



The Barry Apartment Report is a publication covering economic, financial, and valuation trends impacting apartments in the Portland, Oregon metropolitan area.

2015 Forecast - Values Reach Record Highs - How Long Will the Party Last?

Current Portland Metro Trends

- Unemployment: 5.6%
- Job Growth: 3.0%
- Population Growth: 1.4%
- Portland-Salem CPI: 2.3%
- Apartment Construction: The pace of construction continues to increase; permits up 17% from 2013. Permits for around 6,800 units issued in 2014.
- Apartment Sales: Around 240 sale transactions in 2014 vs. 212 in 2013
- Apartment Sales Volume: Around \$1.55 billion. Up 40% from 2013.
- Apartment Values: Up around 15% for 2014
- Apartment Income: Up 4% to 6% in 2014
- Apartment Vacancies: 3.1%

This issue of the Barry Apartment Report is based on two recent speeches given by Mark D. Barry, MAI, Apartment Appraiser and Patrick O. Barry, Appraiser Assistant.

In 2014, the apartment market was firing on all cylinders. The job market had the largest gain in years, wages began to show growth, and there is incredible optimism for the near future. So why was 2014 such a stellar year for Portland area apartment market? Here are a few reasons.

Portland Economy: Good news in 2014 includes Intel's continued expansion to double the size of its initial \$3 billion plant in Hillsboro, with 800 to 1,000 jobs; Nike's major expansion which now includes 2,000 new jobs; Portland Public Schools plans to hire 400, Vacasa plans to add 500 positions, and some major construction projects. These include the light rail projects, the Lloyd Superblock and countless new apartment projects, including a handful

of high-rise towers. The February 2015 figures shows that 33,900 wage and salary jobs were added in Portland metro over the last year, with unemployment dropping from 6.4% to 5.6%. The February 2015 data shows Portland has exceeded the previous peak employment by nearly 50,000 jobs.



2/15 Sale—\$200,000/ Unit
11 Unit Elephant Court Apartments
1946-1960 NW Lovejoy Street

Apartment Construction: The pace of apartment construction continued to increase in 2014. Permits were issued for 6,800 new apartment units in the four county metro, versus 5,800 from 2013. Over 60% of the permits for new units were issued in Multnomah County alone. 2014 is the busiest year ever for Multnomah County apartment construction, with permits issued for 4,225 new units.



Block 17 Apartments
1315 NW 11th Avenue
16 stories—281 Units

The previous peak was 3,300 in 2003. Construction activity remains virtually non-existent in Clackamas County and East Multnomah County.

Single Family Market: The median sales price in Portland metro is \$285,000 as of late 2014, which is up 7.5% in the last year. There are just 2.3 months of inventory vs. 3.2 months a year ago. Single family home values have made a strong recovery, but new construction has remained low. We saw permits for 4,900 new homes in 2014, which is down from last year. In comparison, an average of 9,400 homes built per year from 2003 to 2007. Of the 4,900 new homes in 2013, just 18% were in the Multnomah County.

Apartment Vacancies and Rental Rates:

The US Census Bureau reports that the Portland area has the 6th lowest apartment vacancy rate in the nation as of the end of the fourth quarter. The figures from the latest **Multifamily Northwest Apartment Report** show a 3.1% vacancy factor vs. 3.7% in Fall 2014. 17 of the 20 submarkets showed vacancies below 4%. The highest vacancies were reported in downtown, Tigard, and Aloha. The higher vacancy rate downtown is likely due to the new construction. While turnover rents are up around 10% over the last year, the actual income at most apartments we see is up between 4% and 6%.

