

# Rental Housing Alliance

Portland Metro Apartment Market

May 17, 2017

Patrick O. Barry

Apartment Appraisal Specialist

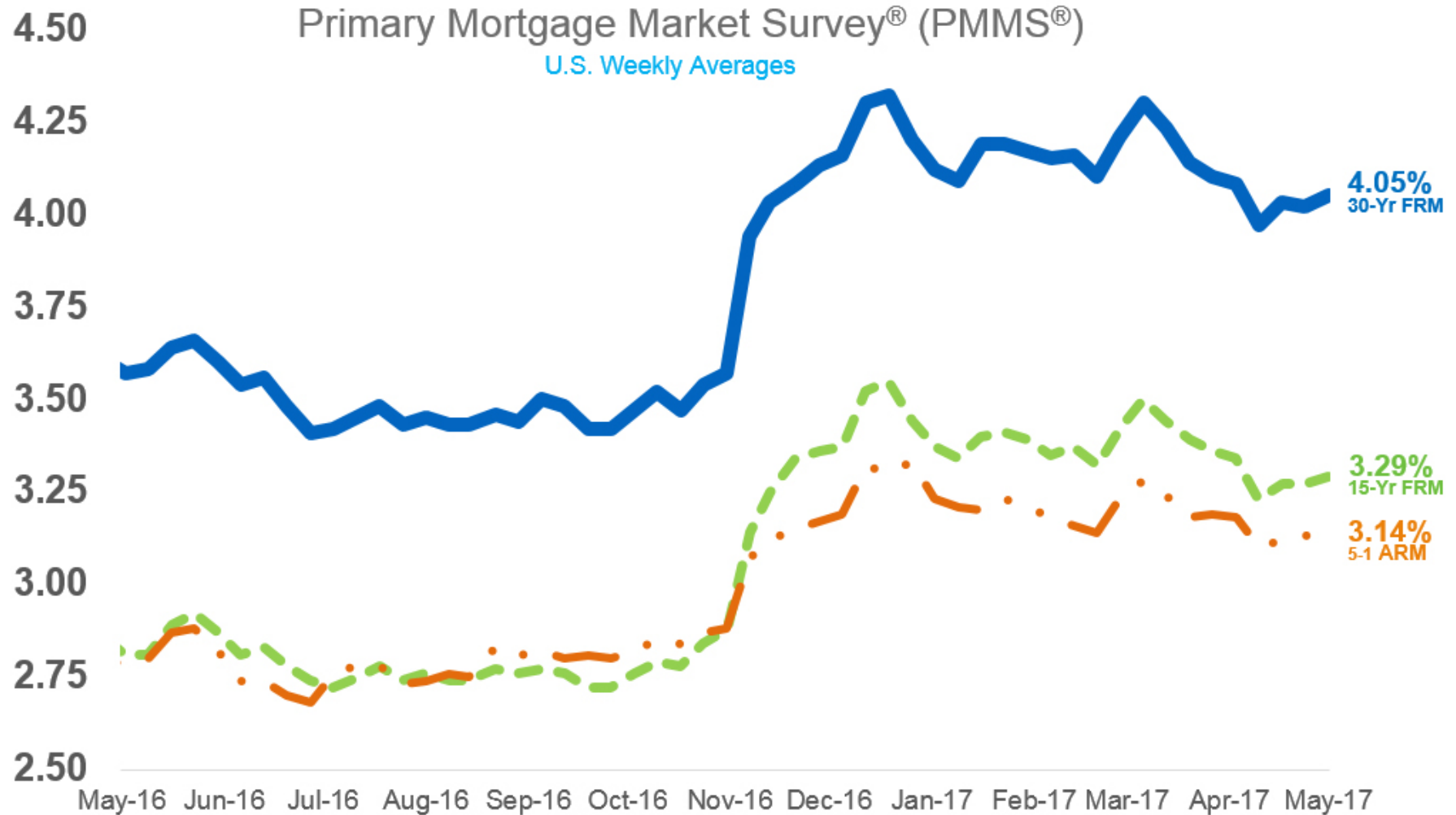
[pb@barryapartmentreport.com](mailto:pb@barryapartmentreport.com)

# Topics Covered

## Portland Metro Apartment Market

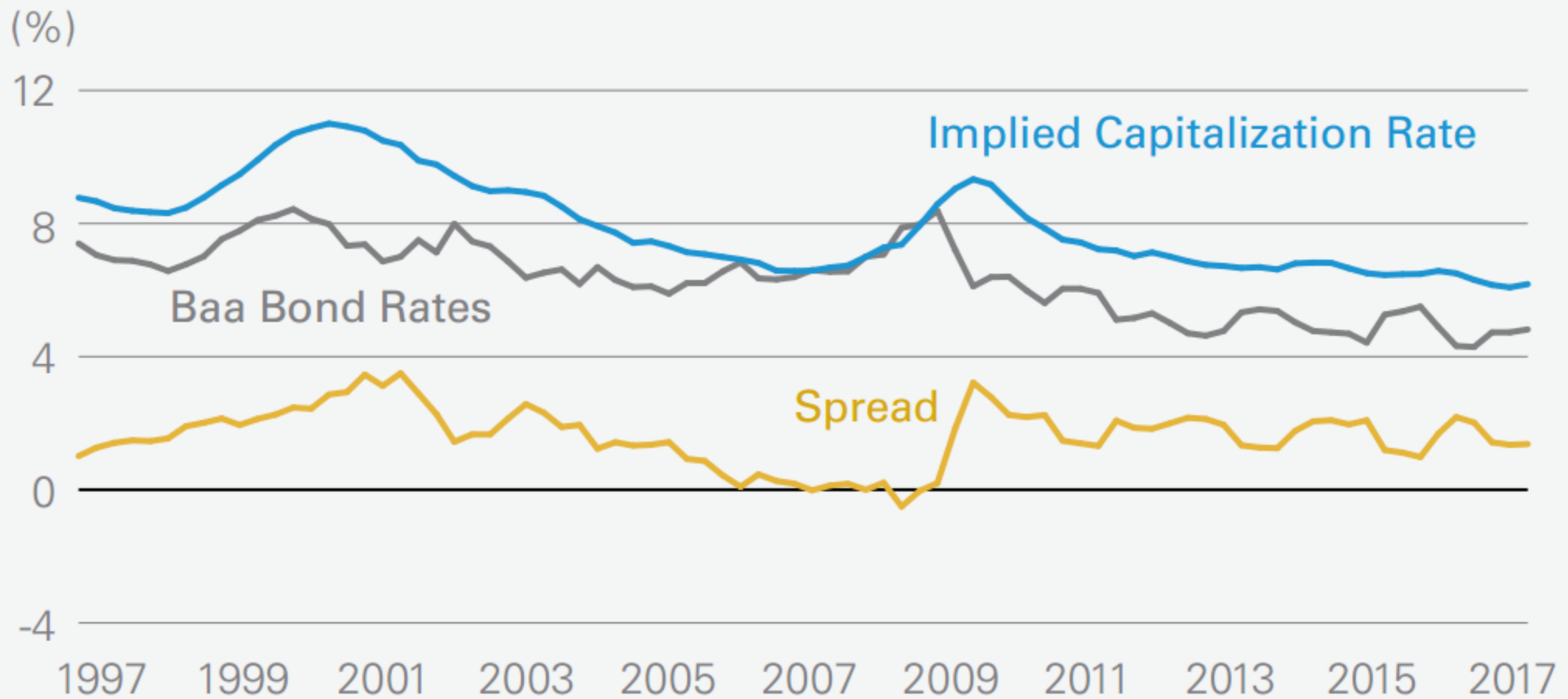
- Economic, Political, & Social Trends
  - Interest Rates, Employment, Home Ownership Ratio, Apt Construction, Rent Control, Inclusionary Zoning, Parking
- Vacancies
- Rents
- Income
- Apartment Sales Volume
- Apartment Values
- Trends for 2017

# 30-Year Fixed Rate Mortgage -Average in the US for the Week Ending May 11, 2017



As of May 11, 2017

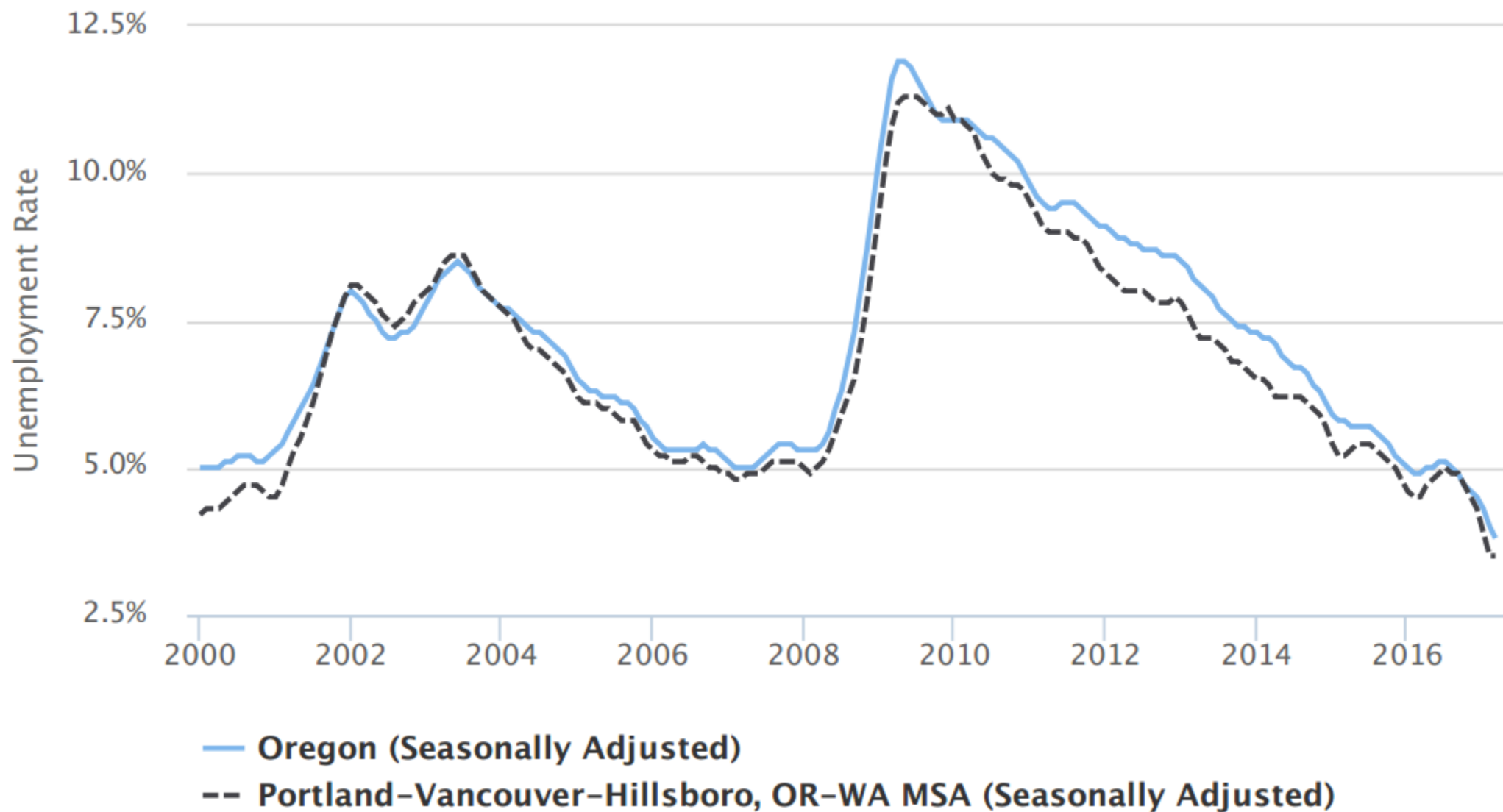
# REIT-Implied Capitalization Rate Spread to Baa-Rated Bonds



As of 30 April 2017

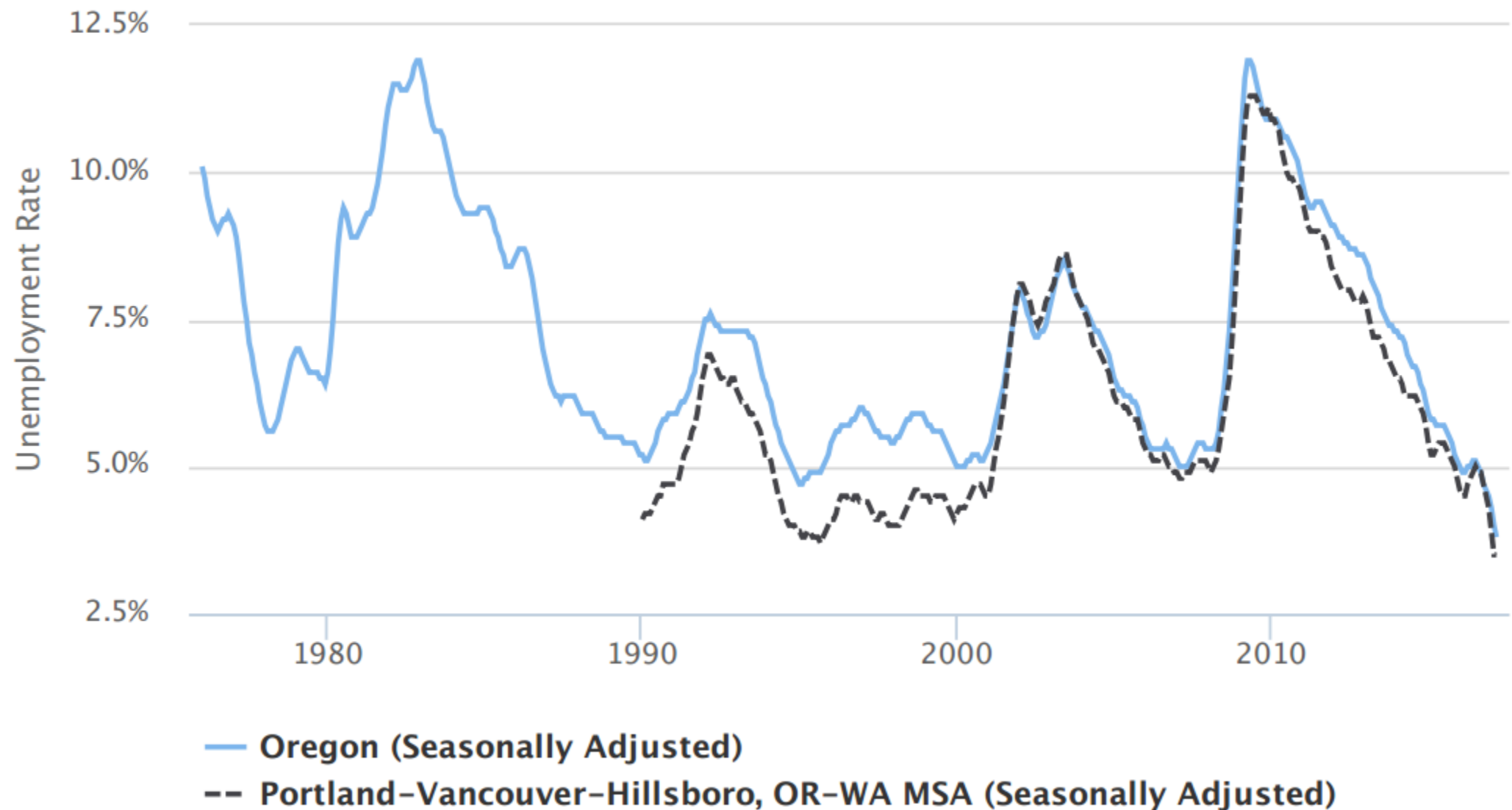
# Local Area Unemployment Statistics

(Unemployment Rate)



