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Portland's apartment market is bouncing back: Investors looking towards multi-family market

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Recent headlines indicate that the multi-family market is beginning to see signs of a rebound. An article recently posted on the Multifamily Insiders website showed an increase in the volume of sales in all sectors of commercial real estate, with the multi-family sector seeing "the greatest spike in transaction volume." The article also points out that these sales were NOT primarily distressed properties. This is a move away from where the market has been the last 12-18 months. In addition, Moody's Investor Service recently announced that the improving economy appears to be boosting demand for apartments by tenants which is translating into higher rents and occupancy rates. This news has caused Moody's to change its outlook on REITs (Real Estate Investment Trusts) which own multi-family properties to "stable." Out of the nine REITs rated by Moody's, seven now have a "stable" rating. Moody's Investor Service goes on to say that it appears that rents are increasing and vacancies are declining with the improving economy.

To build further on this trend, Bloomberg Business Week also reported that the Apartment sector showed the highest increase in value of all commercial real estate sectors. In the first quarter of 2010, apartment building values rose roughly 3.3%, with the industrial sector as the only other sector to show a positive increase at 0.8%.

There are a couple of reasons for this upswing in the market. First, the multi-family market experienced the lowest reduction in net operating income of all commercial real estate sectors. Second, due to an increase in demand for cheaper housing, this sector didn't suffer with as high of an increase in vacancy rates as other parts of the commercial market. Overall, strong demand for apartments will likely continue as people move into rental properties to be near new job or due to the sale or foreclosure of a single-family residence.

Locally, there are signs of more activity in the multi-family market as well. These signs point to investors starting to look towards the multi-family market again, a clear indication that people are feeling that the market has bottomed out. This has resulted in a slightly higher amount of sold properties in the Greater Portland market in the first quarter of 2010 over the same period last year. We think this trend will continue and that 2010 should end up much stronger than the previous year, based on both the number of sold properties and increasing values.

Although most of the sources we spoke with generally agreed that the market is showing signs of improvement, it is not entirely a rosy outlook as yet. For example, owners that need to refinance debt are still finding it difficult due to the drop in values over the past couple of years. Additional contributing factors include: new construction in the multi-unit sector fell off to almost non-existent due to the lack of demand for more units during the past few years and now the lack of financing to build new projects. These factors could start to turn around if the market continues to show signs of improvement.

Overall, the news is encouraging for the multi-family market. We anticipate demand to increase, vacancy rates to continue to decline, and rents to start edging back up. Coupled with an increase in available financing, it could be a positive year for this sector.

Check out this website for some great tips and tools for Apartment owners.
<http://www.american-apartment-owners-association.org/>

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