

# APARTMENT INVESTOR

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December 2015

## The Golden Age of Apartments

By Greg Frick, Partner, HFO

The Portland apartment market has hit historic highs since the end of the Great Recession. Management, finance, brokerage and construction have all benefited from this Golden Age of Apartments in Portland. Among the good news for investors:

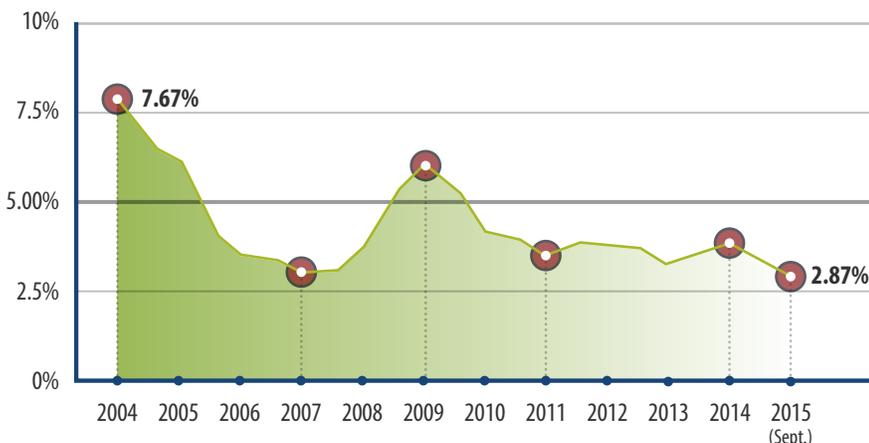
- Submarket vacancies are at historic lows
- Portland has the nation's highest annual effective rent growth rate (over 14%)
- Apartment sales volume has already surpassed last year's record
- Construction continues to be strong

The Portland apartment market benefits from sustained high levels of in-migration and from changing demographic preferences regarding housing. The recessionary slowdown in apartment construction resulted in a supply of rental housing considerably smaller than the renter demand.

### Vacancy Rates

Several key sources agree: the Portland apartment market is experiencing record low vacancy rates. A fall 2015 survey of owners by MultifamilyNW concluded that the overall Portland/Vancouver vacancy rate has dropped to an all-time low of 2.87%—down from 3.66% one year earlier.

### VACANCY



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### 2016 FORECAST

PERMITS

INTEREST RATES

RENTS

VACANCIES

EMPLOYMENT

NO. OF TRANSACTIONS

TRANSACTION VOLUME

# THE GOLDEN AGE OF APARTMENTS (CONT.)

## Percentage Rent Growth

Axiometrics (a leader in apartment housing market research) shows Portland, for the second month in a row, having the highest annual effective rent growth rate (12.4%) among the top 50 metro areas in the U.S.

MultifamilyNW reported this fall that rents in the metro area have increased by more 9% in the last 12 months. The report also showed that rents have increased by 7% in the last six months. The six month growth rate is more in sync with many of the other reports we use in our offices.

## ANNUAL EFFECTIVE RENT GROWTH FOR PORTLAND MSA

9% ↑

According to Multifamily NW Apartment Report  
(September 2015)

12.4% ↑

According to Axiometrics  
(October 2015)

## Rent Growth per Square Foot

MultifamilyNW's most recent report indicates that average rents have increased from \$1.22 PSF to \$1.33 PSF. These rates are for the overall market. Depending on the submarket and vintage of the property, we have seen rates top \$3.00 PSF.

**Regardless of what report you consult,  
Portland's apartment rental growth rates  
and rents are at historic levels.**

## Apartment Construction

With these positive fundamentals, it makes perfect sense that Portland is in a sustained cycle of apartment construction. Multifamily construction in Portland was in a decline from 2007-2011. Only 1,000 permits were issued in 2009. Four years later, in 2013, 5,700 permits were issued. Last year, there were 6,700! In 2015 permits will number above 5,000. The major difference this time around is that the construction is highly concentrated in the urban core.

For apartment management companies this has been quite a ride. Rents are going up, vacancy rates are low and more brand new product is coming online.

## Outside Investors Are Looking In

Multi-family investors from across the country (and especially from California) desire a foothold in the nation's strongest apartment market. They injected large amounts of capital into our region throughout all of 2015.

## Transaction volumes

As of the end of October, Portland's apartment market has surpassed the record sales volume achieved in 2014. By the end of the year we will set another new record for apartment sales.

Through October, 2015, there have been 203 apartment transactions, involving 10 or more units and totaling just above \$1.6 billion. This compares to 207 transactions, and \$1.5 billion in sales volume, for 2014. *(Please see the chart on page 3.)*

## Institutional Transactions of \$10 Million and Up

This major increase in volume is due to a large number of institutional transactions. Through October of this year, there have been over 40 transactions valued at \$10 million or more—compared to 34 such transactions in 2014 and 20 in 2013.