# Local Area Unemployment Statistics

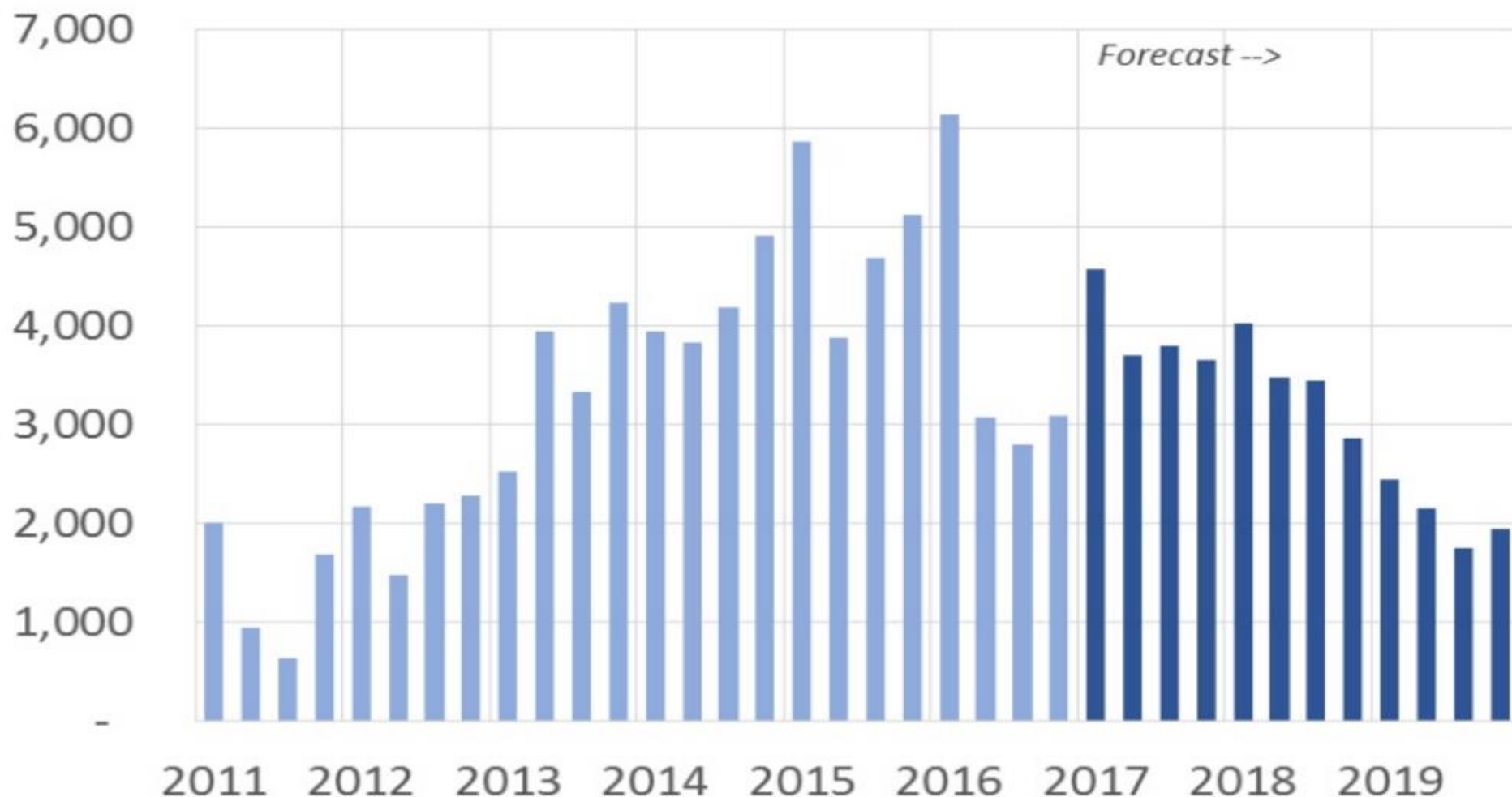
(Unemployment Rate)





# Economic Outlook

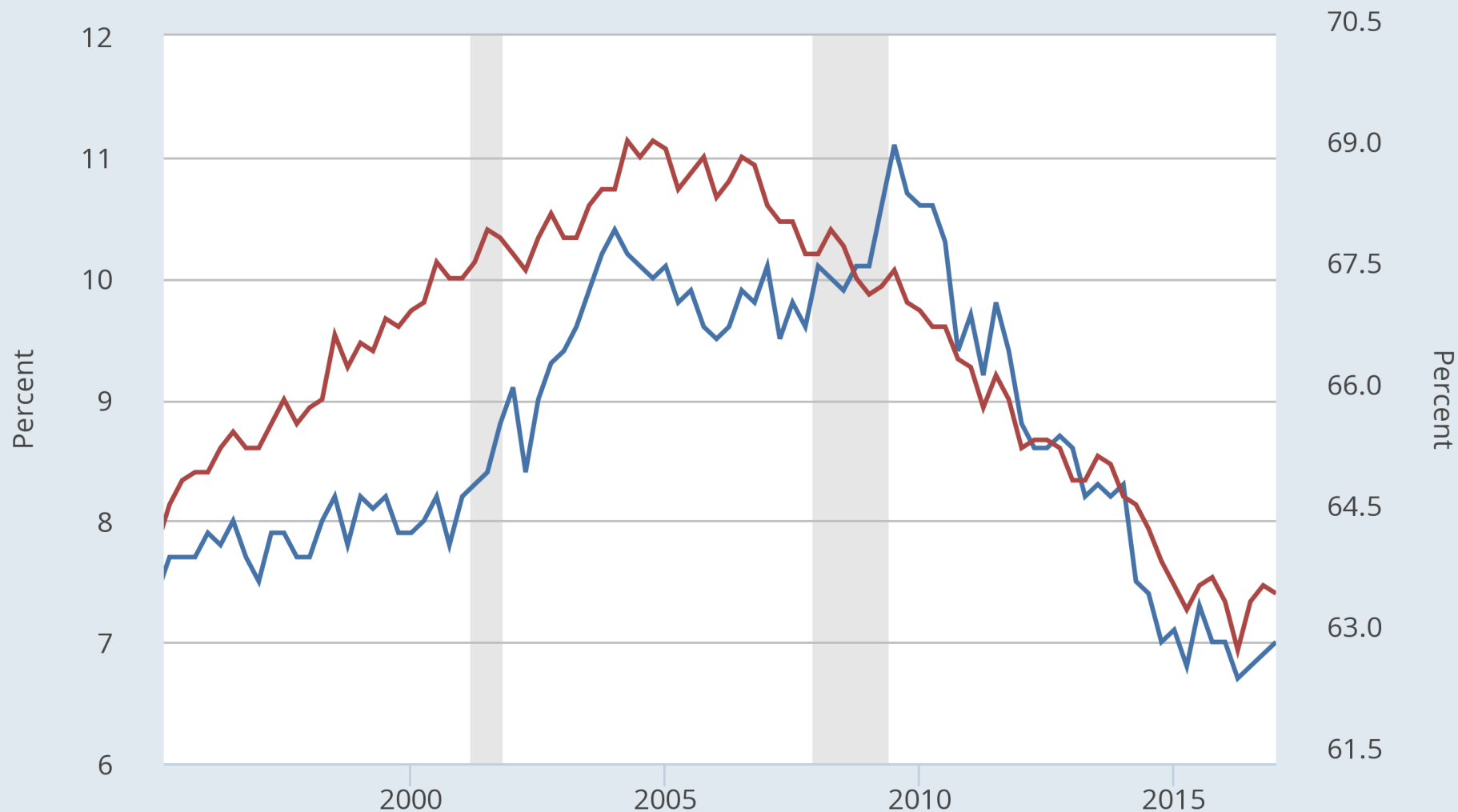
## Oregon Jobs Per Month



# 2016 ULI Report – US Markets to Watch: Overall Real Estate Prospects

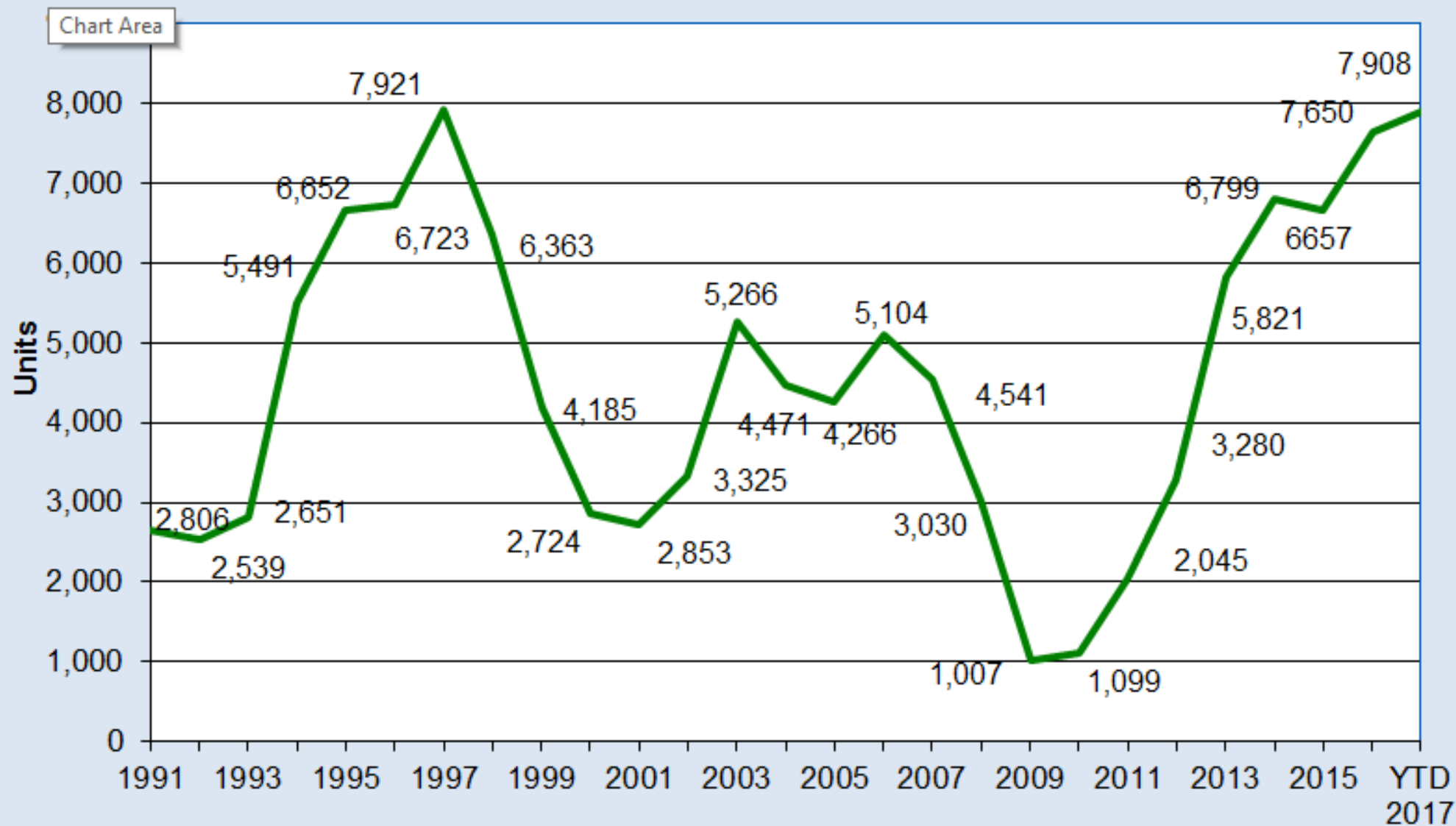
	Investment	Development
1 Austin (3, 1)	3.76	3.61
2 Dallas/Fort Worth (1, 5)	3.78	3.52
3 Portland, OR (8, 2)	3.69	3.59
4 Seattle (2, 8)	3.77	3.49
5 Los Angeles (6, 6)	3.71	3.52
6 Nashville (9, 3)	3.67	3.55
7 Raleigh/Durham (13, 4)	3.65	3.53
8 Orange County (5, 10)	3.73	3.45
9 Charlotte (12, 7)	3.65	3.52
10 San Francisco (7, 13)	3.70	3.45

— Rental Vacancy Rate for the United States (left)  
 — Homeownership Rate for the United States (right)



