelerate through 2015, but Red Capital Group predicts vacancy will fall to 3% in 2016 and possibly lower in 2017.

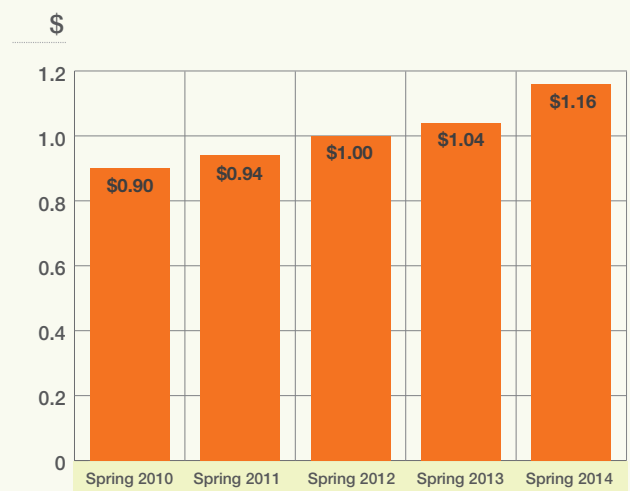
Expense Trends

Property taxes continue to increase, especially in Multnomah County. On a brighter note, the proposed Portland City Street tax was pushed off. If approved, it would have affected multifamily properties at a cost of nearly \$5 per unit

Metro Area Historical Vacancy Rates

Spring 2014	3.5%
2013	3.1%
2012	3.7%
2011	3.6%
2010	4.5%
2009	5.6%

Apartment Average Quarterly Rent Per SF



Significant First Half 2014 Transactions

Property	City	# Units	Sale Price	Price/Unit	Sale Date	Cap Rate
One Jefferson Parkway	Lake Oswego	347	\$63,000,000	\$181,556	Jun-14	5.25%
Tupelo Alley	Portland	188	\$53,000,000	\$281,915	Feb-14	4.40%
Green Leaf Monterey	Portland	390	\$51,250,000	\$131,410	Apr-14	5.96%
Vista @ 23	Gresham	278	\$27,000,000	\$97,122	Mar-14	6.80%
The Gables at Mountain Park	Lake Oswego	129	\$19,500,000	\$151,163	Jan-14	5.50%
Beef Bend Court	Tigard	120	\$13,100,000	\$109,167	Apr-14	6.00%

(appearing on City's water and sewer bill). Gas and electricity expenses have remained relatively constant.

Current Inventory/Supply

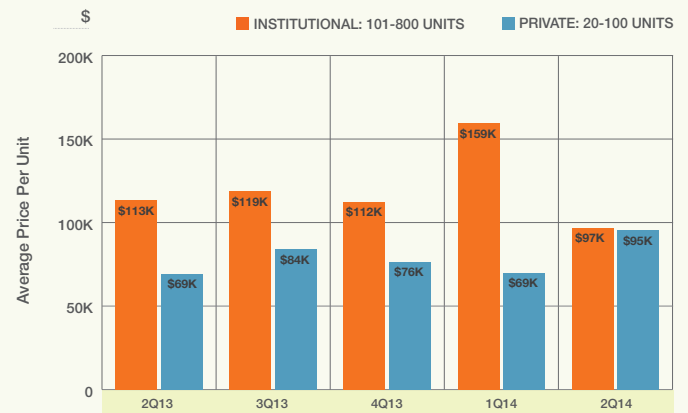
According to REIS, Portland renters absorbed 984 units in 2013, the highest in three years. According to the Barry Apartment Market Report, the Portland market has a current shortage of about 4,000 apartment units. There are 6,500 units currently under construction with 14,000 units proposed in 125 projects. Completion is expected on around 12,000 to 14,000 new units in 2014 and 2015, which should place some upward pressure on vacancy rates toward the end of 2015. Development is greatest in the Close-In and Outer Westside areas. The most significant development under construction in the market is Hassalo on 8th in the Lloyd District of NE Portland, which will deliver 657 new units in 2015.

Investment Activity

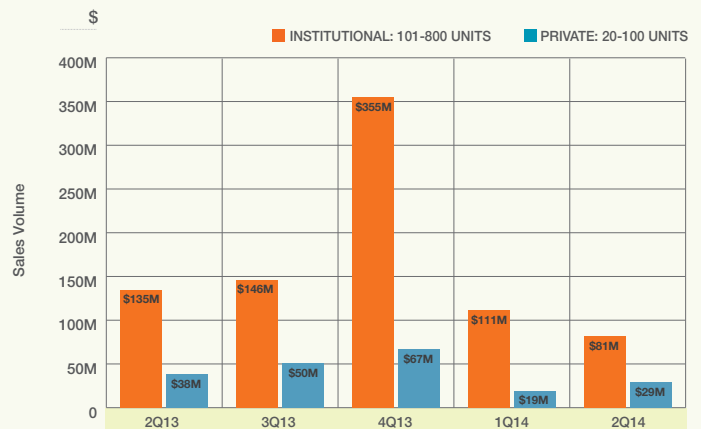
Institutional sales dollar volume is naturally higher than private investment sales, however, there are typically more private investor transactions. Most of the sales activity has been in the \$1 to \$4 million range. Sales volume is down by historic benchmarks, primarily because investors are less willing to sell given a lack of properties to buy in 1031 exchanges.

