

## Defining a “Good Deal” in Today’s Market

Define a good deal in today’s market. What does that look like in Portland? Seattle? Dallas? Miami? Omaha? Ask 1000 investors and you will receive a 1000 different answers. At Norris & Stevens, we receive calls from investors daily – those familiar with our market and others looking to enter our investment market.

As we prequalify the investors, we ask for their investment parameters and criteria. ***If an investor is looking for an A grade rental property at a 10 cap or higher, then we advise them to look in a different market. Those “deals” do not exist in Portland. (Why? Because our market is different.)***

The Urban Growth Boundary set into place a number of years ago has done a very effective job at controlling growth, stabilizing real estate values at higher rates than the national average, and keeping apartment vacancies relatively stable.

Yes, you can go to other parts of the country and purchase a Class A apartment property for a 10-12 cap. However, you also need to understand the dynamics and the underwriting criteria for that market. Cap rates are reflective of market condi-

tions. Although you are getting a class A property for a 10-12 cap, you are also purchasing the risk in that market.

***Those markets have historically higher vacancy rates- 10 % in a good market, 18-20% in a down market. They also reflect the inability to achieve high rent growth due to oversaturation. Even if you own a beautiful, 8 year-old property, it’s hard to raise the rents when your vacancy is near 20%, and a tenant can travel one mile down the road and rent a brand new apartment for less.***

So what IS a good deal in the Portland Metro area? Class A apartment properties are appraising for approximately a 7.0-8.0 cap on current underwriting standards from Freddie Mac and Fannie Mae. Jeremy Snow, at PGP Valuation, explained the new criteria. ***As long as the rental history of the property has remained relatively stable, underwriters will generally look at the trailing 3 months of actual collections and annualize that income.*** Expenses will generally be based on historicals, assuming reasonable management.

Underwriters are requiring the expenses to include replace-



**NANCY MCNEILL**

*Nine years’ experience in apartment brokerage. Previous experience in international business development in high tech telecommunications. BS in Business Administration from Capital University in Columbus, Ohio. Licensed broker in Oregon.*

[nancym@norris-stevens.com](mailto:nancym@norris-stevens.com)

ment reserves of \$250 per unit. The minimum vacancy factors being used are typically between 6-10%, inclusive of bad debt and concessions. Long gone are the proforma projections of the past. ***This new underwriting criteria will product a very different NOI, to which the new cap rates are applied.***

Lenka Keith, with Integra Realty Resources, explained the good new/bad news scenario of today’s market. Good news – Integra is very busy. Bad news – unlike in the past, when

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a high percentage of appraisals were done for underwriting of new sales, today the bulk of appraisal work represents asset valuation for the banks that hold the loans or for the FDIC. ***Based on today's new underwriting criteria, a number of properties are appraising at values that are less than what investors paid for them just 3 years ago.***

Here is what we can tell you about the Portland market. Class A properties are appraising in a range from 6.75-7.5% cap. The older, different class properties are being valued at higher cap rate/lower values based on this benchmark. If you are looking to invest in Portland, this would be considered a "good, market deal". If you are a seller, gone are the days of 5 cap deals – regardless of what you paid for your property.

***If you are considering selling your property, please contact Norris & Stevens for a realistic, property opinion valuation. Unlike others in the market, we are not in the business of "buying" your listings by creating proformas showing that you can achieve a 5-6 cap in today's market. We will value your property based on what is really happening in today's market, including a lender's view on underwriting the property.***

***The old saying "You get what you pay for" is very true in today's market. Therefore, it is very important to understand all aspects of market conditions, including cap rates and the risks associated with those cap rates.***

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