In 2013, apartments remained the golden child of real estate investments. The Portland area economy began to show traction, with continued improvements in the job market. Unemployment dropped below 7% for the first time since 2008 and optimism remains strong for the near future. Even with the apartment construction cycle in full swing, apartment vacancies have remained near all time lows. So why was 2013 such a good year for Portland area apartment market? Here are a few reasons.

**Portland Economy:** Good news in 2013 includes Intel’s continued major expansion to double the size of its initial $3 billion plant in Hillsboro, with 800 to 1,000 jobs; Kaiser Hospital in Hillsboro was completed with 1,100 new jobs; Nike announced a major expansion and 500 jobs; Daimler Trucks announced plans to build a $150 million headquarters on Swan Island with 400 new jobs; and some major construction projects. These include the OHSU building in the south waterfront, the light rail projects, the Lloyd Superblock and re-start of Park Avenue West. The latest employment report shows that 15,700 jobs were added in Portland metro over the last year, with unemployment dropping from 7.7% to 6.6%. From the peak in 2008 to the trough in early 2010 Portland metro lost 80,000 jobs. We are now five years in to the recovery and have shown considerable improvement. The Portland metro area is now 16,000 jobs short of the peak employment in 2008.

**Apartment Construction:** 2012 marked the beginning of a new construction cycle, and during 2013, we were in full stride. Permits were issued for around 5,800 new apartment units in the four county metro area for 2013 vs. 3,100 in 2012. 2013 was the busiest year for apartment permits since the late 1990’s. This is in comparison with an average of around 4,700 units per year for the metro area for the five years prior to 2009. Around 50% of the 2013 apartment permit activity is in the city of Portland, with 25% in Washington County, 20% in Clark County, 5% in Clackamas County.

**Single Family Market:** The median sales price in Portland metro is $265,000 as of late 2013, which is up 12.8% in the last year. There are just 3.2 months of inventory vs. 3.6 months a year ago. Single family constriction is showing some signs of life. We saw permits for 5,200 new homes in 2013. This is in comparison with an average of around 4,700 units per year for the metro area for the five years prior to 2009. Around 50% of the 2013 apartment permit activity is in the city of Portland, with 25% in Washington County, 20% in Clark County, 5% in Clackamas County.

**Apartment Vacancies and Rental Rates:** The US Census Bureau reports that the Portland area has the 13th lowest apartment vacancy rate in the nation as of the end of the fourth quarter. The Fall 2013 Multifamily Northwest Apartment Report shows a
3.1% vacancy rate. Of the 20 submarkets surveyed Multifamily Northwest, 17 are showing an apartment vacancy factor of 4% or less. The highest vacancies are in Gresham and Hillsboro. While turnover rents are up around 6% over the last year, the actual income at most apartments we see is up between 3% and 5%.

**Apartment Expenses:** Property tax increases in Multnomah County caused many to do a double take. As a result of the school and library bond measures passed in November 2012, plus normal increases, apartment property taxes increased by an average of 10.5%. Outside of Multnomah County, property taxes increased 3% to 6%. Advertising expenses remained non-existent at most apartments. Water and sewer rates continue to rise. $80 to $100 per unit per month is the new normal for utility costs. Utility expenses have superseded property taxes as the biggest operating expense at most apartments.

**Apartment Values:** Apartment values for the metro area as a whole were up around 2% in 2013 in comparison with 2012. However, values vary widely based on different submarkets. Values for newer units and units in the urban area remained strong, while values for older suburban units were flat or declined slightly. The Co-Star figures show a 6.65% median cap rate for 2013 vs. 6.76% in 2012, and 6.68% in 2011. Overall cap rates have been stable since 2009.

**Apartment Sales Volume:** 2013 finished with a bang and was another strong year. The final figures show just over $1.0 billion in apartment sales, with almost 200 transactions representing 10,600 units. This is in comparison with $965 million in apartment sales and 194 transactions in 2012. Across the metro area, there were 16 sales of properties with 100+ units. These 16 sales represented 50% of the 2013 sales volume. The final quarter of 2013 finished very strong, with around $445 million in sales volume.

**Forecast for 2014**

Many of the trends from 2012 picked up steam in 2013. This includes a strong return of the single family market, decreasing unemployment and ramping up of apartment construction.

