MULTIFAMILY MARKET ANALYSIS

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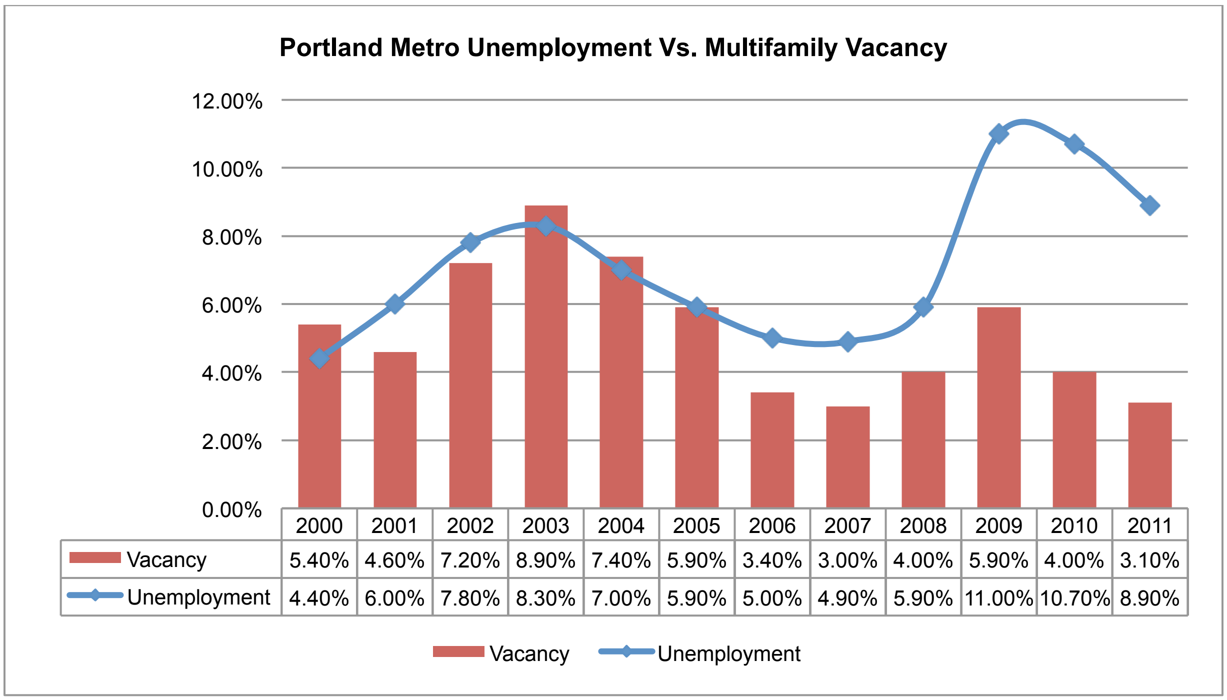
The apartment market in Portland remains strong as multifamily continues to lead the commercial real estate recovery. According to the November 2011 National Association of Realtors report, Portland had a 2.80% vacancy rate, which is among the lowest vacancy rates in the US. Strong rental demand has persisted as fewer buyers are drawn to the single-family market. According to the January 2012 Barry Report: "The apartment market has everything going for it, with increasing rents, increasing income, low vacancies, financing which is readily available, relatively slow apartment construction, and good investor demand." The report projects stronger performance in the market in 2012 and 2013 and forecasts that we are entering a "two to four year sweet spot in the market and the real estate cycle."

On the supply side, construction for multifamily in 2011 increased significantly from 2010, but is still far below historical figures. Through October 2011 permits have been issued for 1,559 units in the four county metro area, compared to 1,100 in 2010, according to the Barry Report. From 2004-2008 an average of 4,700 units came online annually. Half of the units being built are in the close-in areas where vacancy is lowest. The high demand for rentals is expected to persist over the next several years and absorb the new construction projects. It is expected that new construction will continue to ramp up, as more projects are approved in the coming year. Until these projects are delivered in 3-4 years, vacancy rates are projected to remain low and market conditions should remain strong for property owners.

