

Portland, Oregon

Multifamily Housing Update

June 2010

EXECUTIVE SUMMARY

Employers in the City of Roses continued to shed jobs, although at a moderately slower rate in recent months. Preliminary data show that headline job counts fell -20,100 (-2.1%) year-over-year in May, comparing favorably to the -64,600 (-6.2%) job reduction observed in the same period of 2009.

But headcounts in every employment sector were still down y-o-y; with only two exceptions. The employment services sector, which largely consists of temporary staffing agencies, added 1,400 jobs in the twelve-month period ended in May, marking the fourth consecutive advance. Additionally, temporary workers employed by the US Census Bureau fueled a 1,800 job y-o-y increase in federal government headcounts in May. By comparison, federal agency employment was down -400 jobs y-o-y in April.

Seasonally-adjusted data portray healthier conditions as 2,800 jobs were created from January to March, the first quarterly gain since 1Q08. Likewise, the Portland Metro Business Index, published by the University of Oregon, suggests that economic activity rose 1.2% sequentially in 1Q10, owing to positive tourism, labor market and housing indicators.

Local businesses grew more optimistic between March and June. The Manpower Employment Outlook Survey shows that the percentage of firms that anticipated job cuts fell from 15% in March to 8% in June. Furthermore, 19% of companies surveyed in June planned to hire workers in 3Q10, higher than the 11% share recorded in March.

RED CAPITAL Research (RCR) believe that y-o-y job trends will turn positive by year-end (+4,000 jobs in 4Q10), but still expect a negative (-13,600, -1.4%) annual figure for

2010. Growth will resume in 2011 and 2012 as payrolls expand 19,400 (2.0%) and 32,400 (3.3%), respectively.

Housing prices continued to decline in the first quarter. According to the National Association of Realtors, the median price of a single-family MSA home decreased -4.5% y-o-y to \$237,400. Similarly, Portland registered a -2.8% y-o-y decrease in the Case-Shiller home price index in March, ranking 15th among the 20 markets tracked by the source.

No apartment projects were delivered in the first quarter, following a quarterly average of 509 units completed in 2009. Property managers took advantage, leasing 556 units from January to March. As a result, the metro occupancy rate rose 50 basis points sequentially to 93.6%. The first quarter occupancy rate was 50 basis points below the 1Q09 figure however, as supply totaled 1,711 units in the final nine months of 2009, outpacing positive net absorption of 535 units.

Despite occupancy improvements, rent trends remained weak in 1Q10. The average effective rent fell -0.7% sequentially, only moderately better than the -0.9% decrease observed in the previous period. Moreover, the pace of annual effective rent decline deteriorated from -0.8% to -1.7%. Marcus & Millichap report that concessions rose to 10% of asking rent in 1Q10, roughly equal to 1.2-months free-rent on a twelve-month lease.

Real Capital Analytics were aware of only three closed transactions involving properties priced at or above \$1 million in the first five months of 2010. Sales volume totaled only \$13.5 million, down from \$21.5 million in the same period of 2009. CB Richard Ellis estimate cap rates for stabilized Class-A assets ranged from 6.25% to 6.75% in March.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (6.4% - 1Q10)	↑ 50bps	↓ 40bps
Effective Rents (\$752 - 1Q10)	↓ 1.7%	↓ 0.5%
Cap Rate (N/A - 1Q10)	↔ N/A	↑
Employment (947.9m - 1Q10)	↓ 36.2m	↓ 13.6m

KEY POINTS

- The apartment vacancy rate decreased 50 basis points sequentially to 6.4%, owing to positive net absorption of 556 units. On the other hand, vacancy rose 50 basis points year-over-year as supply (1,711 units) exceeded demand (1,091 units) in the twelve-month period ended in March.
- Rent trends deteriorated in the first quarter. The average effective rent fell -0.7% sequentially and -1.7% year-over-year to \$752. Marcus & Millichap report that Class-A asking rent fell -1.6% year-over-year, comparing favorably to the -2.0% year-over-year decrease among Class B/C assets.
- Reis were aware of two apartment properties under construction in June. The assets were expected to open later this year, adding 508 units to the Northwest submarket inventory.
- Real Capital Analytics identify three transaction involving properties priced at or above \$1 million in the first five months of 2010. Sales volume totaled \$13.5 million. CB Richard Ellis report that cap rates for stabilized Class-A assets ranged from 6.25% to 6.75% in March. Additionally, the source report that Class-B cap rates were between 6.75% and 7.25%.



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