Year	Portland Homeownership Rate (%)
2014	59.5
2015	61.1
2016	61.8

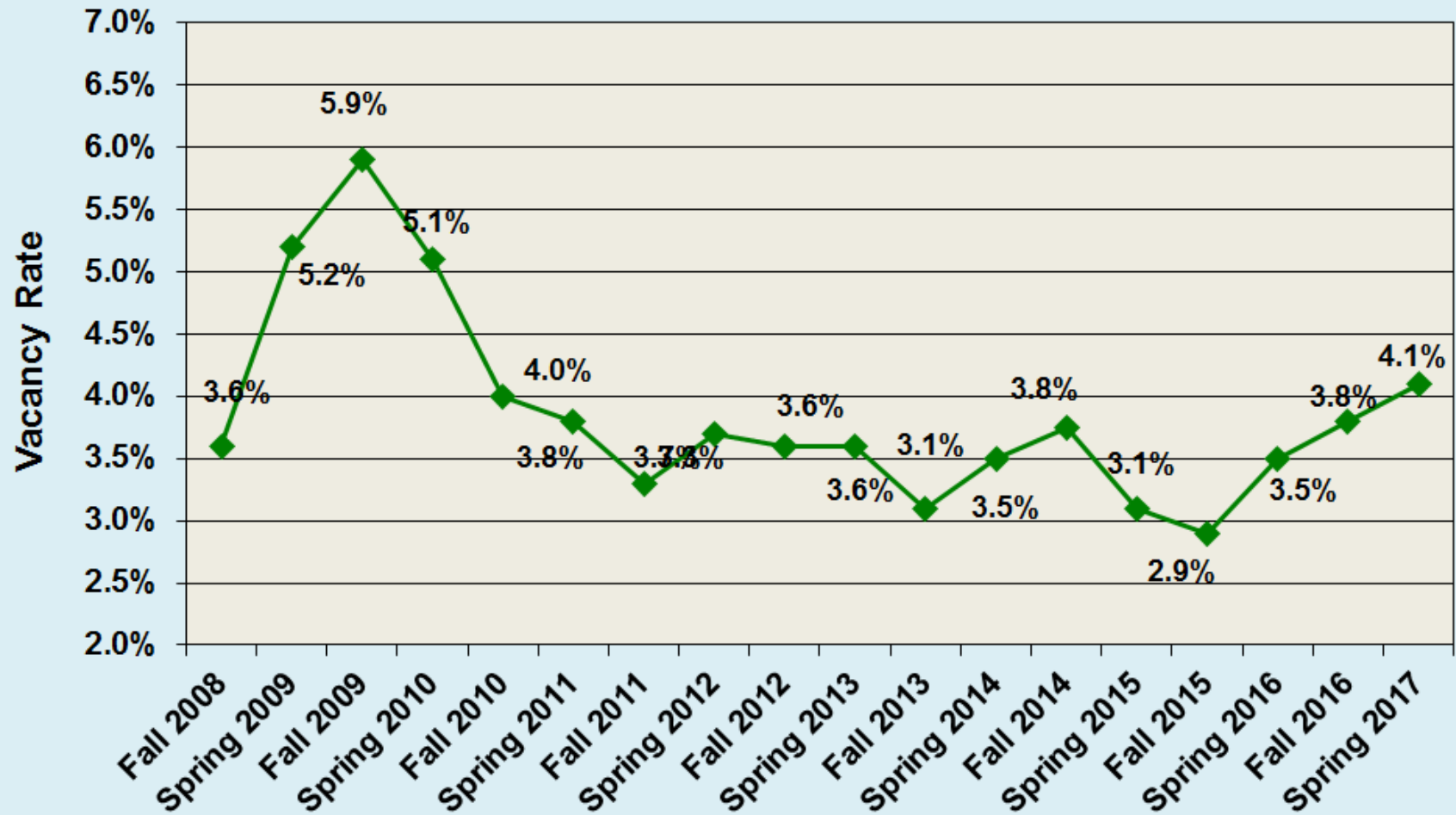
# Apartment Permits 1991 - YTD 2017 Annualized Four County Metro Area



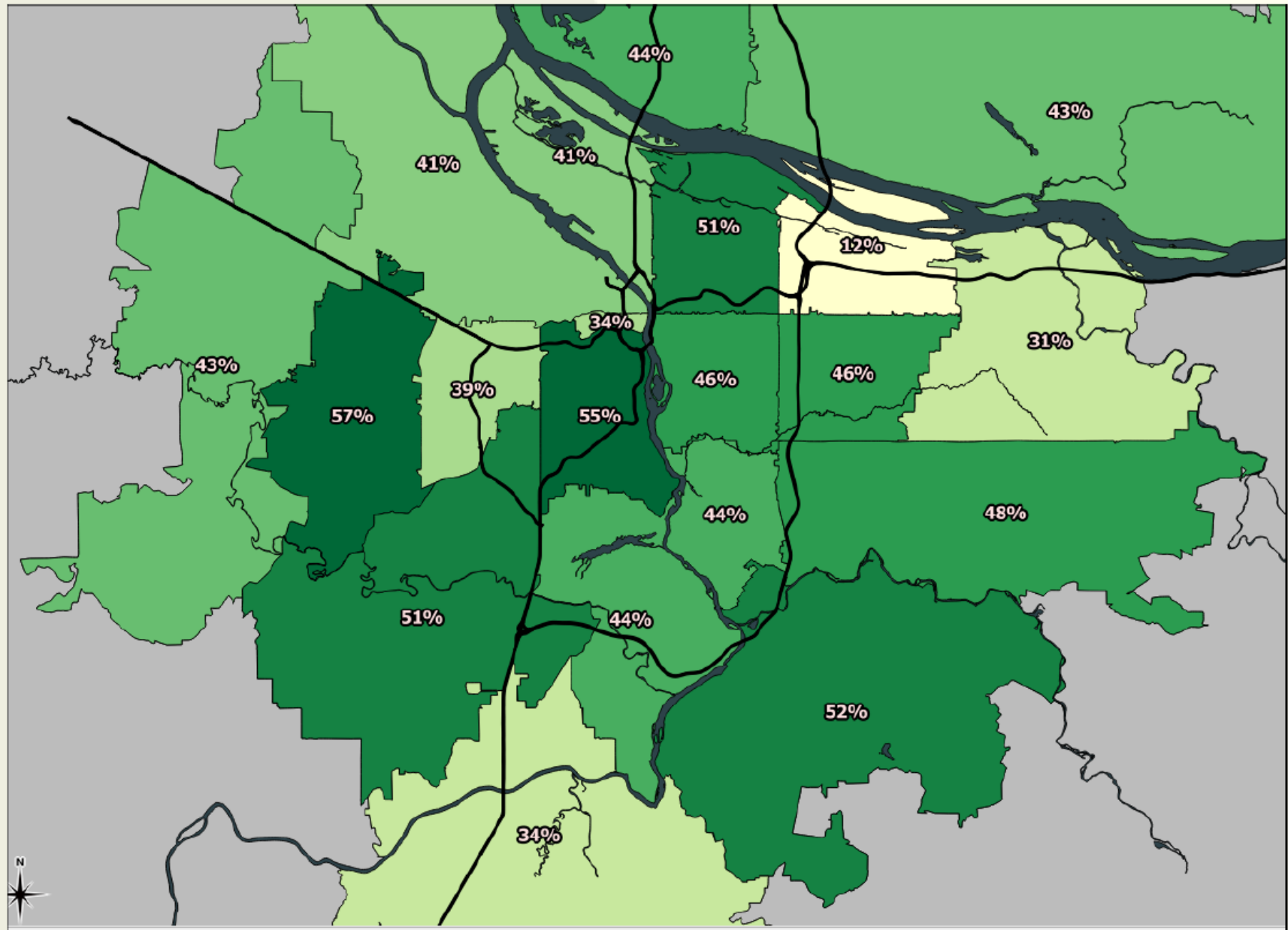
Source: US Census Bureau Building Permits Database

# Portland Metro Apartment Vacancy Rates 2007 to Spring 2017

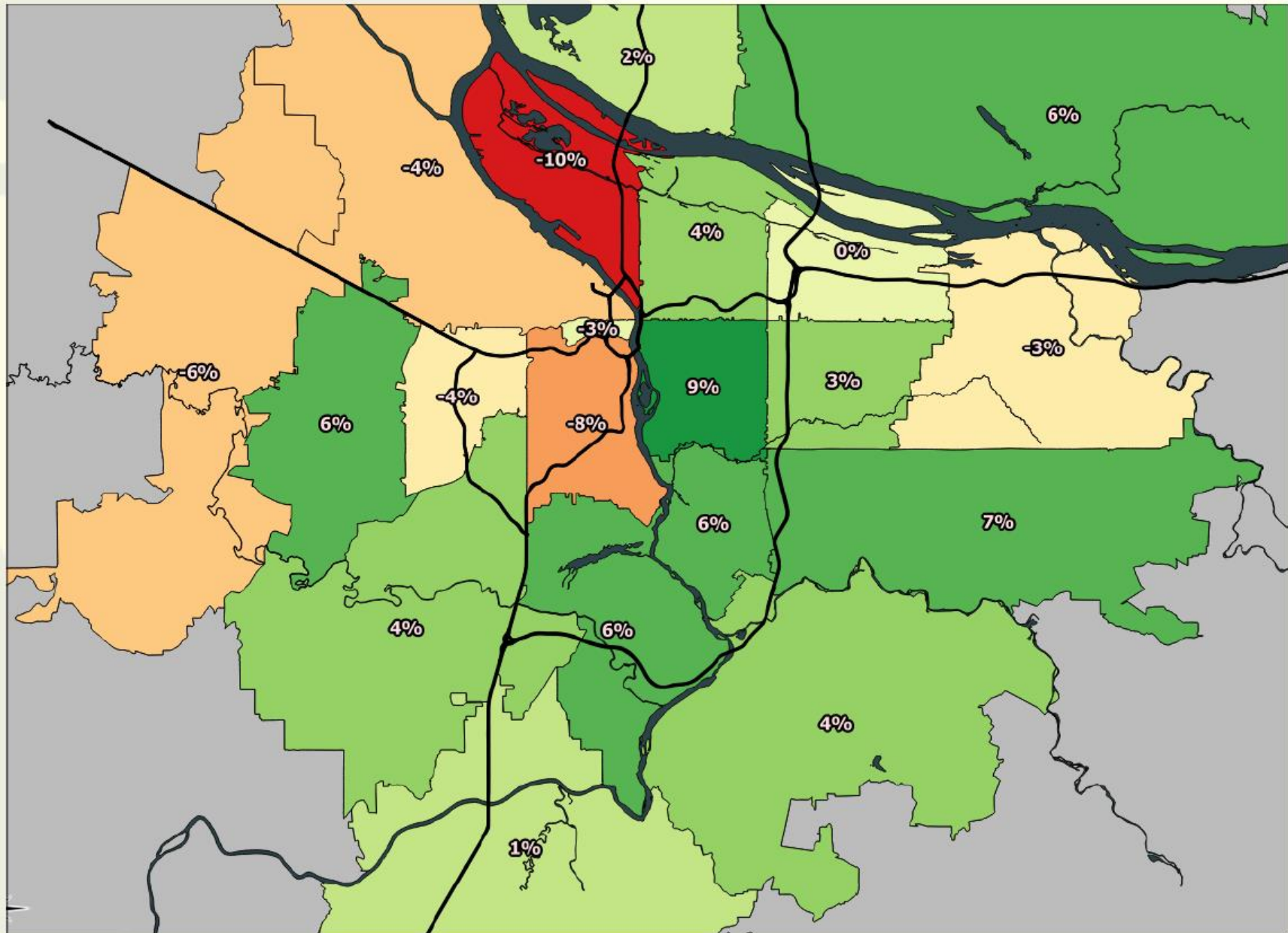
Portland Metro Vacancy Rates 2008 - YTD 2017  
(Multifamily Northwest)



# RENT GROWTH – LAST FIVE YEARS



# RENT GROWTH – LAST 6 MONTHS



# Multifamily NW Spring 2017 Report

## ■ Lowest Vacancies

- Downtown, N Portland, Wilsonville, Tigard/Tualatin, East Vancouver

## ■ Highest Vacancies

- NW PDX, Oregon City, Aloha

## ■ Highest Rents

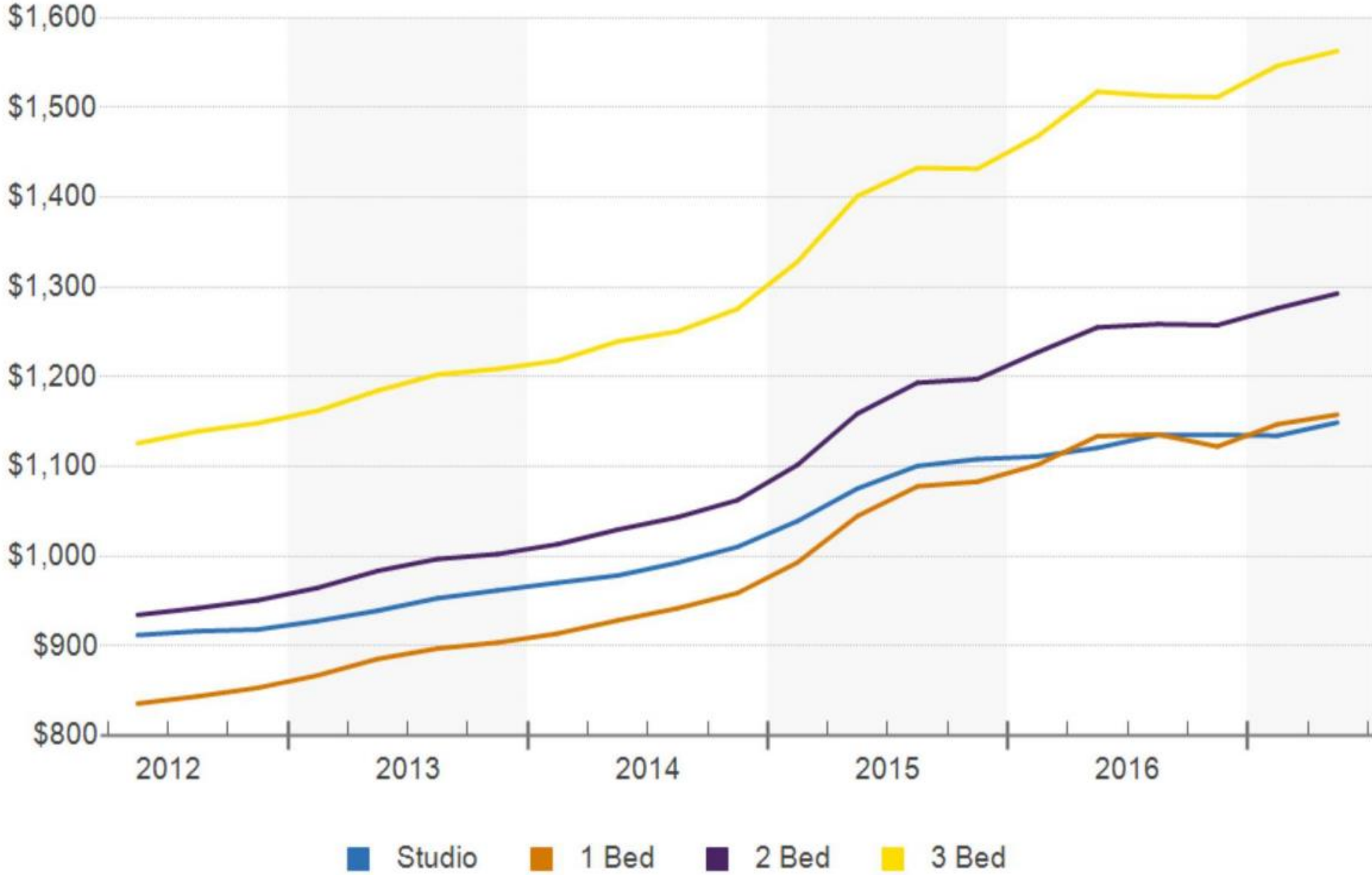
- Downtown PDX at \$2.23/Sq. Ft.