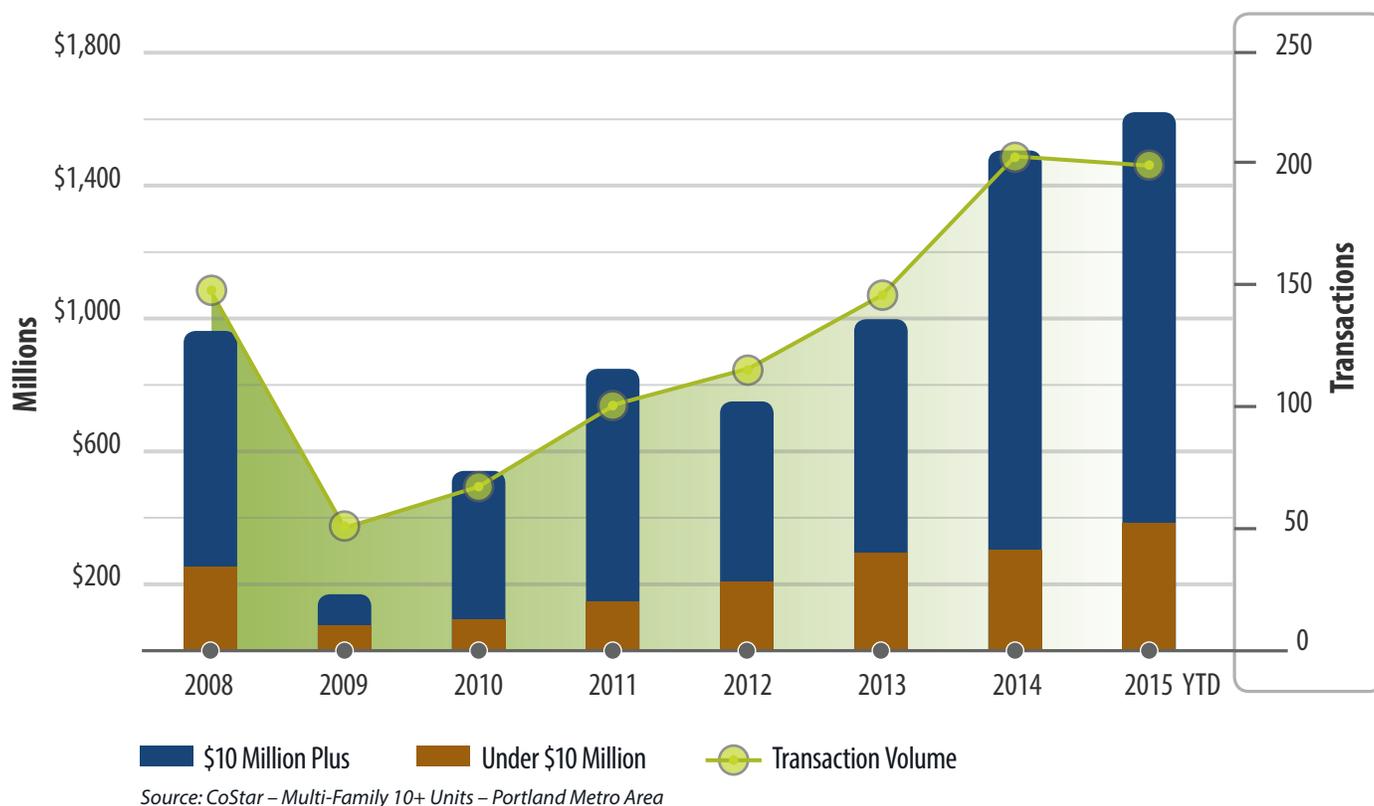
These 40-some transactions have accounted for over \$1.2 billion of this year's \$1.6 billion sales volume.

Investment capital aggressively seeks opportunities to achieve secure returns in markets with strong fundamentals. For now, Portland fits that description.

Capitalization rates (cap rates) are at the lowest levels we have ever seen. Assets in the core trade at rates from the low 4.00% to 4.5% range on the apartment income. Rates for suburban properties are up to 75 to 100 basis points higher. With so many buyers looking for opportunities, many yield-driven owners are able to achieve and capture their long-term performance targets with a sale in this environment. This has resulted in some-shorter-than normal hold periods, with more apartments going to market.

We see a wide range of price-per-unit and price-per-square-foot valuations, depending on building age, location, condition, value-add component and the ability to put new debt on the property. In general,

## PORTLAND METRO AREA TRANSACTIONS



price-per-unit and price-per-foot numbers are breaking records. For core-located assets, these through-the-roof numbers are driven by strong rental growth, as opposed to cap rate compression. We have seen continued rate compression in suburban markets such as Gresham and Vancouver.

### Non-institutional, Private Client Transactions

As of October 31, 2015, the Portland market has seen 162 transactions priced under \$10 million with sales volume of over \$390 million. At this pace, 2015 will end up with approximately 200 transactions and more than \$460 million in volume. This is significantly higher than the 173 transactions and \$312 million in volume that occurred in 2014.

These increases are again due to our strong fundamentals and to the amount of private capital looking for suitable investments. We have seen continued compression in cap rates in this segment of the apartment market. Depending on location, condition and the value-add component, cap rates have been below 5% and up to 6.75%.

With acquisition financing available at around 4.00%, we feel there will be a continued demand for this asset class.

### Keep an Eye Out For These Factors in 2016

- **Rising interest rates:** interest rates will soar throughout 2016 with a potential corresponding rise of cap rates
- **The political climate:** the housing “state of emergency” in Portland—and the cost it may add to apartment operations
- **A push for seismic upgrades for unreinforced masonry**
- **The affordability of rentals:** much depends on the sustained income growth across all classes. If not—what happens to rental rate growth?

### Predictions for 2016

- Investor demand for all apartment types will continue to be strong
- Multifamily values will continue to appreciate due to the increase in rents—as opposed to the continued compression of cap rates
- New construction will continue. With the increase in construction costs, combined with higher rents and other submarkets, we may shift of some of the new building to being located outside of the close and core market



**TOPIC: GOVERNMENT**

## Shaking Up Downtown?

HFO-TV recently completed a three-part interview series examining an expected spring 2016 city council vote on an ordinance requiring seismic reinforcement of masonry buildings in the City of Portland.

**Part I:** HFO broker Lee Fehrenbacher interviews Walt McMonies, the owner of an unreinforced masonry building. McMonies is a member of the Oregon State Seismic Safety Advisory Committee and the historic preservation group Restore Oregon.

**Part II:** Marketing Director Aaron Kirk Douglas interviews Brian Gerritz, President of Pavilion Construction, who expresses his concerns about the ordinance.

**Part III:** Partner Greg Frick interviews Carmen Merlo, Director of Portland's Bureau of Emergency Management. Ms. Merlo discusses the reasons behind the City's likely future plans to require upgrades for the city's unreinforced masonry buildings.

**TOPIC: PROPERTY MANAGEMENT**

We caught up with Leif Anderson, director of business development for Princeton Property Management, who shared information on the latest trends in apartment management.

**TOPIC: PROPERTY VALUES**

Partner Greg Frick addresses apartment market valuations with MAI Appraiser Jeremy Snow of Colliers Valuation Services.

**TOPIC: LENDING & FINANCE**

Partner Greg Frick discusses the current multifamily lending environment with Mark Paskill of Intervest.

## THE GOLDEN AGE OF APARTMENTS (CONT.)

At some point, when we look back at 2013-15—and maybe through '16 or '17—this will be remembered as the Golden Age of apartments in our area. The amount of demand, on the rental and investment sides, has risen to unprecedented levels. With the continued strong fundamentals of the market, we may include 2016 and 2017 in the Golden Age as well.

Our market shows no signs of weakening in the near future. ●



*Greg Frick is a founding partner at HFO. with more than 25 years of multifamily investment sales and advisory experience in Oregon and SW Washington. Greg is one of the region's most respected brokers, and has developed a credible reputation among apartment owners, investors and competitors, for providing superior client service. Greg can be reached by phone at (503) 241-5541 or by e-mail at [greg@hfore.com](mailto:greg@hfore.com).*

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# Back to the Future?

By Mark Paskill, VP, Intervest



Increasing short term interest rates continue to be a topic of conversation, in anticipation of the Federal Reserve bumping rates this month. Despite international economic concerns the US economy continues its recovery from the great recession with second quarter GDP growing 3.7% (beating analyst expectations) and national unemployment falling from 5.3% to 5.0% in November. For some investors a rate increase will be a new experience, given that the central bank last raised rates almost 10 years ago, in June, 2006! A rate bump will mark the end of an era of near zero rates and give financial markets a formal acknowledgment that the Fed believes our economy is on solid footing. Once the Fed finally makes its move, short-term rates will likely continue to rise at a slow measured pace over the coming years.