Institutional sales are still in the 5% capitalization rate range, but going lower than 5% in this market can make less financial sense as there are ceilings to rental

Apartment Average Quarterly Price Per Unit



Apartment Quarterly Sales Volume



Offices

- Seattle
206.296.9600
- Bellevue
425.454.7040
- South Seattle
206.248.7300
- Tacoma
253.722.1400
- Olympia
360.705.2800
- Portland
503.221.9900
- San Francisco
415.229.8888
- Redwood Shores
650.769.3600
- Silicon Valley
408.970.9400

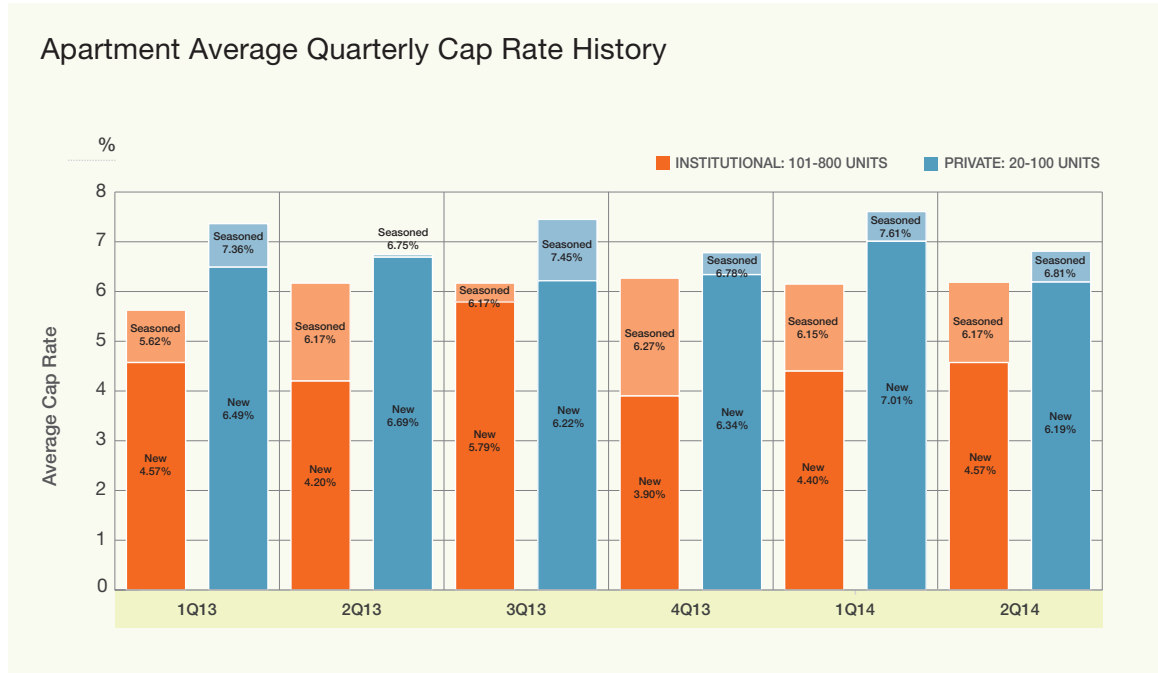
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Apartment Average Quarterly Cap Rate History



rate growth due to the local economy. Capitalization rates in the market have not changed dramatically year-over-year. They generally range from 4.5% to 7.0%, with newer, close-in properties forming the low end of the range and older, outlying properties forming the high end.

Apartments remain the easiest property type on which to obtain financing. Demand is strong across all property sizes and ages. Investors still prefer the westside to the eastside of Portland.

While the apartment market remains strong, there is some concern about a potential over-supply as we move into 2016 and 2017 if new construction continues at its current pace. This is a controversial issue and is largely dependent on the housing market and the local economy.

Summary

The Portland metro area continues to be a top U.S. rental market. While there is a significant amount of multifamily development under construction, planned, and proposed, there is still a general lack of newer good quality multifamily properties in some suburban areas such as Clark County.

Look for capitalization rates to remain stable and rental rate growth to slow given an increase in available units. With that said, expect demand to remain strong through 2014 and into 2015 as apartments continue to be the darlings of real estate.