Where is the apartment market going in 2014? Some thoughts are as follows:

**Economy:** The theme of 2013 was holding steady. Economic expansion was slow in 2013, but was consistent. Construction, transportation and business services have shown strong job gains over the past 12 months. The two lowest performing sectors over the past 12 months are government and financial services. ULI 2014 Emerging Trends ranks Portland 11th among 50 metro areas for real estate investment. There are at least six 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 2014, and 23,000 new jobs in 2015, and that employment will reach pre-recession levels by 2015.

**Single Family Construction:** The single family housing market made a strong recovery in 2013. According to RMLS, the number of homes sold increased by 14.3% over 2012. During this same period, the median sales prices increased 12.8%. In the Portland area, just 6.6% of mortgages are underwater, one of the lowest in the nation. All of these indicators are signs of an improving single family market. Forecasts call for the State of Oregon housing starts to increase 12% for 2014. If you assume housing starts for the Metro area will grow consistent with the state, Portland Metro should see permits for around 5,800 new single family homes in 2014.

**Apartment Construction:** New apartment projects continue to be the darling of the development world. Based on the latest permit numbers, we expect there will be a total of 10,000 to 14,000 new units in 2014 and 2015, with half of the construction activity in Multnomah County. The first wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties. The coming wave of completed projects were typically smaller infill properties.
In 2014, we expect to see $800 million to $1.00 billion in apartment sales, and 170 to 200 apartment sale transactions. We have seen some reluctance of apartment owners wanting to sell even though values have increased significantly since 2009. There are few alternative investments available, income is increasing, expenses have remained in check and the cost of borrowing money is still relatively inexpensive.

**Apartment Vacancies and Rental Income:** While around 4,000 units hit the market in 2013, vacancies remained low. With increased apartment construction and an improving single family market, apartment vacancies are expected to gradually increase in 2014, and be at 5.0% to 5.5% by late 2015. In 2014, apartment income will be up by 1% to 3%. Rents on many units have shown double digit increases since 2011. The spread on rents between units have shown double digit increases.

**Apartment Sales Volume:** Apartments remain as the favored asset class for investors in Portland and across the nation.

**Risks:** The biggest risks facing the apartment market are felt to be an increase in interest rates and increased apartment construction. Higher interest usually translates into higher cap rates, and could result in lower values. While apartment construction lagged from 2008-2011, the coming years of 2014 and 2015 will be the strongest years since the late 1990’s. 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. Other risks include a double dip recession, fiscal pitfalls, and competition from single family homes.

**Conclusion:** 2013 proved to be another banner year for apartments. The apartment market had everything going for it, with vacancies near all time lows, increasing rents, increasing income and readily available financing. The market remained strong, even as thousands of new units were completed.

**As the economy continues to make steady gains, 2014 should be another strong year for apartments.** Apartments remain in the sweet spot of the current real estate cycle, but we are likely approaching the peak of expansion. As apartment construction has picked up, we expect more modest increases in income and increased vacancies. The shift from a landlord market to a market more in balance should come by 2015.
The Barry Apartment Report

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Patrick O. Barry

Turn Back the Clock . . .

*1975— Coldwell Banker, now CBRE, is trying to expand their brokerage activities. Kirk Taylor leaves the stock brokerage business to try his hand at apartment sales.

*1989— Howard Hedinger purchases the 406 unit Glenbrook Apartments in Beaverton, with a price of $36,330/unit.

*1990— The Paramount Apartments at 253 N Broadway is sold by Jordan Schnitzer for $12,891/unit. This same property was sold by the Reese’s for $107,045/unit in November 2013.

*1991— Greg Fowler buys the Lair Park Apartments at 16 SW Porter Street. The price was $9,500/unit.

*1993— The McGregor Millette Report indicates that cap rates for seasoned apartments have dropped to an average of 9.6%.

*1995— The Apartment Investor’s Journal put out by Norris and Stevens shows that older brick walk up apartments have cap rates of 8.5% to 9.3%, or the lowest of any apartment type in the metro area.

*1999— Kearny Plaza Apartments in the Pearl District sustains more than $10 million in fire damage. Investigators later determined the cause was arson. The property was rebuilt and opened in the fall of 2000.

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We are pleased to announce that we have changed the name under which we do business to Barry & Associates. This name change is intended to reflect the future of the company, as Patrick Barry joined the appraisal practice in 2012 and has partnered up with his father as of early 2014. The addition of Patrick will ensure trusted apartment appraisal services for years to come. Outside the name and logo, nothing has changed with our operations. We will be providing the same apartment appraisal services as we have for the last 30 years.

9/13 Sale– $48,438/Unit
32 unit Mountain View Apartments
12900 SE Division Street

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