Apartment owners have greatly benefited from increased cash flow with the compression of Treasury yields, and from corresponding long term rates begun in 2007. Unlike shorter term rates, treasury yields—the primary benchmark for longer term rates—are market driven, rather than directly controlled by the Fed. Many investors will recall that, during the 2007-08 time frame, 10-year fixed rates stayed (?) in the upper 6% range, due primarily to a higher treasury yields. In 2008, just before the market fell apart, following the collapse of Lehman Brothers, the 10-year treasury yield hovered around 4%, which was considered attractive as it was down from 5% in 2007. Flash forward to today's yields of around 2.20% — nearly half of the 2007 level — and a 4% or 5% treasury yield looks almost as unbelievable as a time-traveling car. Today we have become accustomed to 10 year fixed rates in the mid 4% range and shorter term rates such as Freddie Mac's 5 year 80% LTV program in the low 3% range. The only similarity to 2007 is the return to Interest Only (IO) structured loans and the slow return of the CMBS market. Today's borrowing environment remains very attractive!

In the near term we do not anticipate a material rise of the 10-year treasury. At some point, rates are anticipated to begin returning closer to 2007 levels. Rising interest

rates usually drive overall values down — directly affecting investor returns and putting upward pressure on cap rates. But this hasn't happened as of late. Cap rates have remained steady and, in some respects, have fallen lower — even with the 10-year Treasury making top to bottom swings of up to 50 basis points during the past 12 months. Would an initial 1/4% increase by the Fed on the shorter end really have much impact on the market today? The likely answer may be no. There are still very few alternative investments in the market that satisfy tax liabilities and provide investors necessary yields — both of which far outweigh any minor differences in cash flow from modestly higher rates. ●

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Vice President

Intervest

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# New Construction Exemption for Multifamily Projects

By Christopher K. Robinson, Attorney at Law



With the proliferation of new construction, the importance of ORS 307.330 could not be greater.

To incentivize new development, the Oregon Legislature passed legislation which provides an opportunity to exempt newly constructed improvements for up to two years. The requirements are as follows:

1. The property is income-producing;
2. The property is under construction as of January 1 for the year in which the exemption is sought;
3. There has been no occupancy or income prior to that date; and
4. Construction is expected to take more than one year from commencement.

Commencement of construction is normally interpreted to be the pouring of foundation for the vertical building. Demolition and land preparation do not qualify as commencement of construction. Income producing properties include development of condominiums for sale. *North Harbour Corp. v. Dept. of Rev.*, 16 OTR 91 (2002).

The application deadline is April 1 for the tax year in which the exemption is sought. There is no provision for late filing. In the absence of an application for exemption of the improvements in the ground, as of January 1 2016, will be subject to property tax based upon cost. For example, let's say that you have spent \$10,000,000 on construction of improvements as of January 1, 2016. If no application for cancellation of tax for those improvements is filed, those improvements would incur a property tax application in Multnomah County to \$116,041. By exempting the improvements, the owner/developer improves the overall return on the cost of construction.

Finally, timing is important to maximize the benefit of the exemption. Development should commence early in the calendar year. If you commence construction late in the calendar year you are not taking full advantage of the exemption. Please remember that this exemption applies to all types of income producing properties. ●

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# Should Oregon Thank California for its Current Growing Pains?



By Spencer Marona, Managing Director, HFO

Oregon's historic campaign slogan of "Welcome to Oregon – Please Enjoy Your Visit" seemed to reappear recently—in a new and vitriolic form—as residential For Sale signs were tagged with "No Californians" stickers. For those who want economic expansion, it seems important to step back to ask ourselves: "Do we really want to bite the hand that feeds us?"

On September 22nd, Josh Lehner, with the Oregon Office of Economic Analysis (OEA), posted an online report which commented on Oregon's economic outlook. His statement included this:

*Migration is vital to Oregon's economic health. It is one of the two primary reasons Oregon outperforms the typical state during an economic expansion... Americans want to live in and move to Oregon... our state's ability to attract skilled, young working age households is a huge economic benefit.*

True to Lehner's statement, an estimated 128,000 new residents migrated to Oregon in 2014. The U.S. Census Bureau reports one out of four (roughly 32,000 people) are moving to Oregon from California. Low cost of living, a wider array of employment opportunities and superior

quality of life are among the enticements that caused Oregon to lead the nation, in 2014, for in-migration. The arrival of Californians, among residents from other states, is nothing new.

According to *Rich States, Poor States*, published by The American Legislative Exchange Council (ALEC), \$6.5 billion moved from California to Oregon between 2003 and 2013. This influx of capital, alongside growing in-migration, has impacted employment growth and the state's booming multifamily market.

Portland continues to lead the nation in effective rent growth, at 14.3% year over year as of October, 2015 according to MPF Research. Driving heightened rents are a high level of sales transactions for multifamily properties.

Between the start of 2014 and September, 2015, almost one fifth of all multifamily properties of eight or more units were purchased by California buyers. According to CoStar, those buyers paid \$1.25 billion in aggregate value for property in the greater Portland-Vancouver-Salem markets. New residents and multifamily investors from California have affected Oregon's multifamily industry—and our economy as a whole—through these investments.



These investment funds might not be pouring into Oregon's economy without an analysis of Oregon's sustainable employment market. Companies like Apple, eBay, Google and Under Armour are claiming Oregon ground, as companies like Nike undergo significant expansions. These companies and others are gambling on the hope that newly created jobs will be filled. With increased employment opportunities comes new demand for living spaces.

Other industries, such as retail and education, also feel a positive effect from this growth. More employed workers spend more money—thus creating a flywheel effect.

The multifamily market has a less positive flipside. The impact of California capital and in-migration may become too much of a good thing. According to the *Oregonian*, potential residents have awaited 22,000 new apartment units to be delivered since 2012. As well, vacancies are practically non-existent. The demand for rental units is so strong that Portland's City Council declared a housing state of emergency on October 7, 2015.

Rents in the Portland-Vancouver market have skyrocketed due to its extraordinary 97% occupancy rate. This has caused an increase in the homeless population. The *Oregonian* reporting an approximate 1,800 people live on the streets in Portland.

The ultimate impact of these stresses on the rental market remains to be seen. The Portland City Council recently increased the notice period to evict or raise rents from 30 to 90 days for rents over 5%.