## ■ Lowest Rents

- Outer NE PDX at \$1.14/Sq. Ft.

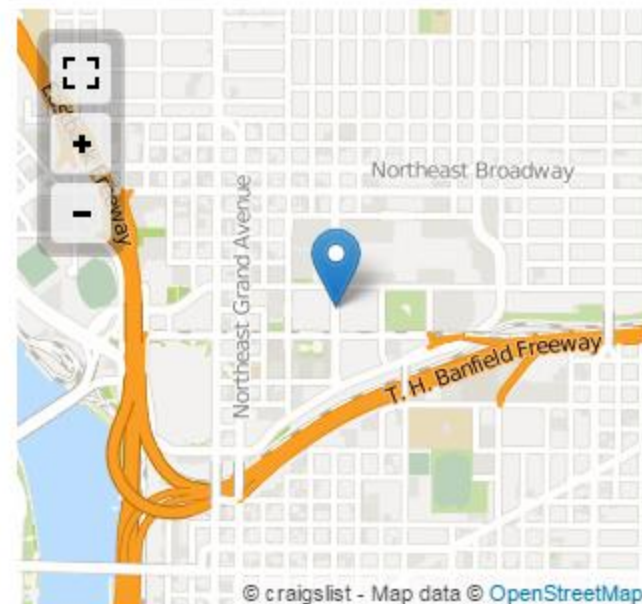
## ■ Concessions increased in 10 submarkets

# Effective Rent Per Unit by Bedroom



☆ \$1615 / 1br - 778ft<sup>2</sup> - VERY SPACIOUS 1x1! Lots Of Storage, Unique Open Layout + 1 Month Free! (NE Portland, Lloyd District) ☒

image 1 of 10



© craigslist - Map data © OpenStreetMap

1107 NE 9th Ave

[\(google map\)](#)

1BR / 1Ba

778ft<sup>2</sup>

available now

cats are OK - purrr

dogs are OK - woof

apartment

w/d in unit

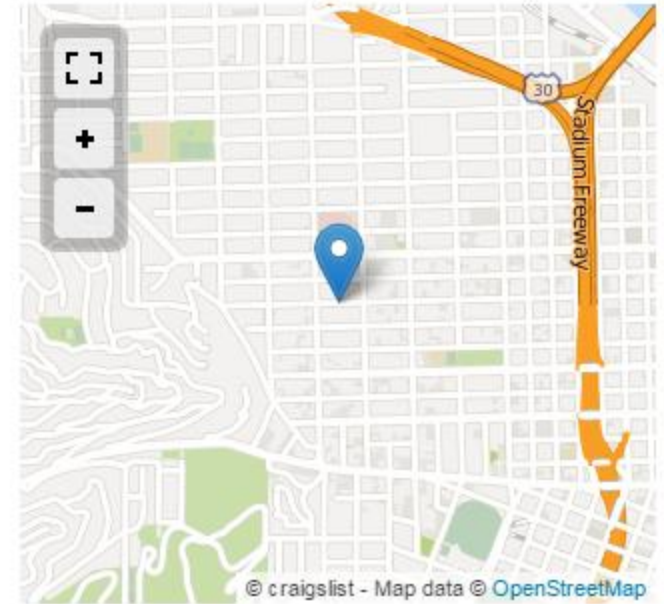
no smoking

detached garage

**The Elwood Building at Hassalo On Eighth**

☆ \$1325 / 1br - 663ft<sup>2</sup> - One Bedroom - Hardwoods - 1/2 block from NW 23rd! "\*\*\*\$800 LEASING SPEC (NW Portland/ Nob Hill) ☒

image 1 of 17



2255 NW Johnson

[\(google map\)](#)

1BR / 0Ba

663ft<sup>2</sup>

available now

cats are OK - purrr

apartment

laundry in bldg

no smoking

street parking



Welcome to the Sara Ann!

# Policy Changes

- Inclusionary Zoning
- Temporary Relocation costs and restrictions to no-cause
- 90 day notice requirements
- Rent control?
- URM requirements
- .....Lots of uncertainty at this moment



By [Elliot Njus](#) | [The Oregonian/OregonLive](#)

[Email the author](#) | [Follow on Twitter](#)

on November 29, 2016 at 2:02 PM, updated November 29, 2016 at 7:53 PM

# Developers race to beat Portland's inclusionary zoning policy

City officials say there are more than 14,000 apartment units in the process of getting city approval. That's about three times the number permitted annually during the recent apartment-building boom years.

# Portland multifamily design work waning

 By: Chuck Slothower  in Architecture and Engineering, News  February 13, 2017 9:39 am

Portland architecture firms are facing a sharp downturn in multifamily housing work as the city phases in new inclusionary housing rules.

The lack of design work for new apartment projects is just one unintended consequence of the city's inclusionary housing program that is already being felt.

The drought stems from developers and architects rushing to beat the Feb. 1 effective date for inclusionary housing rules.

Five major architecture firms – **LRS Architects**, **Ankrom Moisan Architects**, **GBD Architects**, **Bora Architects** and **SERA Architects** – that were contacted by the Daily Journal of Commerce agreed to share information on their multifamily development pipelines on the condition that projects would be reported in aggregate. Only two had any multifamily work in the city of Portland that was not submitted before Feb. 1. One firm is in the early stages of designing a 225-unit apartment project. Another began designing two projects in January with a combined 127 units.

**SE 28<sup>th</sup> and Division - Warehouse – 10,000  
Sq. Ft. - Sold September 2016 for \$2.05  
million, or \$205/Sq. Ft. and \$41,000/Unit**



# Rent control, eviction hearing at Oregon State Capitol draws hundreds

Whitney M. Woodworth , Statesman Journal 6:38 p.m. PT May 3, 2017

GUEST VIEWPOINT


## Rent control won't solve the problem


BY JIM ST. CLAIR

*For The Register-Guard*

MAY 7, 2017

## Our Opinion: Fix housing bill while there's time

Created on Thursday, 13 April 2017 | Written by Pamplin Media Group | 

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 1 Comment

Share

Lifting the ban on rent control could lead to a checkerboard of regulations, as each city makes its own decisions about whether and how to limit rent increases. If Portland adopts strict rent controls - a definite possibility - that could push apartment development into nearby suburbs.

## Familiar arguments heard in rent control debate

Created on Wednesday, 03 May 2017 | Written by [Peter Wong](#) | 

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 JW DISQUS VIEW COMMENTS

Senate committee considers testimony on bill that has cleared the House, but it puts off action; majority Democrats can afford to lose only one vote to ensure OK.

SALEM — No new arguments were raised and no minds were changed, but a Senate committee heard plenty of voices Wednesday for and against a bill to ban most no-cause evictions and lift Oregon's 32-year ban on local rent control.

# Almost \$200,000 in tenant relocation fees for UD+P

By: Chuck Slothower in Real Estate and Development April 20, 2017 10:47 am

Urban Development + Partners became the first developer to pay relocation fees to evicted tenants this spring under Portland's emergency housing ordinance.

