

Portland, Oregon

Multifamily Housing Update

April 2011

EXECUTIVE SUMMARY

In March, the *Wall St. Journal* bestowed on Portland the dubious distinction of second most economically miserable city in America, owing to its unemployment rate and recent adverse trends in home values and gasoline prices. While the Rose City offers residents a host of cultural and recreational amenities, there is something to the *WSJ*'s finding. Payroll employment declined in each of the last three years, yielding a net loss of 70,000 (-6.7%) jobs; the February metro unemployment rate was in double digits and local home values, as measured by the Case-Shiller repeat sales index, fell -7.8% year-on-year in January, the eighteenth worst performance recorded among the 20 largest U.S. markets.

By contrast, Portland's forward-looking economic indicators are considerably more bullish. Payroll employment increased on a year-on-year basis in each month since August and the pace of expansion accelerated throughout the fall and winter months. Payrolls increased on a year-on-year basis for the second consecutive quarter in 4Q10, rising at a 4,700-job, 0.5% pace, up from 3Q's 1,100-job advance. Twelve-month gains in January and February were substantially stronger than the fall numbers, rising 8,700- and 11,000-job, respectively. Indeed, the February metric was the strongest posted in the Portland metro area since January 2008.

Of equal importance was the quality of the new jobs, which largely came from high-skill industries with above average compensation structures. The February metric was propelled by hiring in the manufacturing (1,800) and business (4,100), health care (2,500) and education (1,200) service sectors, with meaningful contributions from high tech and higher education. Net headcount increases also were observed among software publishers,

a key core competency of the Portland economy that likely will give rise to significant multiplier effects.

Our payroll model foresees constructive growth, forecasting creation of 9,600 (2011) and 19,900 (2012) jobs. Economy.com are still more optimistic, projecting 20,550 and 29,120 jobs in 2011 and 2012, respectively.

Metro households expressed considerable economic optimism in the fourth quarter, leasing 714 apartment units, the highest net recorded in an October–December period in the 12-year Reis quarterly data series. Demand over-balanced 270 units of supply, boosting occupancy 40 basis points sequentially to 95.5%, a 3-year high.

The occupancy rate increased or held steady sequentially in every submarket save Northwest, where delivery of 508 (4.9% of stock) units produced a 110 bps decline to 90.4%. Northeast posted the largest occupancy rate advance after properties tenanted more the 100 units, boosting average occupancy 150 bps to 95.6%.

Asking rents increased commensurately, rising \$9 (1.0%) September to December to an \$839 average. Concession levels increased moderately, generating an \$8 (1.1%) advance in effective rent to \$778. Robust tenant demand in the Northeast and Beaverton submarkets produced faster growth, generating a 2.0% surge in the former; a 1.3% gain in the latter.

Reis expect occupancy to grind higher through 2015, reaching 95.6% this year and 96.2% by 2015. Reis project a 5.0% rise in effective rents in 2011, and an exceptionally robust 5.1% compound annual advance from 2011 to 2015. As a result, our model projects a generous 10.0% 5-year expected total rate of return, 14th highest among the **RED 50**, and useful 18th-ranked risk-adjusted returns.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (4.5% - 4Q10)	↓ 2.4%	↓ 0.1%
Effective Rents (\$778 -4Q10)	↑ 2.9%	↑ 5.0%
Cap Rate (4.3% - 4Q10)	↓ 2.2%	↑
Employment (975.8m - 4Q10)	↑ 4.7m	↑ 9.6m

KEY POINTS

- Apartment demand was exceptionally strong during 4Q as tenants absorbed a record fall quarter net of 714 units, raising the total for calendar 2010 to 3,153 units. Occupancy increased 40 basis points sequentially and 240 bps year-over-year as a result, the latter metric ranking 11th best among the **RED 50**.
- Rents increased at a measured pace. The average asking and effective rent metric increased \$9 (1.0%) and effective rents \$8 (1.1%) from September to December, reaching to \$839 and \$778, respectively.
- Reis expect rent momentum to accelerate in 2011. After recording a 2.9% effective rent advance in 2010, the service projects a 5.1% surge in revenue per occupied unit this year.
- The Rose City experienced a deeper, longer recession than the nation but the metro's recovery shows promising signs. After posting a 4,700-job y-o-y gain in 4Q10, job creation accelerated in early 2011. Hiring by skilled service and tech manufacturing firms pushed annual comparisons above the 10,000-job mark in February.
- **RCR** forecast net creation of 9,600 jobs in 2011; 9,600 jobs in 2012.



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