As job growth continues, and Californians plant their money in Oregon, our golden age of apartment investments seems poised to continue, regardless of outside pressure. ●

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## NEWS FROM THE NORTH OF US

Now, more than ever, we are connected to markets like San Francisco and Seattle. We thought you would find this third-quarter Seattle market report by Dupre & Scott of interest. Many of today's investors compare and contrast the growth patterns of gateway cities like San Francisco and Seattle with Portland as part of their investment strategy.

## Seattle Development Update

Courtesy of **Dupre+Scott Apartment Advisors**

Seattle area developers opened almost 7,400 units last year. That's the highest level of production we have seen since 1991. And that's just the beginning. This year developers will open more than 11,000 units. A year ago we were expecting 14,500 units would open this year. The total dropped because some projects got pushed into 2016. Those delays have helped boost our 2016 forecast from the 9,400 units we anticipated a year ago to 11,000 units currently.

Will all of these new units actually happen? Well, there are two correct and contradictory answers to that question. The first answer is yes, because all of the units scheduled to open this year are already under construction. And nearly 90% of the units scheduled to open in 2016 are already underway with most of the others expected to start construction in the next few

months. The second answer is no. Construction delays will push some completion dates into the next year.

Let's face it, 20,000 or more new units opening in just two years is a lot of production. But wait, there's more. Developers are already planning to open another 32,000 units after 2016. Will all of these units happen? Maybe not. Less than 20% of those units are under construction now, so some may get shelved or at least delayed.

The market vacancy rate is 3.5% in the Puget Sound region, unchanged from last spring. The market rate excludes vacancies in new properties in lease-up.

We thought both rates would be a little higher than that, hovering around 4% and 5% respectively until the middle of next year. But job growth and in-migration

## SEATTLE DEVELOPMENT UPDATE (CONT.)

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were stronger than expected, which increased demand. As well, some new projects that were scheduled to open in the past six months were delayed.

Rents rose 5.6% in the region since March and are 8.3% higher than they were a year ago. Most of each year's rent growth usually takes place between spring and fall, and this year is no exception. But properties didn't really raise their rents that much. One thing investors need to be careful about right now is the impact that new construction has on rent trends. New units rent for more, distorting rent trends. We call this the skew of the new. New construction costs more and typically gets a rent premium of more than 40%. And with so much new construction happening, and a lot more to come, this rent distortion is becoming significant. Investors need to take this into account more than ever.

Here's why. When you exclude the new units that opened this year, rents rose 6.4% — not 8.3% — over the past year. That's a more accurate measure of actual rent increases. And we're just beginning to see the distortion that new construction will create.

New construction doesn't just impact rent trends. It also has an effect on rents in existing properties. This impact is moderating, at best.

We're already starting to see that happen in Seattle, where a lot of new construction is taking place. Rents rose 5.1% in Seattle over the past 12 months — excluding new units that opened this year. That's a smaller increase than the 6.9% raise experienced by the rest of the region, excluding Seattle. And it's down from the year before, when Seattle rents climbed 8.1%, excluding new units that opened last year.

But wait — there's more. If you look at the in-city Seattle market where a lot of the new units are happening — between the stadiums, Ship Canal, Lake Washington and Puget Sound, the impact of new construction on rents is even more obvious. Adjusting for new construction, rents went up just 3.9% in the past 12 months. That's down from 8.4% a year earlier. We expect the rate of rent increases to slow further as more new units open over the next few years. ●

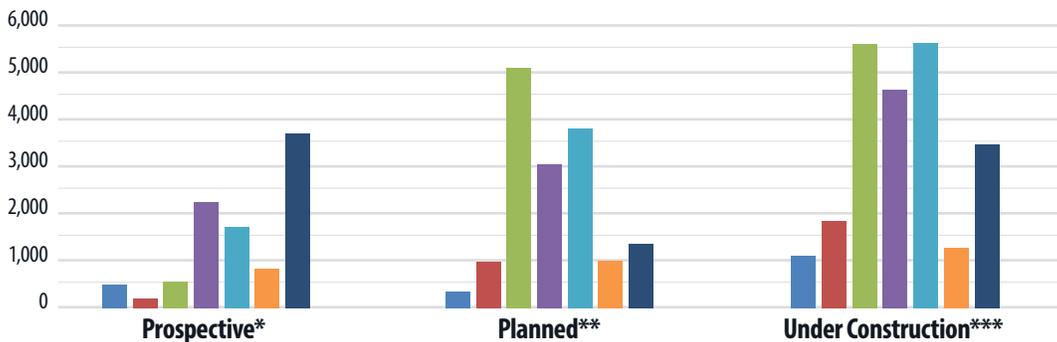
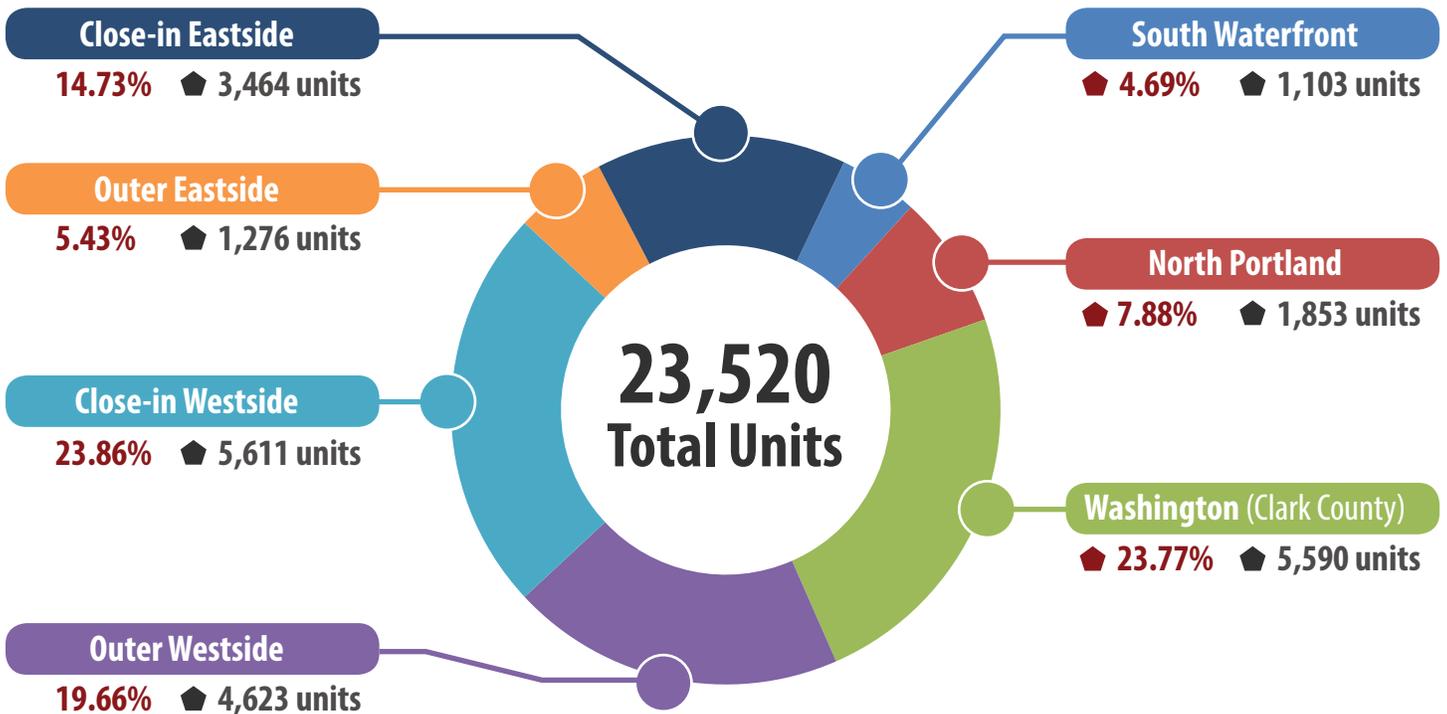