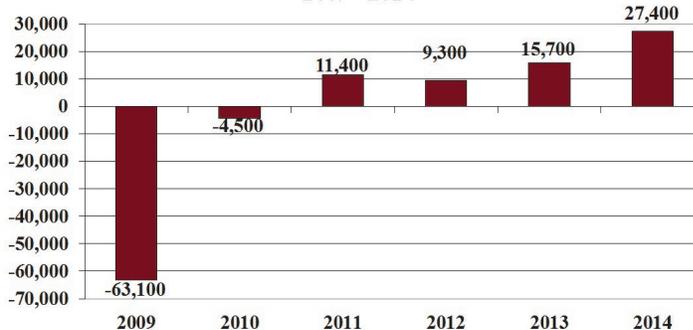


2/15 Sale— \$148,667/Unit
15 Unit Easton Apartments
4204 SE Cesar Chavez Blvd

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PMSA Wage & Salary Employment Annual Change
2009 - 2014





7/14 Sale- \$85,294/Unit
17 unit Marin Terrace Apartments
1402-1431 NE 69th Avenue

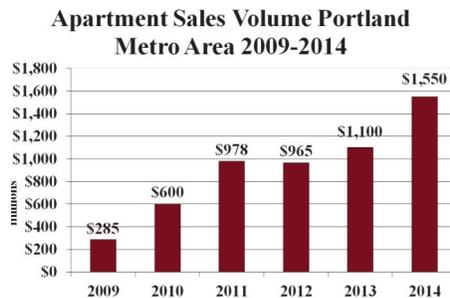
Apartment Expenses: After last years double digit property tax increase, most properties saw a manageable 2% to 3% increase in 2014. Advertising expenses remained non-existent at most apartments. Water and sewer rates have increased again with \$80 to \$100 per unit per month being the new normal.

Apartment Values: In 2014, apartment values saw a sharp increase from the previous year, and are currently at record highs with values up around 15% from 2013. Price increases were seen across all markets, including older suburban units that had been slow to recover. The Co-Star figures show a 6.24% median cap rate for 2014 vs. 6.65% in 2013, and 6.76% in 2012. This past year marked the first major shift in median cap rates since 2008. The sales from the first quarter of 2015 show another sharp increase in median price per unit.



Apartment Sales Volume: 2014 was a very strong year with sales volume at record levels. The final figures show over \$1.55 billion in apartment sales, with around 240 transactions representing 11,300 units. This is in comparison with \$1.1 billion in apartment sales and 212 transactions in 2013. The number of transactions

increased by 13% from 2013, and the value of the those sales are significantly higher. Portland saw a new interest from institutional buyers in 2014. Across the metro area, there were 39 sales of properties with 100+ units. These 100+ unit sales represented around 70% of the 2014 sales volume, or \$1.1 billion. This appetite from out of state, institutional buyers is unprecedented in Portland.



FORECAST FOR 2015

If the apartment market was gaining traction in 2012 and 2013, then 2014 was a market in full stride.

However, the question in the back of everyone’s mind is, “How long will this party last?” Some thoughts are as follows:

Economy: 2014 saw a promising expansion in the local economy. Transportation, business services, and hospitality have shown strong job gains over the past 12 months. The lowest performing sectors over the past 12 months were construction, publishing, and financial services. ULI 2015 Emerging Trends ranks Portland 16th among 75 metro areas for real estate prospects. There are at least three reputable organizations that forecast employment figures for Oregon. If you assume that employment in the Portland area will grow consistent with the state, the consensus forecasts are for around **25,000 new wage and salary jobs here in the Portland metropolitan area in 2015, and 24,000 new jobs in 2016.** Population growth of around 30,000 per year is expected for the four county metro area.

Single Family: The single family housing market remained strong in 2014. According to RMLS, the number of homes sold increased by 5.0% over 2013. During this same period, the median sales prices increased 7.7%. Forecasts call for the State of Oregon housing starts to increase around 5.5% for 2015. If you assume housing starts for the Metro area will grow consistent with the state, Portland Metro

should see permits for around 5,200 new single family homes in 2015. At least one condo is under construction in the Pearl.