Although the current and future state of the local and national economy is uncertain, people need somewhere to live. With more and more potential single-family buyers opting to rent instead of own, the demand for apartments continues to be strong. Nationally, revenue increased by an average of 5.8% and effective rents increased by 4.7% in 2011 according to MPF Research, a Carrollton, TX real estate research firm. Occupancy climbed 1.1% during 2011 to 94.6%.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Locally, the vacancy rate has been declining with the unemployment rate since 2009. In 2009 the vacancy rate was 5.9% and the unemployment rate was 11% and in 2011 the vacancy rate is 3.1% and the unemployment rate is 8.9%.

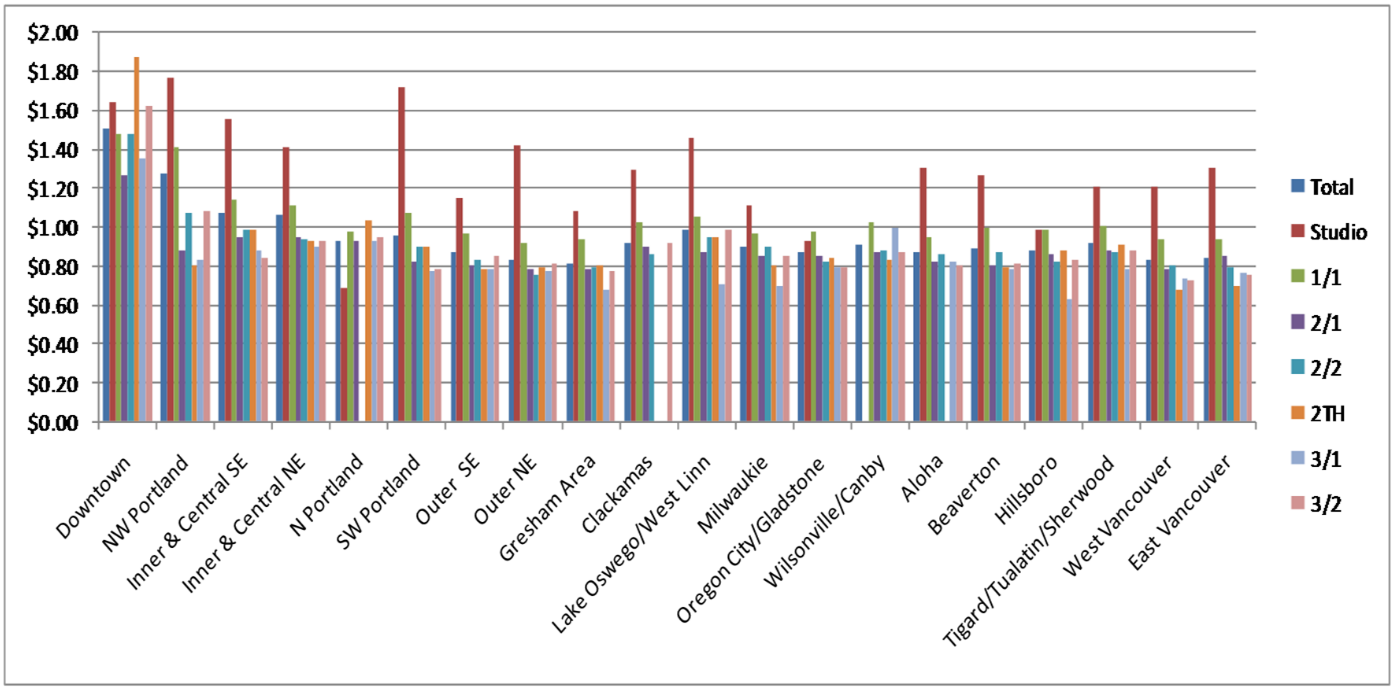
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 4.5% in Outer Northeast and NW Portland and the lowest was Oregon City / Gladstone at 2.3%. The highest vacancy rate among studios was Outer Northeast at 11.11%, while six submarkets reports 0% vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was Outer Southeast at 5.28%, while the lowest was N Portland with 0%. For 2 BD, 1 BA the highest vacancy was N Portland at 6.01% and the lowest was Oregon City/Gladstone at 0.37%. Downtown Portland had a 0% vacancy rate among 3 BD, 1 BA, but a 16.67% vacancy rate for 3 BD / 2 BA. This could be an indicator of families using less space, as Milwaukie, East Vancouver, West

Vancouver, Wilsonville/Canby, and Outer Northeast reported 0% for 3 BD / 1BA and modest vacancy rates for the 3 BD / 2 BA units.