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# HFO PORTLAND MARKET DEVELOPMENT PIPELINE

Units Under Construction and Planned Units



- ◆ Percentage under construction and planned
- ◆ Units under construction and planned

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- Close-in Eastside
- Outer Eastside
- Close-in Westside
- Outer Westside
- South Waterfront
- North Portland
- Washington (Clark County)

HFO Research staff tracks the total number of all known units currently under construction. Including planned projects, the total is **23,520**. The chart to the right was last updated Oct 13, 2015. If all of these units were built, the pie chart shows where they would be located.

\*Prospective - Permits have been submitted.

\*\*Planned - Construction permits have been issued.

\*\*\*Under Construction - Construction has begun at the site.

Source: Newspaper reports, city permit offices, HFO research. Copyright 2015 HFO Investment Real Estate. All rights reserved. Reproduction without permission strictly prohibited.



# Legal Round Up: Developments Affecting Landlord Rights



The DirtLaw™ attorneys at Jordan Ramis PC keep their eyes on recent developments affecting rental property owners. There is much to report.



## Recreational and Medical Marijuana is Legal and I have to Allow it . . . Right?

By Jacob Zahniser,  
Attorney at Law

Oregon and Washington both have laws permitting the possession and use of medical and recreational marijuana by adults over the age of 21. However, marijuana possession and use remains illegal under federal law. Landlords have the right to decide whether to allow it on their residential rental properties.

An Oregon and Washington residential landlord may prohibit marijuana growth and consumption in its units or on its property. In Oregon, the Supreme Court ruled, in 2010, that federal law takes precedence over Oregon’s medical marijuana law, and that employers do not have to accommodate employees’ use of medical marijuana. Similarly, in Washington, the Supreme Court ruled that an employer may discharge an employee for medical use of marijuana. By analogy, possession and use of

marijuana is not a reasonable accommodation — or an ADA-compliance issue — for landlords.

In addition, the Fair Housing Council of Oregon published a policy statement that “no one has to allow medical marijuana users to use it [in their housing].” The Bureau of Labor and Industries announced that the “Civil Rights Division will not investigate housing claims of discrimination pertaining to the use of medical marijuana.”

Similarly, the Washington Human Rights Commission determined that “a claim of failure to reasonably accommodate a disability” arising out of the use of medical marijuana will “most likely result in a No Reasonable Cause Finding.”

In sum, landlords have it within their control to enact rules and regulations prohibiting the on-premises growing or use of marijuana. Still, pitfalls remain; consult an attorney when implementing marijuana rules at your residential rental properties. ●

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## City of Vancouver Enacts “Vulnerable Renter Protections” Ordinances

By Scott Anders,  
Attorney at Law

In response to rising rents and declining vacancies, the City of Vancouver enacted new rental property ordinances for residential landlords. The ordinances, which went into effect October 21, 2015, are summarized below.

**60-Day Eviction Notice.** The new ordinance provides an affirmative defense to some residential month-to-month renters. In the case of eviction by a landlord who owns five or more rental units and gives 20 days’ notice, as required by state statute, the new ordinance gives the tenant the right to require a 60-day notice if the eviction is for “no cause”—so the total notice requirement can become 80 days. Landlords would be wise to give a 60-day notice at the beginning. The ordinance does not affect notices to terminate a tenancy “for cause.”

**45-Day Notice of Rent Increase.** Landlords within the City of Vancouver must give 45 days’ notice if the landlord plans a rent increase of 10% or more. The 10% is calculated over the previous 12 months of rental history.

**Source of Income Protection.** Landlords may not refuse to rent to a prospective tenant based on the legal source of the applicant’s income, including Section 8 rent vouchers. In addition, if the landlord uses income screening criteria, the landlord must subtract the amount of the voucher from the rent owed before applying these criteria.

These ordinances apply to all residential rental agreements entered into or renewed after October 21, 2015. Landlords should consult their attorney and include these provisions in their rental agreement forms. ●

*Partner Scott Anders practice areas include land use and real estate law. He can be reached at (360) 567-3904 or via e-mail at [scott.anders@jordanramis.com](mailto:scott.anders@jordanramis.com).*

## City of Portland Enacts New Renter Protections

By Tegan Schlatter,  
Attorney at Law



As of November 13, 2015, landlords in Portland, Oregon must give residential tenants 90 days’ written notice before raising rent or evicting tenants without cause. If a landlord fails to give 90 days’ notice, the landlord will be liable to the tenant for a range of remedies, including actual damages the tenant suffers, the tenant’s attorneys’ fees and costs, and up to three months’ rent.

Portland’s new rule, Section 30.01.085 of Portland’s Affordable Housing Code, only applies to residential rental agreements governed by ORS Chapter 90, which applies to most residential rental agreements. The new rule does not apply to termination of week-to-week tenancies, or to tenants who live in the same dwelling unit as the landlord. The new rule does not affect notices to terminate a tenancy “for cause.”

Any rent increase totaling 5% or more, over any 12-month period, is subject to the rule. As a result, landlords should plan ahead in order to leave sufficient time to give the required 90 days’ notice, which must include the amount of the increase, the new rent amount, and the date the new rent becomes effective.