INDUSTRY NEWS > RESIDENTIAL REAL ESTATE > SUBSCRIBER CONTENT

## Viewpoint: Forcing landlords to pay relocation costs a bad idea

Mar 24, 2017, 4:30am PDT

INDUSTRIES & TAGS Residential Real Estate, Commercial Real Estate

## Portland landlords must pay relocation costs to evict tenants without cause

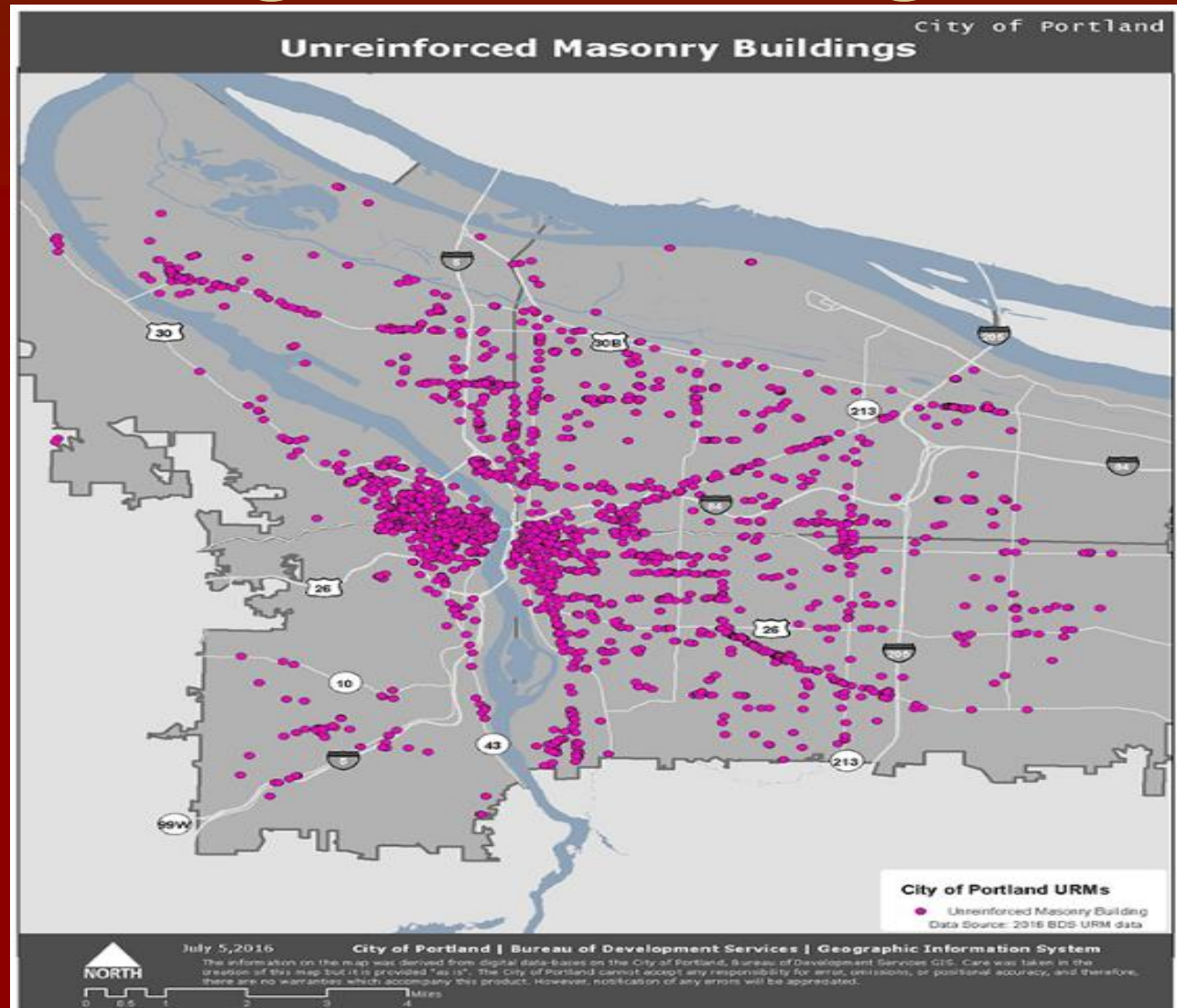
1.457k

Posted on February 2, 2017 at 8:13 PM

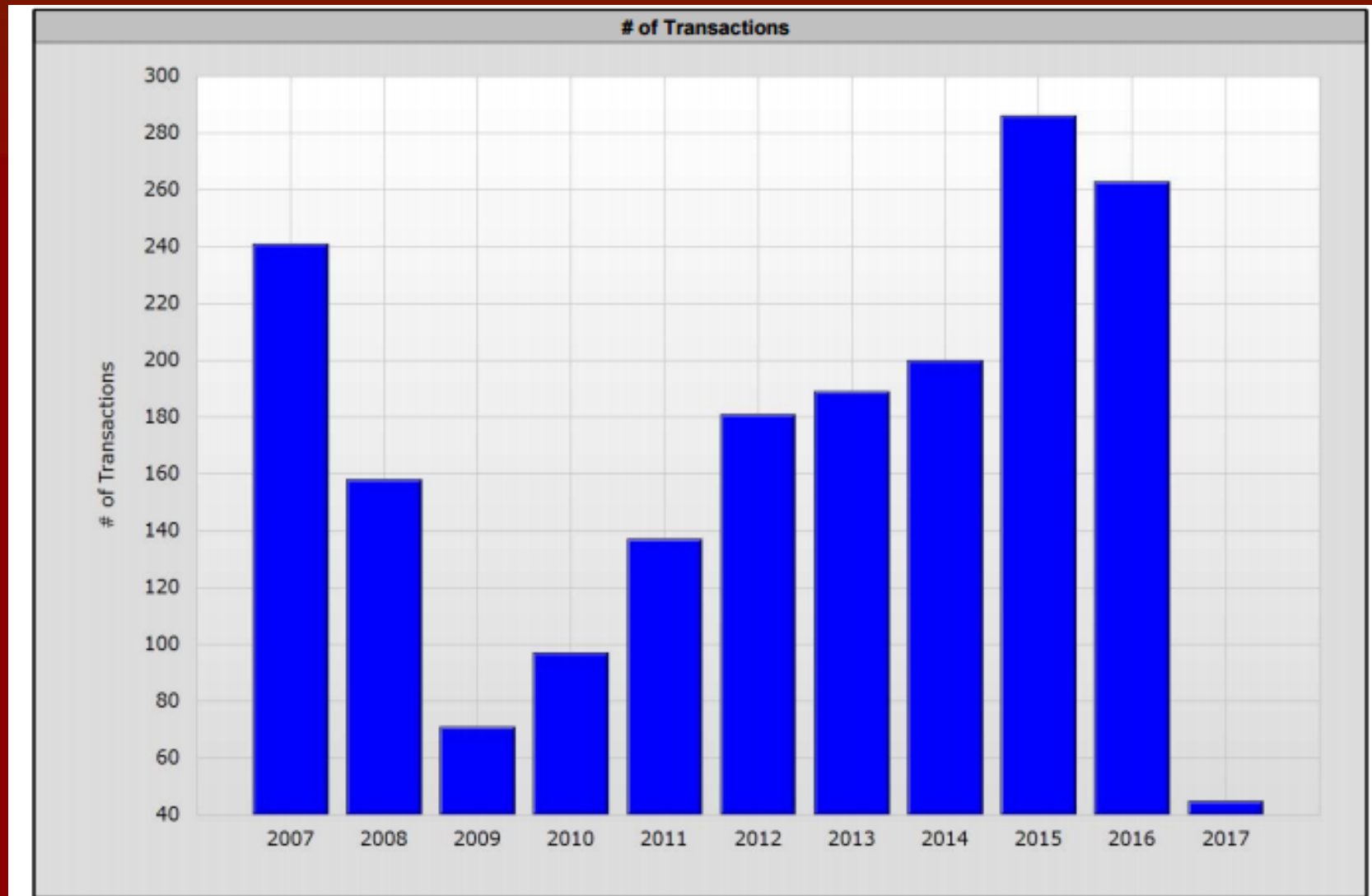


Commissioner Chloe Eudaly speaks at a rally in support of her tenant relocation policy. (Jessica Floum / The Oregonian/OregonLive)

# Portland Poised to Mandate URM Building Seismic Strengthening

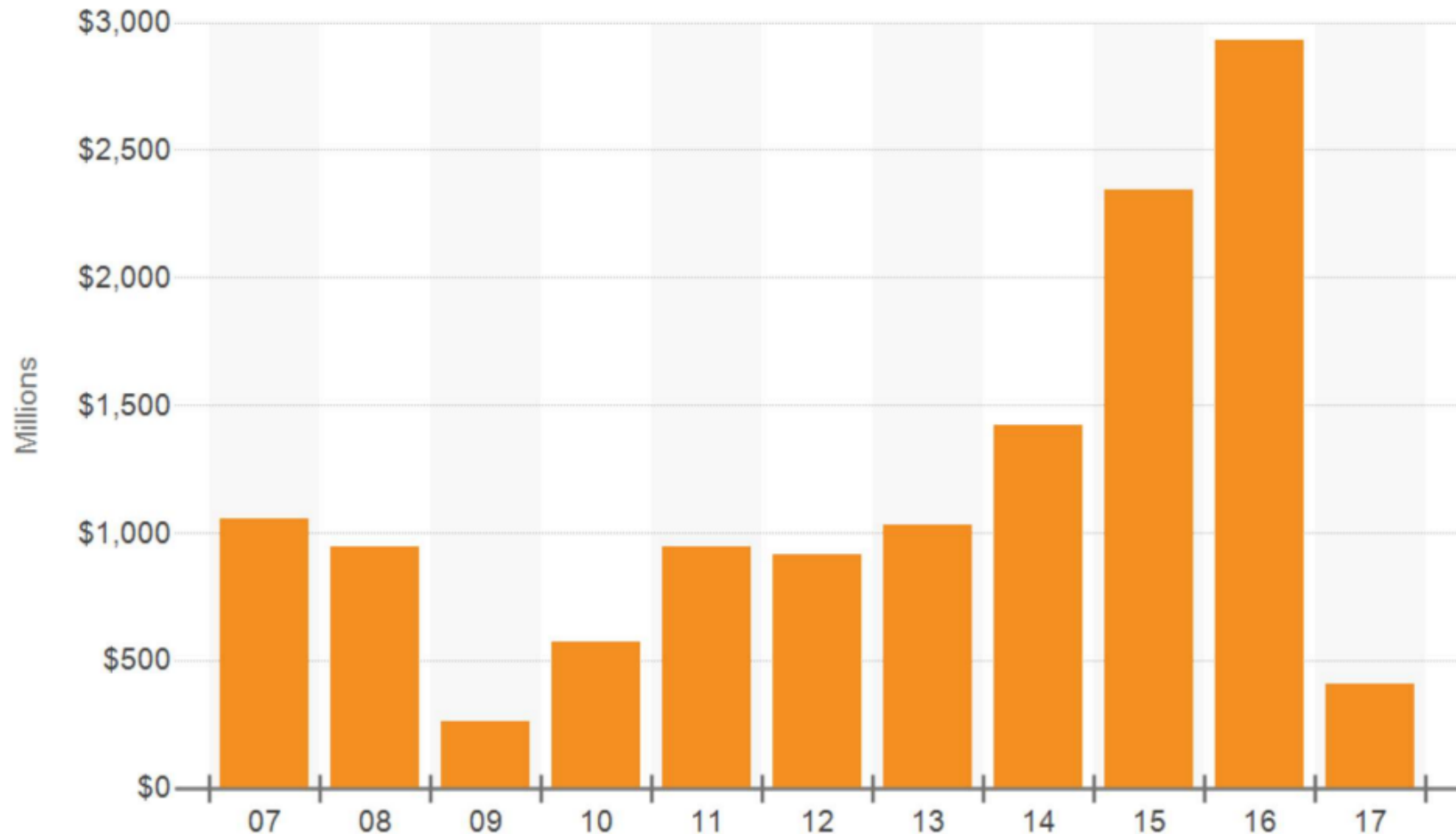


# No. of Apt Sale Transactions in Portland Metro 2007 thru April 2017



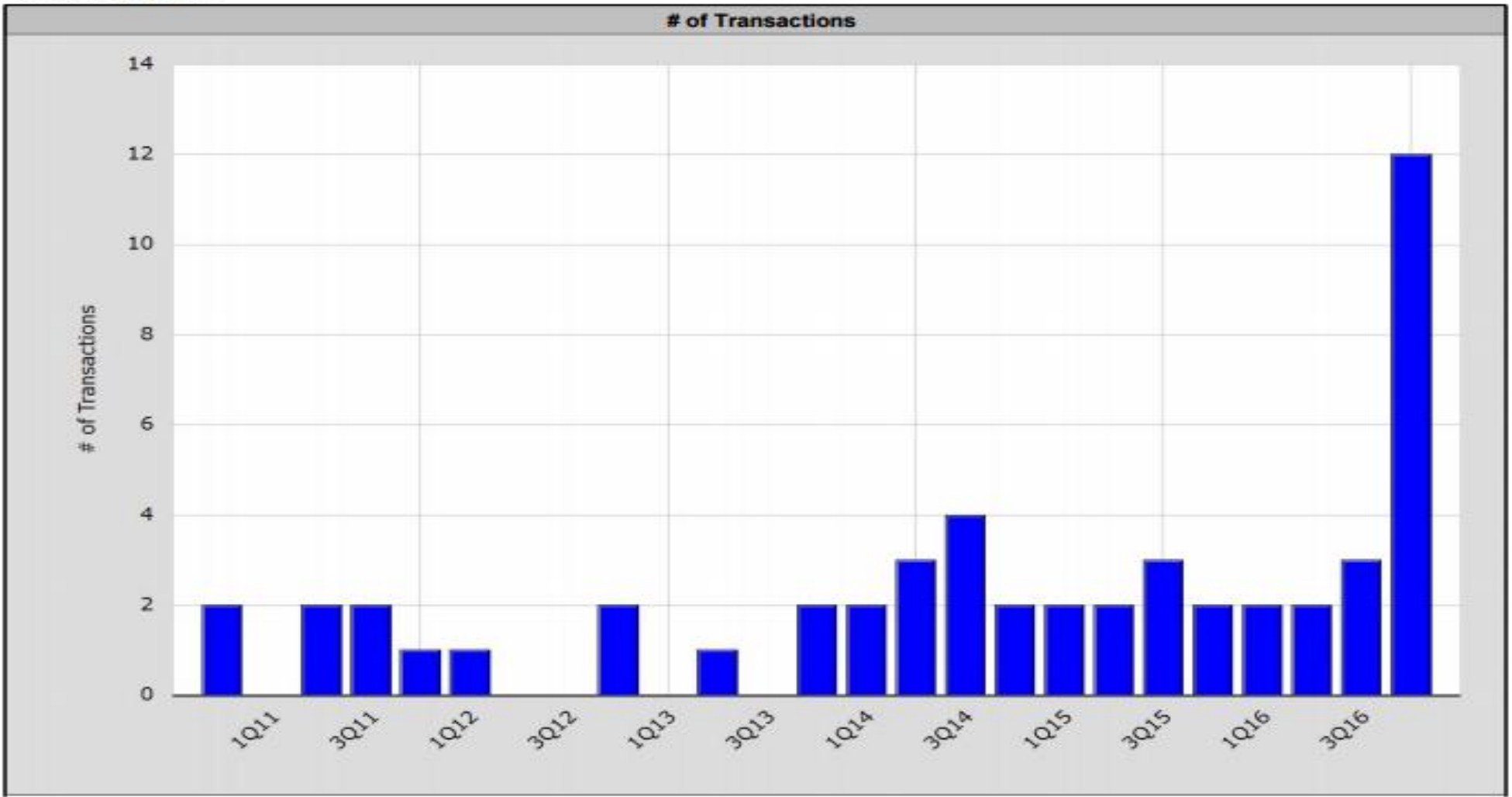
# Apartment Sales Volume - Portland Metro 2007 thru YTD 2017