Apartment Construction: New apartment construction continued to increase in 2014 and further increases are expected in 2015. Based on the latest permit numbers, **we expect there will be permits for 12,000 to 16,000 new units in 2015 and 2016.** Over 60% of the construction activity is in Multnomah County, and most of it near the urban core. The concentration of activity in the urban core is what differentiates the current construction cycle from previous cycles. Outside of Hillsboro and pockets of Beaverton and Vancouver, there is little construction activity in suburban areas. Many areas have seen no new units since 2007.

Apartment Vacancies and Rental

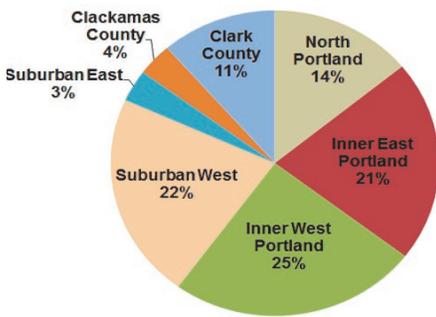
Income: Various reputable sources identify historical absorption to be around 3,000 to 4,000 units per year. With around 6,000 to 8,000 units expected to be completed, construction is outpacing absorption, however absorption may increase with increased population growth. **Expect vacancies to be near 4.00% to 4.75% in 2016.** Higher localized vacancies may be seen in areas with above average construction and high end rents. These areas include the inner city urban areas and Hillsboro. Many properties are being purchased as “value add” investments. The rents at these “valued added” properties are bumping up against the lower end of the new construction rents. Nearly all new construction is offering concessions until full occupancy is achieved. Expect this trend to continue.

With vacancy rates below 5%, owners will remain aggressive and **apartment income will be up by 3% to 5%.** Up to this point, older, well-maintained urban properties



Footprint Thurman (Micro-units)
2250 NW Thurman Street
56 Units

Units Under Construction by Location



have seen little impact from the new construction. **We expect there will be a shift to a market in balance in 2016.**

Apartment Values: Apartment values showed sharp increases in 2014. This momentum coupled with great optimism will carry through to 2015. In addition to solid fundamentals (low interest rates, low vacancies, increasing rents, stable expenses) a lack of inventory is also driving up values. There is a huge demand for a



limited number of properties available. A new trend we've seen is properties listed with no price and buyers are requested to "make your best offer". Value increases are expected to slow from the break neck pace of 2014 and early 2015. More inventory will also likely slow gains in value.

Some concern remains that an interest rate increase will result in a corresponding

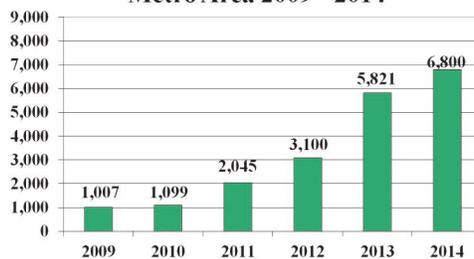


10/14 Sale- \$90,417/Unit
24 Unit College Park Apartments
17662 NW Concordia Court

jump in cap rates. Modest interest rate increases are expected in mid to late 2015.

Apartment Sales Volume: In 2014, Portland saw a new interest from institutional buyers, which accounted for 70% of the sales volume, but only 16% of the transactions. Investors were drawn to the better yields in Portland compared to other west coast cities. **In 2015, we expect to see \$1.50 billion to \$1.75 billion in apartment sales, and 225 to 250 apartment sale transactions.** In recent years, we have seen some reluctance of apartment owners wanting to sell due to a lack of alternative investments. We expect more owners of non-institutional properties to recognize the incredible increases in value and make 2015 and 2016 the year to sell.

Apartment Permits Portland Metro Area 2009 - 2014



Risks: The biggest risks for the apartment market in 2015 remain similar to previous years. These include an increase in interest rates, increased apartment construction, and increasing home ownership. Most experts expect an interest rate increase in mid to late 2015, which could lead to an increase in cap rates. Keep an eye on vacancies as the new units hit the market. There may be isolated pockets of overbuilding in the luxury apartment market if all the proposed urban projects come to fruition. The tenants capable of paying the high end rent are the most likely homebuyers, which could hurt this segment of units.