Property owners and property managers should read, and begin to implement, this new rule, which became effective November 13, 2015. This article does not address all details of ORS Chapter 90, or the interaction between ORS Chapter 90 and the new code provision. To ensure compliance, it’s best to consult your attorney and read the text of each for full information. ●

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# Investment Property Won't Sell? ... Perhaps It's Not the Price

By Trevor Calton, Senior Broker, MBA



When investment real estate is hot, or even when it's slow, sometimes you miss the market and have a property sit too long, losing momentum — and buyer interest — while everything else seems to be moving. Many sellers think price is the only variable. But in investment real estate, price is just one piece of the puzzle. If a property hasn't sold, it could be something else, or a combination of issues. The good news is that there are only four reasons an investment property doesn't sell, and all of them are under your control.

**Price** – Yes, the most obvious factor is price. How did you establish your asking price? Did you grab it out of thin air when you “heard the property down the street sold for \_\_\_?” Or did you take an analytical approach? Sure, you want to get top-dollar for your property, but if you price it too high, you'll get nothing.

When determining the selling price for your property, look at it from a buyer's perspective. Would you buy it at that price? Be realistic. Also, be sure to find out how much debt financing a buyer can get on your property. A good mortgage broker can give you multiple potential loan quotes fairly easily, if your books and records are organized. Cash buyers are rare, so knowing what size of a loan your property will support will help you determine its market value. If the cash-on-cash return is too low, buyers will take their money elsewhere.

**Income** – Take off your “owner's hat” for a moment and start thinking like an investor again. Have you been managing for occupancy rather than value? Have you been more concerned with vacancy than with maximizing rents? Remember, investors are ultimately just buying your net operating income (NOI). If you want



## INVESTMENT PROPERTY WON'T SELL? ... PERHAPS IT'S NOT THE PRICE (CONT.)

buyers to pay your asking price, make sure the income is there. Remember: a property's value is equal to its NOI, divided by the market cap rate.

Look at both your revenue and your expenses for areas to improve income. Ask your broker for his opinion on your operating statements, and find out how your property performs compared to other similar properties. Then start thinking outside the box.

**Physical Condition** – Did you personally conduct a thorough inspection of your property? If it hasn't sold, it's time to see it with your own eyes. Take a look at the interiors, exterior, landscaping, roof and structure, and identify any items that may need to be addressed in the next five years. You know a buyer will do the same thing, and having this information beforehand can work to your advantage. Important items to look for are structural deficiencies, mold, pests, leaking windows, safety hazards, old appliances, paint, carpet and floors.

If you spot a glaring problem, consider taking care of it now instead of leaving it for the buyer. If you would rather not deal with it, then you won't be as surprised by low offers or if a buyer requests a credit at closing for the deferred maintenance. Either way, if you know about it in advance, you can choose how to handle it, and maintain the upper hand in any negotiations down the road.

**Marketing** – Finally, a successful sales strategy is all about exposure to qualified buyers. When it's time to sell, don't underestimate the value of a good marketing platform, and be willing to pay for it. 80% of investment properties are sold through by the top 20% of real estate agents for a reason: marketing to the right buyers.

Investment properties are purchased by a very small subset of the population, primarily for their ability to generate a solid return and create wealth. Successfully selling your property requires getting complete and accurate information in front of motivated buyers at the right time.

Look for experienced agents who have a robust network of clients, a strong track record of sales of similar properties, and who utilize "push" marketing tactics such as email, direct mail, and good old-fashioned phone calls. Ask your real estate agent to provide formal marketing reports, and to add you to their mailing list so that you are included in their campaign to sell your

property. This will enable you to observe their efforts from the market's perspective.

Once you've taken a look at these four factors – **price, income, physical condition, and marketing** – you'll certainly find the reason your property hasn't sold. Even in the most tumultuous market, buyers will always be out there looking for good, fair, reasonable deals. If your property hasn't sold and you make the appropriate adjustments, you should start seeing offers immediately. ●

*Trevor Calton is a Senior Broker at HFO, and Professor of Real Estate Finance at Portland State University. Trevor can be reached by phone at (503) 241-5541 or by e-mail at [trevor@hfore.com](mailto:trevor@hfore.com).*



The advertisement for Pavilion Construction features a logo at the top center, consisting of a stylized green 'P' with a white circle inside, above the text 'PAVILION CONSTRUCTION' in green. Below the logo are four photographs showing construction sites. The top-left photo shows a site with a wooden fence and a sign that says 'PAVILION'. The top-right photo shows a multi-story building under construction. The bottom-left photo shows a site with wooden framing and a blue crane. The bottom-right photo shows a completed multi-story building. Below the photos is the text 'BUILDING YOUR VISION' in green. At the bottom of the advertisement is the contact information: '6720 SW Macadam Avenue, Suite 310, Portland, OR 97219, 503-290-5005, pavilionconstruction.com'. A small copyright notice '©2014 Pavilion Construction NW, LLC' is visible in the bottom right corner of the photo area.



Q & A with USI Insurance

## Apartment Owner & Manager Liability for Data Breaches

**QUESTION:** Can you explain cyber-liability and data breach?

**ANSWER:** The term cyber-liability is often used to describe a range of cyber-exposures which could include:

- **Data breach:** Files held on apartment tenants are voluminous and detailed, and include all sorts of personal and financial information that is extremely valuable to identity thieves. When this database is hacked, or personally identifiable information on residents, employees or applicants is compromised, apartment owners and managers can find themselves confronted with substantial costs. Breaches can occur while data is stored and inactive, during transmission and when hard copies are being transported or discarded.
- **Social Engineering Exposures:** Social engineering techniques are being used to induce businesses to break normal security procedures. This can lead to a transfer of substantial monies to fraudulent third parties.
- **Cyber-extortion risk:** This involves a demand for money to avoid — or stop — a cyber-attack or release of resident or applicant information. Companies are paying out millions of dollars to cyber-criminals for the safe recovery of stolen or encrypted data.

**QUESTION:** Why should an apartment owner or manager be concerned with data security and cyber-breaches?

**ANSWER:**

- The risk associated with data security and cyber-breach continues to grow.
- Cyber-criminals have become more creative and their attacks increasingly destruction. The Real Estate industry has historically not been targeted as aggressively as retail, financial services and healthcare.
- Increasing reliance upon technology within the real estate sector and the fact that apartment owners and managers are creating, using, storing and sharing more information than ever should compel them to take a serious look at these exposures and how they are managed.
- For example: rental applications, credit reports, leases and rental agreements contain personal information of applicants and tenants – precisely the type of information targeted by cyber-criminals.
- It is vital that firms secure these documents. The “disposal rule” of the Fair and Accurate Credit Transactions Act (FACTA), a federal law enacted in 2003, states that disposal of these records must be through incineration or shredding. Even small landlords are obligated to comply with this requirement.