Sales Volume

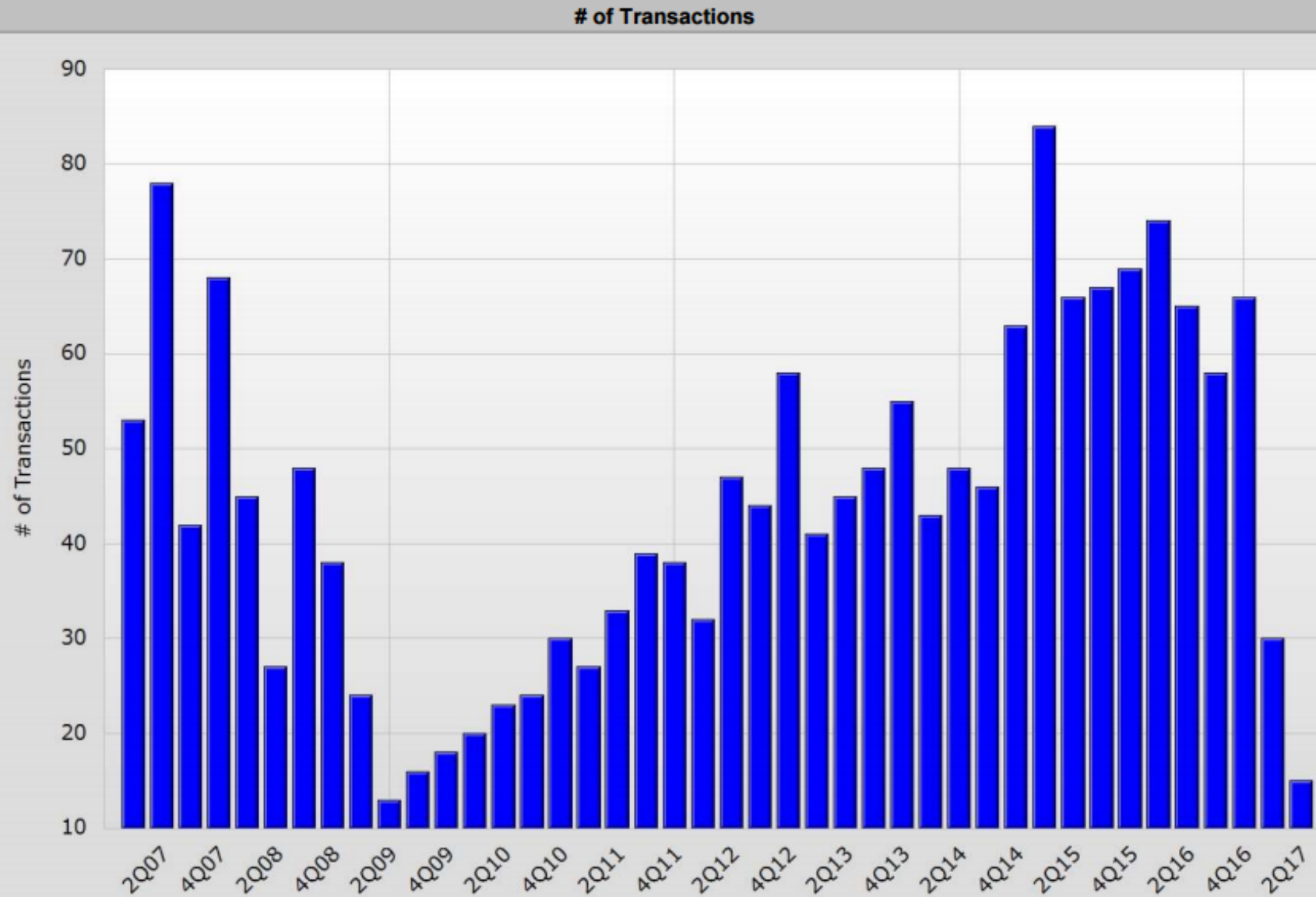


# Portland Metro Apt Sales of \$50 Million & Up By Quarter- 2010 thru 2016

Trend Report



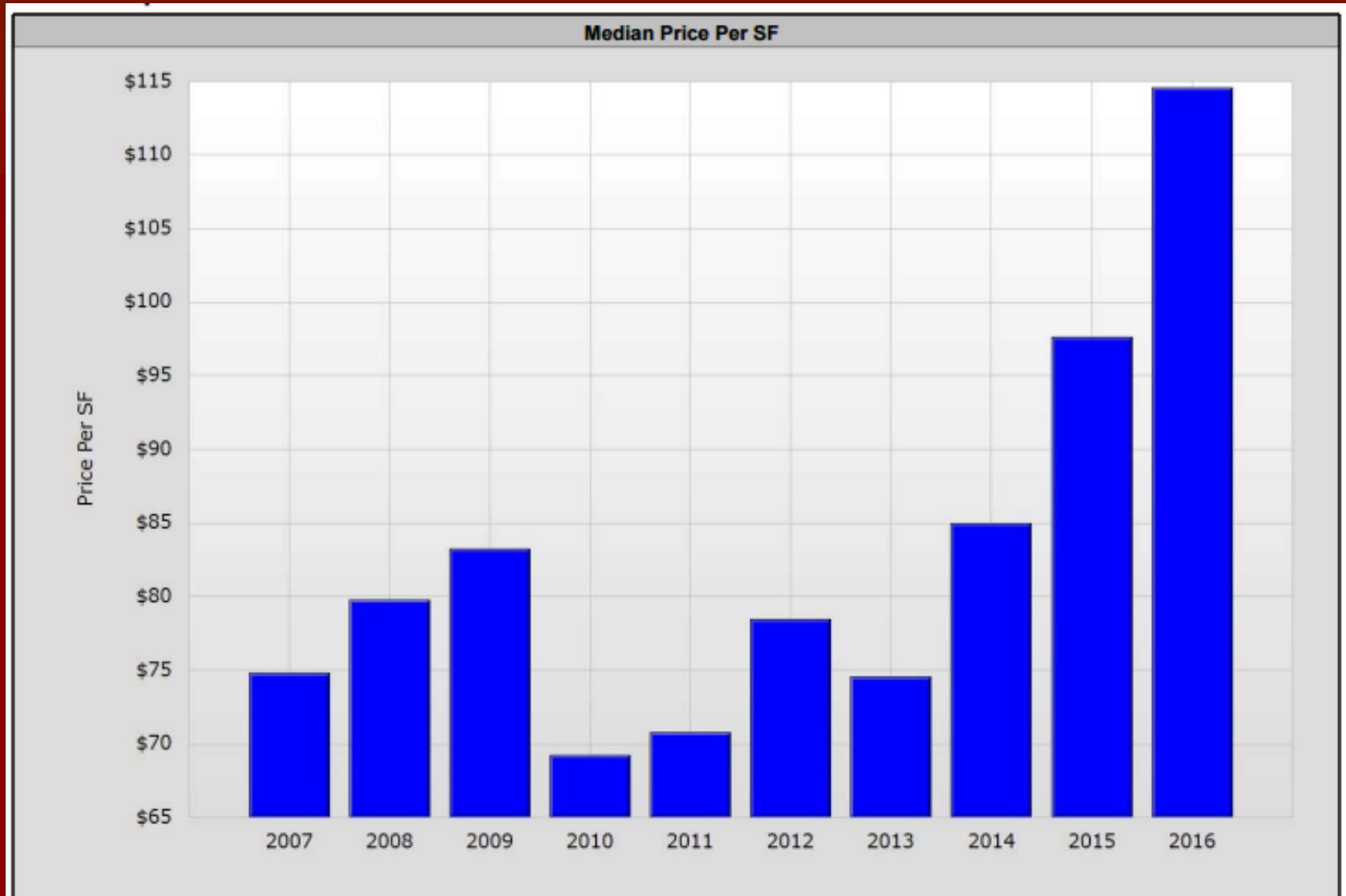
# Transactions - 2017 Slowdown



# Portland Metro Median Price Per Sq. Ft. - 2007 thru YTD 2017



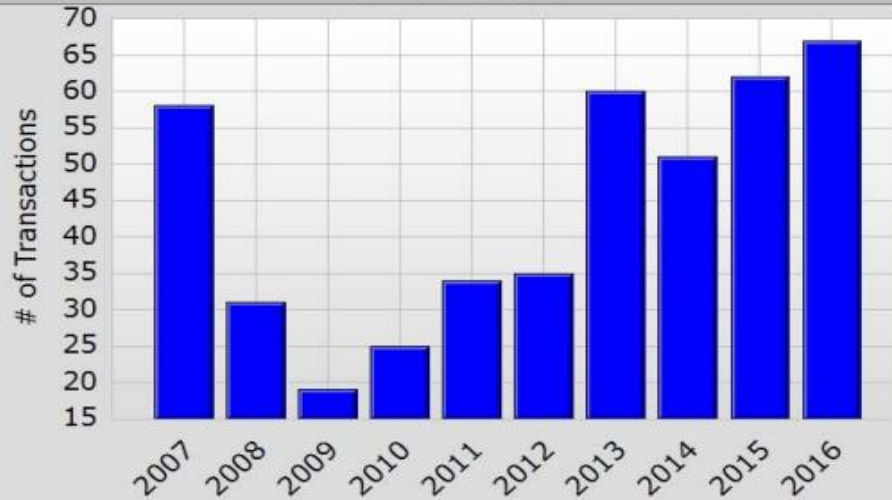
# Portland Metro Median Price Per Sq. Ft. for 1960 to 1980 Built Apartments- 2007 thru 2016



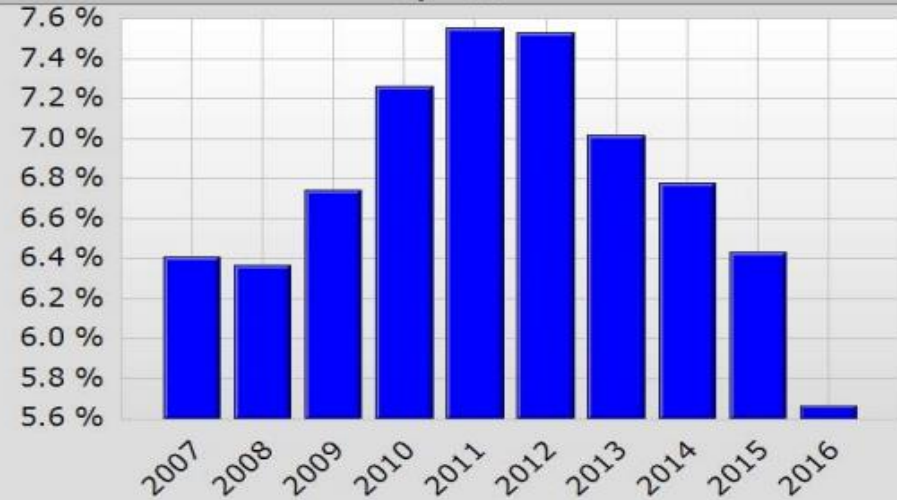
# Apt. Sales in East County ZIP Codes

## 2007 thru 2016

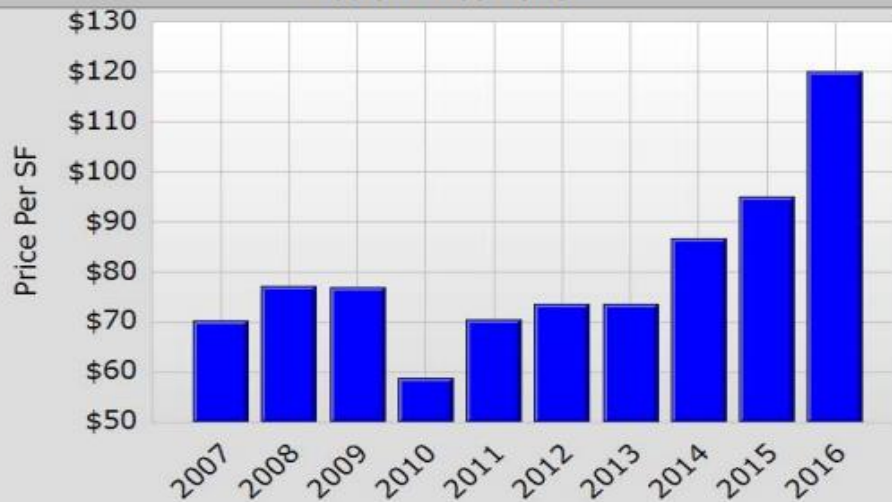
**# of Transactions**



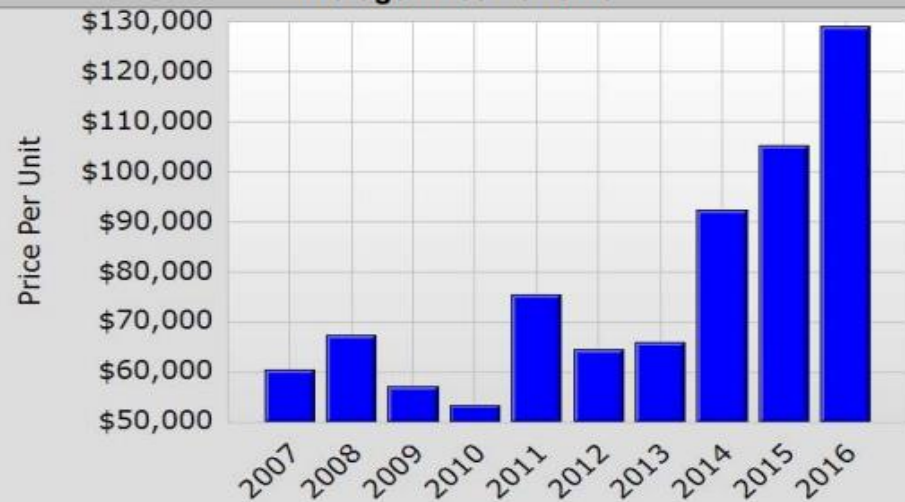
**Cap Rate**



**Median Price Per SF**



**Average Price Per Unit**



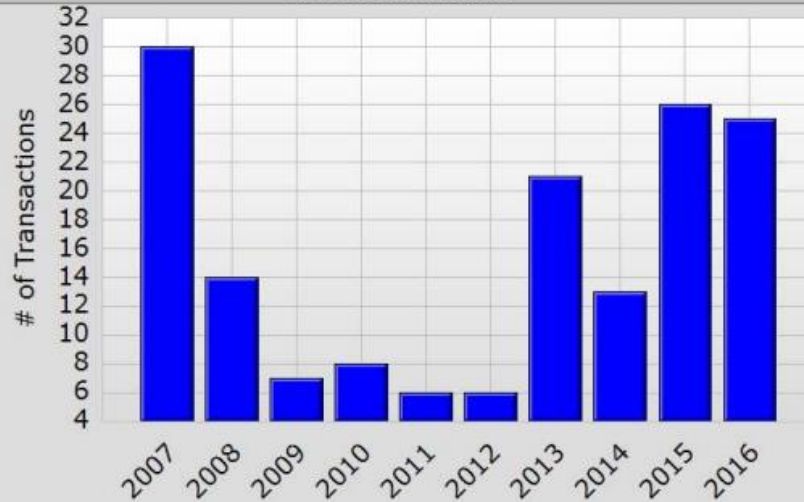
# 1960 to 1985 Built Apt. Sales in Suburban Counties - 2007 thru 2016



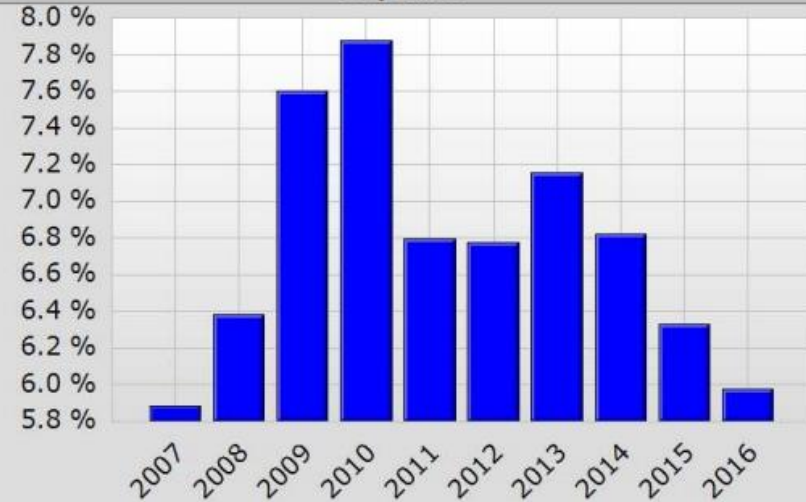
# 1900 to 2010 Built Apt. Sales in Clark