CONCLUSION: 2014 was one of the strongest years on record for the Portland apartment market. Sales volume, apartment values, and Multnomah County construction all hit record highs. Vacancies remained low, rents increased, and financing was readily available. The only downside to speak of is not enough properties for sale.

The momentum seen this past year is carrying into 2015. While the entire multifamily industry has been riding high, it seems that Portland has additional factors benefiting the apartment market. This includes strong jobs, lower than expected single family construction, decreasing home ownership rates, a spike in migration of prime

renters, and a revitalization of the urban core. 2015 should be another strong year for apartments.

In 2016 we expect a shift to a market in balance. This will be characterized by vacancies around 5%, modest rent increases, some concessions, and only modest increases in income.

HEARD ON THE STREET

"Population growth and housing demand should remain strong, along with a much stronger economy. While the combination of new rental apartments and more new home listings have yet to put a noticeable dent in price growth, I expect that to change in the next year or two. Prices will moderate." Josh Lehner—Economist with the State of Oregon

"Were getting to the point where your child's preschool teacher can't afford to rent, where a two parent family can't afford to rent." Jes Larson, director of the Welcome Home Coalition.

"What happens when you see a skyline full of construction cranes? You know it is not going to end well." Stuart Bernstein, Goldman Sachs.

"Many current renters could likely realize significant monthly savings by buying a home. Renting is less affordable than ever." Zillow

"Rent control in the right way would work." said Gerry Mohr, organizer at the March 2015 Rent Control Town Hall in downtown Portland. "This is an emergency."

"We're all hoping to feel a second wind, but it also might be time to start thinking about the hangover." - Jerry Johnson—Housing Economist

"When I developed Ladd Tower in 2009, governments fees/SDCs were \$7,500 per unit; that same property today has government fees of \$20,000 per unit." Brian Owendoff

"What's worrisome is that income growth has not kept pace with growth in rents. Since 2000, rents have grown at roughly twice the pace of wages, and as a result, the share of income necessary to afford typical rents is rising." Zillow

The Barry Apartment Report

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Turn Back the Clock . . .



***1925-** It was illegal for African Americans to live in Oregon, which was home to more than 70,000 Ku Klux Klan members. "Sundown laws" prevented Asians and African Americans from even staying overnight in many cities.

***1985-** The Oregon Legislature passes a law prohibiting cities and counties from enacting rent control.

***2001-** Co-Star indicates that the top brokerage companies in apartment sale transactions where they were the listing broker, in order, were: Marcus & Millichap, Granite Equities, HFO, CBRE, WT Rask Investment RE, Apts Northwest, Compass Commercial RE, Real Net Investments, C & R Real Estate Services, and Western Equities.

***2009-** Oregon's Ending Homelessness Advisory Council began a ten-year plan to end homelessness with a one-night headcount. Over 17,000 were found to

be homeless. The Oregon Housing Alliance noted that while wages drop and jobs evaporate, housing prices around the Portland metro area continue to rise.

***2011-** The nonprofit Fair Housing Council of Oregon claimed minority testers ran across evidence of potential discrimination 64 percent of the time they talked to landlords or rental agents. The state Bureau of Labor and Industries later showed the audit was marred by errors and sloppy work, and that the Fair Housing Council withheld evidence that would have weakened claims that it had found discrimination.

***2011-** Co-Star indicates that the top brokerage companies in apartment sale transactions where they were the listing broker, in order, were: HFO RE, Joseph Bernard Investment RE, Marcus & Millichap, Apartment Realty Advisors, Berkadia, CBRE, Norris & Stevens, Apartments NW, and Tilbury Ferguson Investment RE.



12/14 Sale- \$166,667/Unit
6 Unit Apartment
6425 SE Holgate Street

If you'd like to receive an electronic version of the newsletter, along with periodic updates on the Portland apartment market, please sign up at our website, under the Reports & Downloads tab.

www.BarryApartmentReport.com