**QUESTION:** What measures should apartment owners and managers take to prevent a cyber-breach?

**ANSWER:**

- Make sure you are familiar with state data security and breach notification laws and institute company-compliance programs accordingly. Oregon recently expanded its data-breach law for 2016. (Refer to S.B. 601, [www.oregonlegislature.gov](http://www.oregonlegislature.gov))
- Maximize internal security measures to prevent a data breach. Limit access to electronic and paper records to necessary employees and require employees to update passwords with stringent password protocols.
- Educate employees on security risks. Employees should be reminded to lock computers, file cabinets and offices when away. Staff should pay very close attention to their mobile devices and laptops when transporting them.
- Dispose of unnecessary hard and electronic records containing personal information.
- Perform due diligence when hiring third party vendors, and understand that you may still be considered the primary custodian and face legal challenges in a privacy breach.
- Transfer the costs of a cyber-breach to a cyber-liability insurance policy.

**QUESTION:** What is the average financial impact of a cyber-crime?

**ANSWER:** In 2014, data breaches cost U.S. businesses \$194 on average, per compromised record. Costs increase if the attack is not resolved quickly. The average time to resolve a cyber-attack is 24 days. The average value of a lost laptop is \$49,246 after a data breach—80% of which is for lost data, compared to 2% for the cost of replacing the laptop.

To investigate and remediate a breach, forensic companies are often hired to identify its source. The cost of these investigations can be in the hundreds of thousands of dollars.

Notifying those whose confidential information may have been compromised can be costly as well as providing credit monitoring services to those who were compromised.

**QUESTION:** Does buying a cyber-liability policy make sense for an apartment owner or manager?

**ANSWER:** Buying some level of cyber-insurance makes sense, regardless of the size of the company. Every company has some level of private information that can expose them to legal claims. Whether you purchase a small sublimit on your business owner's package policy, or purchase a stand alone cyber-liability policy, be sure coverage isn't contingent upon actual damage to those whose files were compromised, as notification, protective response, legal defense and forensic costs can still pile up. ●



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# HFO Current Listings

Eugene, OR



**Riverwalk Apartments • 272 units**  
Unpriced

Gresham, OR



**Grant View Court • 80 units**  
\$6,320,000

Medical Lake, WA



**Lakeside Apartments • 65 units**  
\$5,450,000

Portland, OR



**1607 Apartments • 20 units**  
\$7,750,000

Beaverton, OR



**Boston Square • 20 units**  
\$1,625,000

Portland, OR



**Green Tree • 12 units**  
\$1,140,000

**Put us to work for you! Call: (503) 241.5541**

# YOUR HFO TEAM



**Cody Hagerman**  
*Founding Partner*



**Gregory Frick**  
*Founding Partner*



**TYLER JOHNSON**  
*Partner*



**ROB MARTON**  
*Partner*



**SPENCER MARONA**  
*Managing Director*

Spencer holds 13 years of brokerage, sales and management experience. Spencer joined HFO from the country's largest investment real estate firm managing sales, recruitment and training for offices throughout the west. Spencer oversees HFO's company strategy and execution of the firm's short and long-term objectives.



**Donna Brunner**  
*Director of Operations*

Donna brings over 22 years of real estate experience to the HFO team. She previously managed a portfolio of over 15 apartment communities and 1,000-plus units. Mostly recently, she spent nine years as Operations Manager for the largest real estate investment company in the U.S.



**TREVOR T. CALTON**  
*Senior Broker, MBA*

Trevor Calton has worked in commercial real estate and mortgage banking since 1997, and is regarded as one of Portland's top commercial real estate investment advisors. Trevor was previously Assistant Director of Asset Management for the Housing Authority of Portland.



**JACK STEPHENS**  
*Broker*

Jack has six years of experience in multifamily investment real estate. In 2013, Jack was recruited from a national commercial real estate firm to join HFO as a research analyst before transitioning into brokerage. A native from Portland, Jack leverages his invaluable insight towards the ongoing success of his clients.



**LEE FEHRENBACHER**  
*Broker*

For five years, Lee has been following the commercial real estate market closer than most local experts. Prior to joining HFO, he was a reporter for the *Daily Journal of Commerce*, where he wrote hundreds of articles on Portland's real estate market. Lee is skilled in multifamily property valuation and real estate finance.



**Tyson Cross**  
*Broker*

Prior to his arrival at HFO, Tyson was a property manager with Cassidy Turley. He oversaw leasing and operations for 10 properties totaling 350,000 Sq. Ft. Tyson's past experience combined with a methodical and collaborative approach to every client's unique investment strategy consistently delivers results.

## YOUR HFO TEAM (CONT.)



**Cody Vaz**  
*Broker*

Cody was a top producer in the wine sales industry with E&J Gallo, one of the country's most competitive and reputable professional development programs. Cody's communication skills, attention to detail and team-oriented attitude raise the bar in providing superior service to HFO's clients.



**Todd Tully**  
*Broker*

Todd has five years of experience in commercial real estate. His work in retail and multifamily areas has included a wide variety of assignments, including research, construction administration and safety compliance. Most recently, Todd was Construction Manager for Metropolitan Land Group.



**Brittany Howe**  
*Broker*

HFO recruited Brittany from the home building and real estate industry, where she invested in her first commercial property at the age of 18. Brittany's passion for the multifamily investment industry, creativity, intuition and analytic skills allow her to provide a superior client experience on a daily basis.



**Connor Hyde**  
*Broker*

Connor Hyde brings years of multifamily property management and leasing experience to HFO, including work for some of the biggest names in Pacific Northwest: Greystar, AvalonBay and Holland Residential. Connor has worked in the Portland, Washington D.C. and Seattle apartment markets.



**Krista Clarkson**  
*Transactions Coordinator*

Krista has over six years of client-focused experience in the commercial real estate, health, and financial / banking industries. After wearing many successful hats as an office manager and making the jobs easier for those around her, Krista was promoted to Transaction Coordinator, where she focuses primarily on compliance and contract review.



**Mary Beth Christopher**  
*Property Analyst/Underwriter*

Mary Beth has more than 17 years of experience in the apartment industry, including underwriting, evaluations and transactions coordination for over 17,000 apartments in Oregon and Washington. She brings her talents in apartment property financial analysis and research to the team, delving deep into the numbers and finding the unique story behind every property.



**Aaron Kirk Douglas**  
*Marketing Director • CCO*

Aaron uses his 19 years of marketing experience in creating all our property marketing programs and brand management along with planning and executing our communications and events including HFO-TV. He has earned national awards in marketing for his work at HFO, Miller Nash, and Barran Liebman law firms.



**Tien Nguyen**  
*Graphic Designer*

If you appreciate HFO’s graphic design, you have Tien to thank. He puts his talent to work for HFO clients every day for proposals, offering memoranda, direct mail pieces, and every other marketing piece that requires a trained designer’s eye. He previously spent eight years as the lead designer for Ankrom Moisan Architects.