## 2007 thru 2016

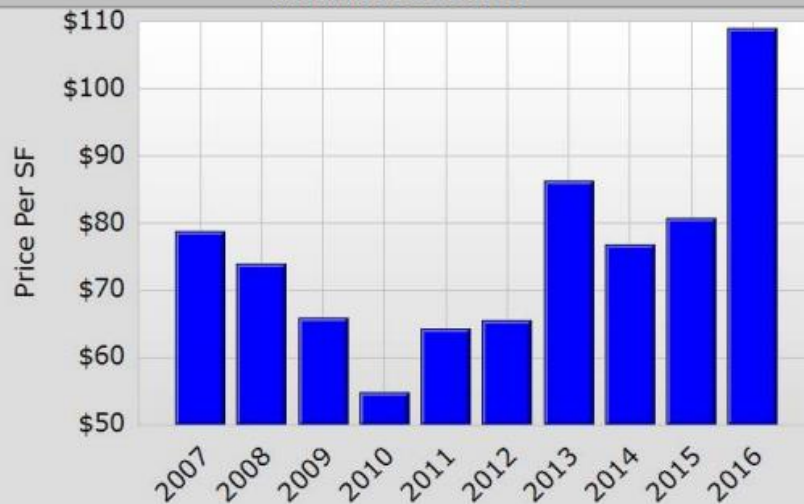
# of Transactions



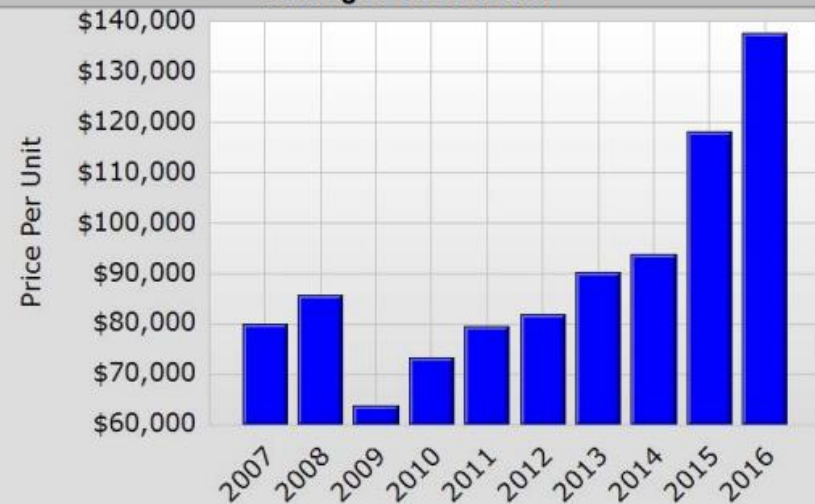
Cap Rate



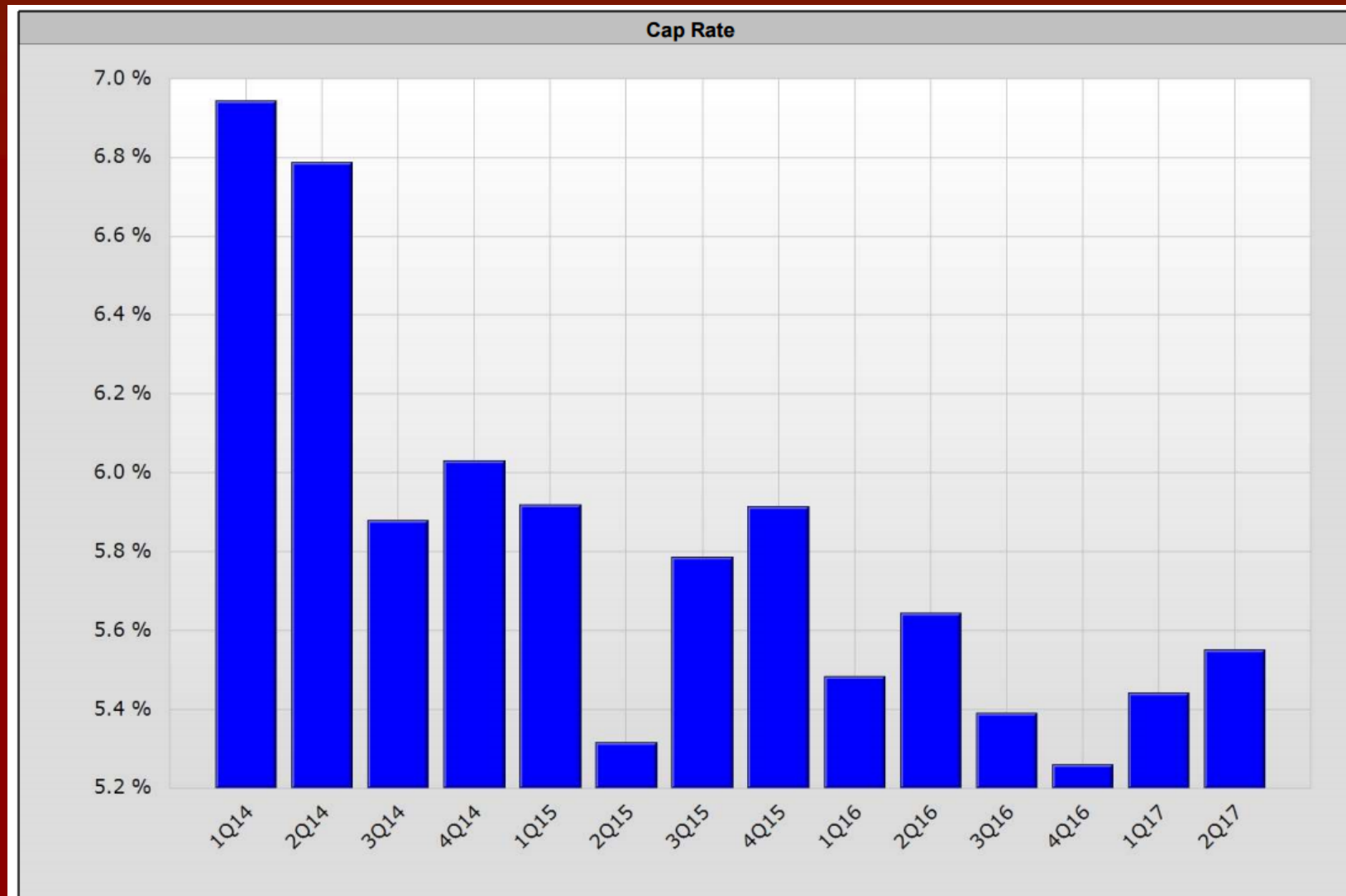
Median Price Per SF



Average Price Per Unit



# Portland Metro Median Cap Rate By Quarter- 2014 thru YTD 2017



# April 2017 of 12 Unit Wilsonville Greens at \$270,833/Unit & 6.25% Cap



# May 2017 Sale of 8 Unit SE Henry St Apts \$151,250/Unit, \$213/Sq. Ft. , 5.89% Cap



October 2016 of 54 Unit Carrington Square for  
\$101,852/Unit vs. June 2014 Sale for  
\$72,222/Unit - (41% increase)





## 16 Unit William Ridge Apartments – 3550 SE 130<sup>th</sup> Ave

6/2013	\$910,000 ( \$56,875/unit)
8/2015	\$1,500,000 (\$93,750/unit)
11/2016	\$1,750,000 (\$109,375/unit)

# Other Thoughts

1. Seismic Retrofit
2. Sale/resale after short ownership – value add
3. Apartment construction
  - a. “Everyone is a developer”
  - b. Margins
  - c. Modular apartments, adding units to existing sites, expanding units in to basements to get more Sq. Ft.
  - d. Shift to light industrial/Conway area of NW Portland; sale of commercial light industrial buildings (Ad Mail, Monte Shelton, Moreland Plumbing)
4. Political climate and impact on apartments (landlord/tenant, \$750 million PPS bond, 1% developer fee, inclusionary zoning, rent control, home de-construction, homeless crisis, Trump)

5. Investors reaching to outlying areas for yield, i.e. Canby, Forest Grove, Longview, Woodburn, Rainer, etc.

6. Lack of or limited discount for risk

- a. Property not at stabilization
- b. Flood plain
- c. Busy street
- d. Broken condo
- e. Deferred maintenance
- f. High crime/gang activity
- g. Tough tenant profile
- h. Adjacent uses – marijuana outlet,  
adult entertainment, all night gas  
station, etc.

# Boston Fed chief warns of commercial real estate speculation



JONATHAN WIGGS/ GLOBE STAFF/FILE 2015

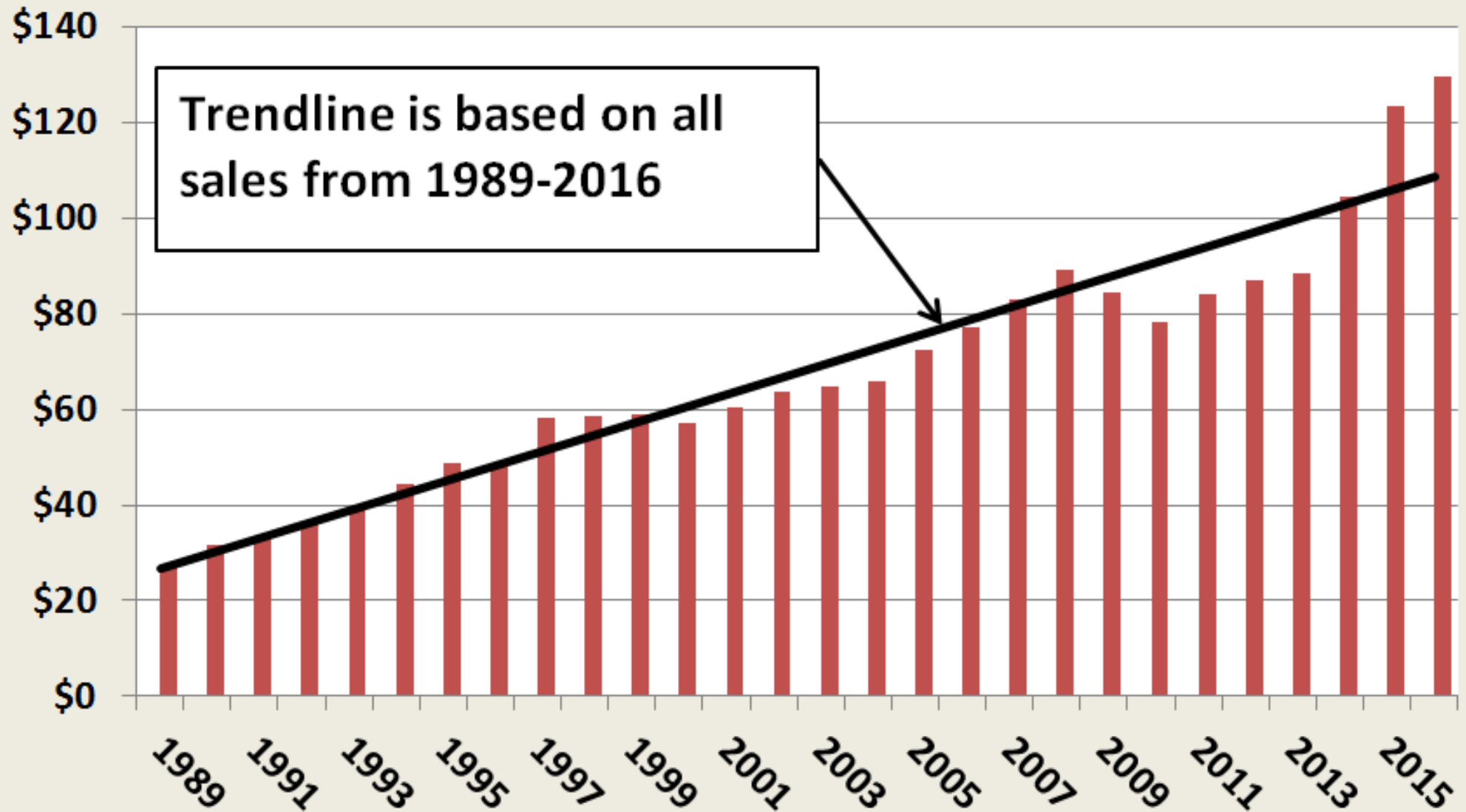
**Eric Rosen-gren, president of the Federal Reserve Bank of Boston, said low interest rates may be fueling demand and prices for commercial real estate.**

# Are We in A Bubble?

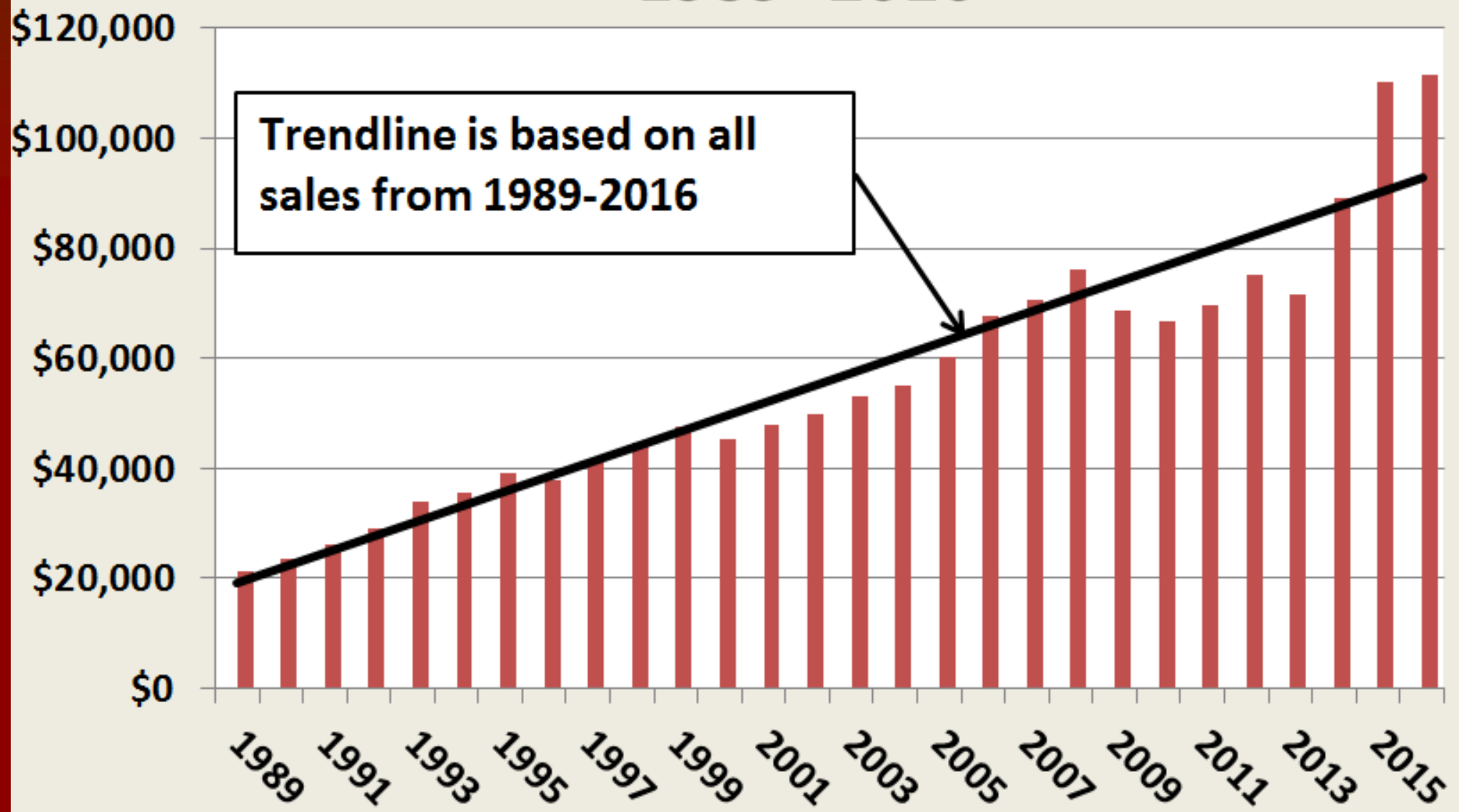
*Signs of a Bubble Include:*

- Prices rising when rents don't (or at least not at the same rate)
- Plethora of buyers looking for a quick resale
- Job growth not in keeping with the pace of real estate product coming on the market
- Rapid and high appreciation rates
- Values in excess of replacement cost

# Portland Metro Median Price Per Sq. Ft. 1989-2016



# Portland Metro Median Price Per Unit 1989- 2016



# Trends for 2017

- Interest Rates
- Employment
- Home Ownership Ratio
- Apartment Construction
- Legislation
- Conclusion

FEB 27, 2017 @ 09:25 AM 740 VIEWS

# Interest Rate Forecast 2017-2018

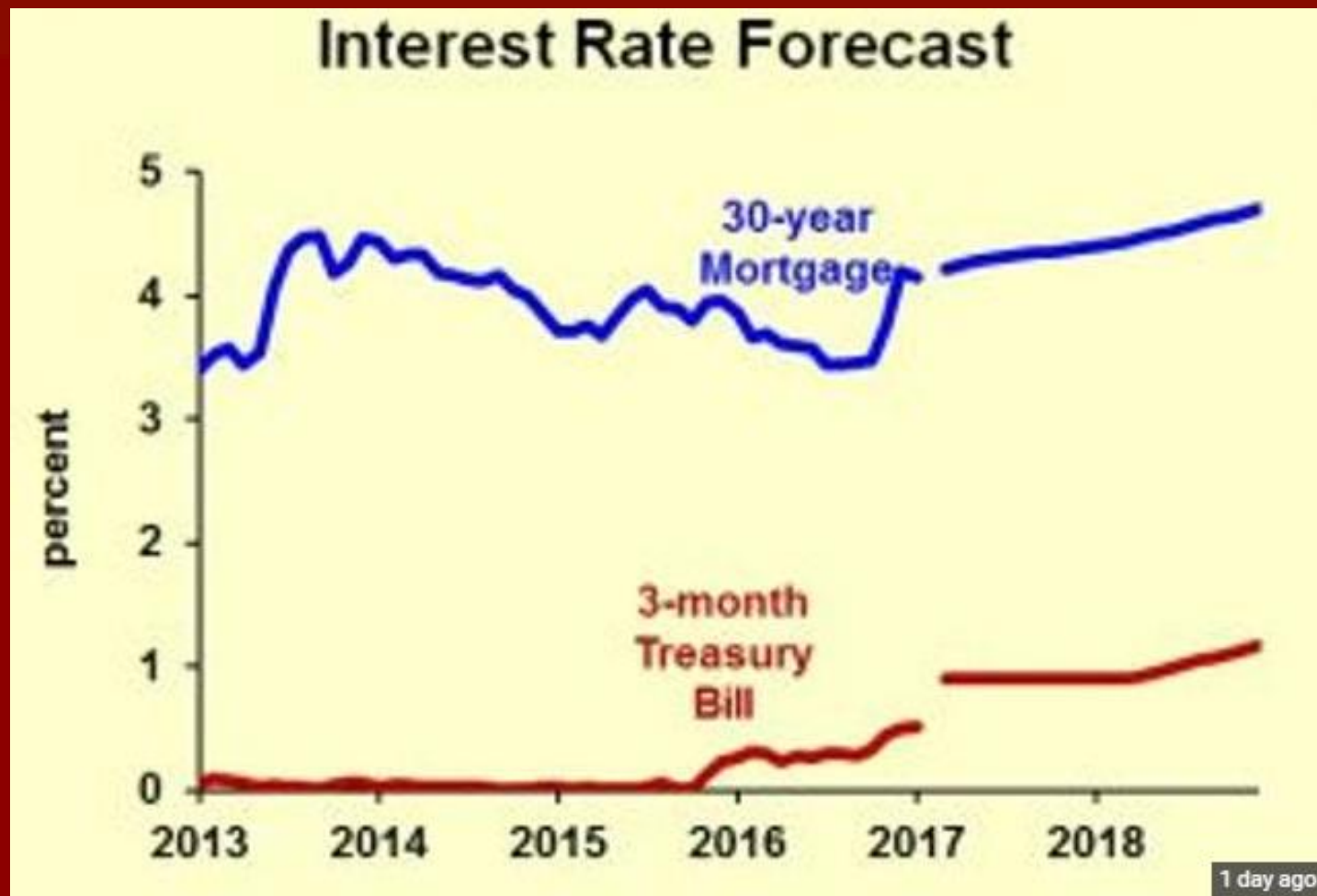


**Bill Conerly,** CONTRIBUTOR

*I connect the dots between the economy and business decisions.*

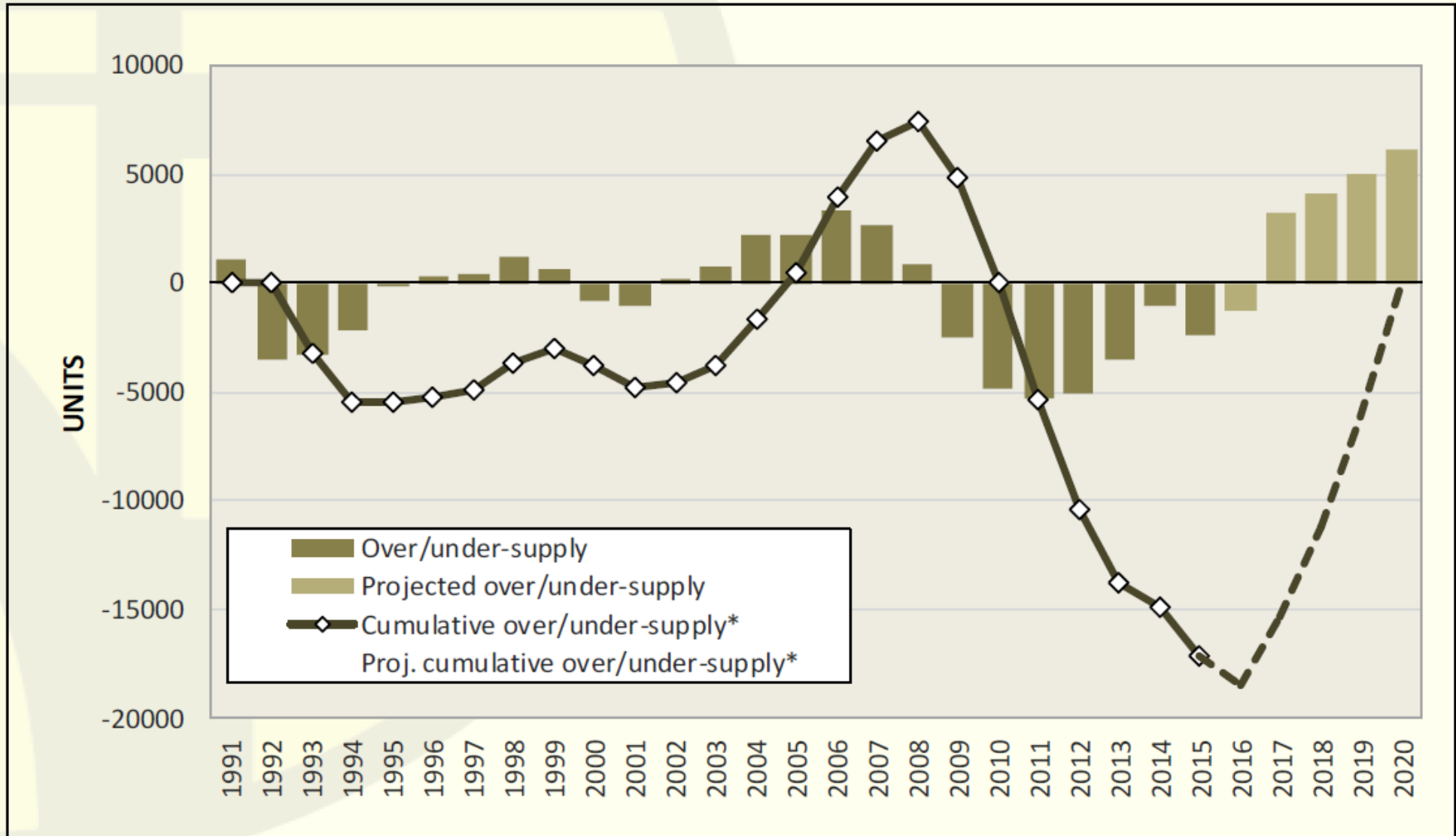
[FULL BIO](#) ✓

Opinions expressed by Forbes Contributors are their own.



# CUMULATIVE DEMAND AND SUPPLY

## ALL RESIDENTIAL UNITS



# Interest rates to creep higher in 2017

By [Stephen Pounds](#) • Bankrate.com

## Interest rates to climb

[Previous](#) 1 of 7 [Next](#)



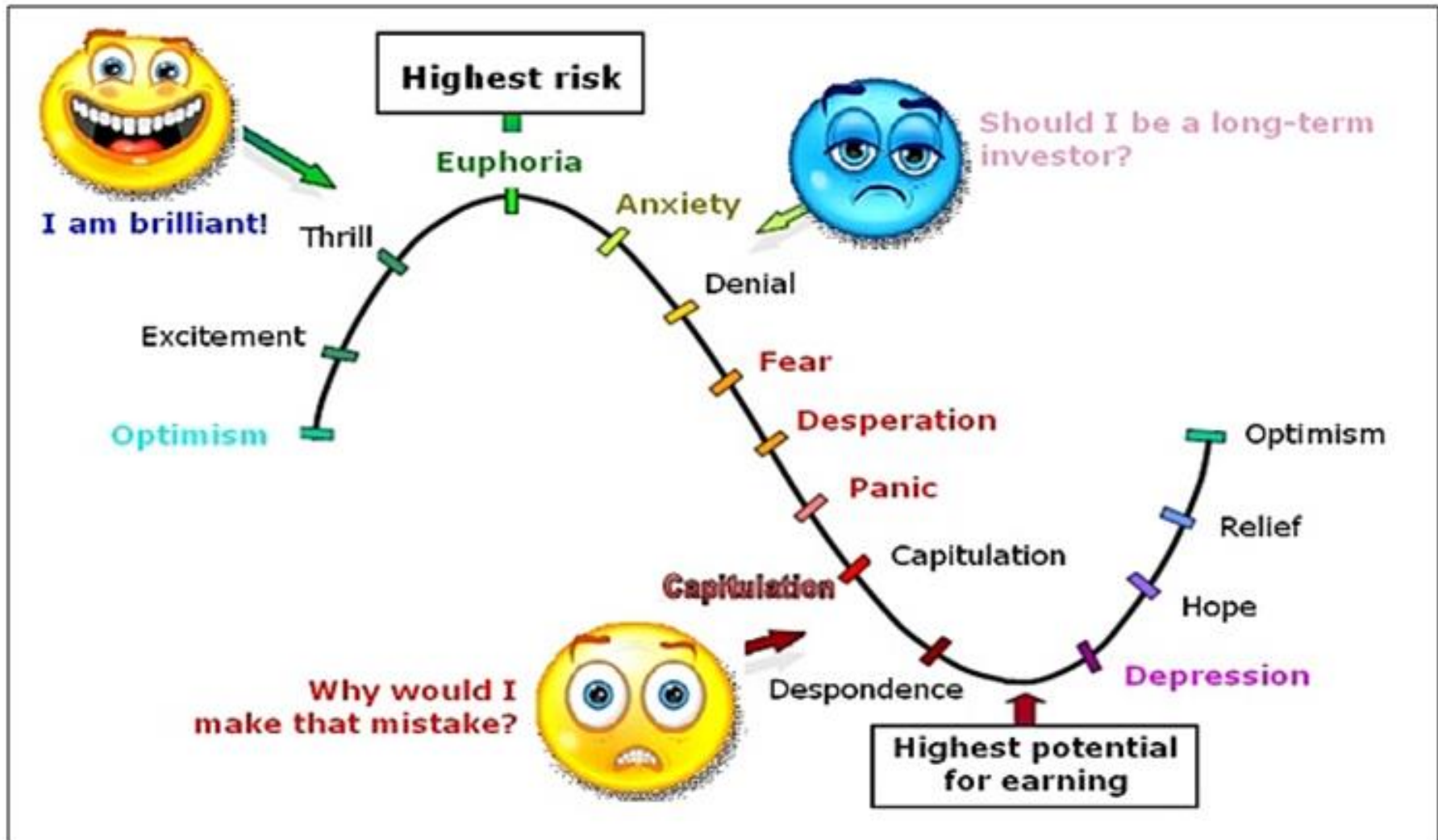
Chip Somodevilla/Getty Images

There's so much that can influence interest rates in 2017 -- an active Federal Reserve, a potentially bold President Trump, a healthy (or alternately, sagging) U.S. economy.

You need a crystal ball the size of Mars to predict interest rates this year.

First, there's the Fed. It raised rates in December and has signaled three increases in 2017 to the federal funds rate. That crucial rate influences many rates down the financial food chain.

# The cycle of market emotions



# Portland Metro Apartment Market- Positives and Negatives – September

## Positives

1. Stable local economy
2. Low apartment vacancies
3. Relatively low interest rates
4. Momentum in Apartment Market
5. Repositioning & Redefining of Portland

## Negatives

1. Increasing home ownership
2. Increasing apartment vacancies
3. Interest rates increasing
4. High apt construction
5. Is there any upside?
6. When is next recession?
7. Regulation and renter protection