**Kelsey Turner**  
*Office Coordinator*

HFO is delighted to have Kelsey on the team. She brings a wide range of detail-oriented experience as an office coordinator and data entry clerk. She keeps our office running smoothly and assists with many marketing-related tasks. Hers is the friendly voice answering calls, so say hello and introduce yourself the next time you ring!



**Matt Klemsz**  
*Property Analyst/Underwriter*

Matt works directly with the sales team on valuations of individual properties, portfolios. He also analyzes micro- and macro-economic market drivers in each submarket. He began his career as an investment analyst intern for Bohemian Asset Management in Vancouver, Washington where he focused on underwriting multifamily properties.



**Matt Reynolds**  
*Research Analyst*

Matt is responsible for the management and data integrity of HFO’s proprietary shared database. Matt works closely with every department, primarily the sales and underwriting teams by providing them with superior research on property records, sold comps, rent comps, and related market data.



**Jennifer Shuch**  
*Research Analyst*

Jennifer is the latest addition to the HFO research team. Her prior work experience includes research and preparation of client presentations at Goldman Sachs’ offices in Washington DC and New York.

We’ll soon unveil a new website where you can learn even more about our team members, including which one of us is colorblind, who used to be a sous chef, who is a Rose Bowl Champion and who is author of a new book being published in January.

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# Keeping Up on Technology Can Benefit Multifamily Owners

By Matt Reynolds,  
Research Analyst, HFO



There is an explosion of new technology available today, disrupting all industries. Multifamily real estate is no exception. After many years of resisting change, many multifamily professionals appear to be welcoming and adopting new technology. With this comes an increasing need to use technology to successfully compete in the multifamily world.

We have recently seen the emergence of a plethora of new technologies relating to all aspects of multifamily real estate. It remains unclear which ones will become ubiquitous, which will remain moderately well adopted or quickly forgotten. Adopting effective concepts early — and ignoring unsuccessful ones — can often be the key to giving you an edge over your competition.

The nature of marketing, in particular, has undergone a revolution. Social media has seemingly made potential clients or renters more reachable. The advantages to Internet mass-marketing seem obvious at first, while the downsides are harder to recognize. For starters, the competition for a potential renter's or clients' attention is greater. People are also increasingly able to deal with information on their own terms. Thirty years ago physical mail and telephones encompassed almost all remote communication. These days we have the added complexity of email, text messages, web conferences, social media and increasingly mobile applications. Choosing which information sources to view — and which to ignore — is much easier for people living in an age of diminished standardization. In short, there is more information and advertising out there, but people can view it on their own terms. So what, then, are good ways to reach customers?

The answer: make them come to you. Customers seek out the services they need on the Internet. If you happen to have the easiest interface, the most convenient service or the most engaging website features, you can be successful. Netflix and Amazon are perfect examples of website-based companies that dominate their

competition following these principals. For property managers, attractive websites for apartment properties — with online services and features — can be a real boost. Matterport, for example, has developed a relatively inexpensive (\$4,500) 3D camera that can create virtual, dimensionally-accurate tours of apartment units. With this technology, potential renters are able to seriously consider your property from the comfort of their bedroom — and at their own convenience. It also saves property managers a ton of time because it eliminates disinterested parties scheduling in-person tours.

Property management companies and developers are generally under the most pressure to adopt new technologies and amenities, because they are most exposed to renter demands. However, it is still useful for owners and investors to understand the demand for new technological conveniences so they can choose effective management companies — or know why they are having trouble renting their units for as much as other area properties that might have more conveniences and technology-based amenities. So ask yourself: are you aware of the latest space-age amenities benefiting renters in your area?

Currently, owners and property management companies in the Portland Metro Area have been somewhat insulated from the negative effects of slow technological adoption, due to the local housing crisis. When the vacancy rate is below 3%, potential renters are not likely to kick up a fuss over not being able to pay rent online from their phone. This might not be the case in a few years, when housing supply catches up with renter demand. Don't wait to start learning more now. ●

*Matt Reynolds keeps up on commercial real estate and database technology for HFO. He can be reached by phone at (503) 241-5541 or by e-mail at matt@hfore.com.*



# Representative HFO Transactions



The total value of our apartment investment transactions is over \$1.86 billion. Here are some of the most recent:

Property Name	Total Unit	Location
Steed Creek (Element 170)	237	Beaverton, OR
Powell Valley Farms	228	Gresham, OR
Aspen Village	162	Spokane Valley, WA
Fieldstone Luxury	154	Fairview, OR
Gardenbrook	120	Beaverton, OR
Desertbrook	110	Kennewick, WA
Ridgestone	103	Spokane Valley, WA
Appleway Rosewood	102	Spokane Valley, WA
Red Tail Canyon Condos	100	Portland, OR
Ridgewood Condos	96	Medford, OR
West Slope Terrace	96	Portland, OR
Ivy Lake Court	85	Portland, OR
Meridian Village	78	Tualatin, OR
Willow Creek	77	Hillsboro, OR
Colonial Gardens	72	Portland, OR
Farr Court	72	Spokane Valley
Central Eastside Lofts	70	Portland, OR
Vista Highlands	70	Gresham, OR
Wood Creek	70	Fairview, OR
Burrell Portfolio	65	Salem, OR
Halsey Summit	62	Portland, OR
Meadowbrook Apartments	48	McMinnville, OR
Oswegan	47	Lake Oswego, OR
Uptown at Lake Oswego	47	Lake Oswego, OR
Causey and Stevens Land	NA	Happy Valley, OR

Property Name	Total Unit	Location
Corso	46	Portland, OR
Foster Plaza	45	Portland, OR
Meadow Park	40	Beaverton, OR
Aspen Grove	40	Hillsboro, OR
Cedar Crest	40	Salem, OR
Carriage Estates	37	Wilsonville, OR
Concord Village	30	Portland, OR
Fircrest	24	Portland, OR
Causey Village	22	Happy Valley, OR
View North	20	Gresham, OR
Hollyhurst	18	Portland, OR
Cape Manor	17	Portland, OR
Raleigh	17	Portland, OR
Walnut Court Apartments	17	Tigard, OR
Claireview	15	Portland, OR
Rose Place	14	Portland, OR
Los Verdes	14	Gladstone, OR
Maple Grove Court	14	Milwaukie, OR
Willamette Falls Cottages	13	Oregon City, OR
Monte Verde	12	Gladstone, OR
Maple Place	12	Portland, OR
Mt View	12	Canby, OR
Bramble	10	Salem, OR
Columbia Apartments	10	St Helens, OR



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Holidays!**

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