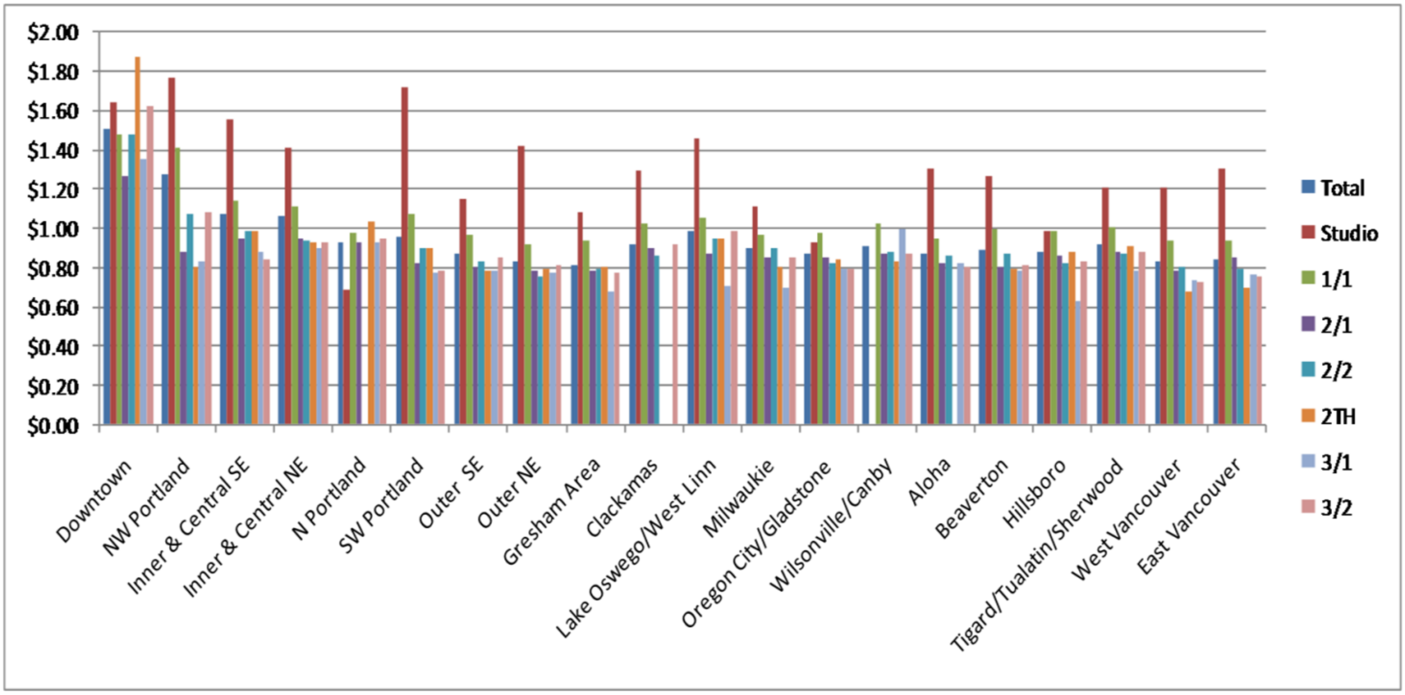
Figure 2: Vacancy Rates by Submarket 2011 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a $1.51 average, followed by NW Portland at $1.28. The lowest overall rent/SF is Gresham area, which includes Gresham, Troutdale, Fairview, and Wood Village at $0.81, followed by Outer Northeast and West Vancouver at $0.83. The highest rent/SF for studios was NW Portland at $1.77 and the lowest was N Portland at $0.69. The highest rent/SF for 1 BD, 1 BA was downtown at $1.48 and the lowest was Outer Northeast at $0.92. The highest rent/SF for 2 BD, 1 BA was downtown at $1.27 and the lowest was $0.78 in Gresham area, West Vancouver, and Outer Northeast.

Figure 3: Rent / SF by Submarket 2011 Portland Metropolitan Area



Source: MMHA

In this high demand market, investors are aggressively seeking quality, well-located properties. Apartments are viewed as a relatively safe investment to gain a higher return than bonds, or conventional Treasuries. Several 100+ unit, Class A, institutional quality properties traded in the fourth quarter of 2011, at below-market cap rates. These major sales transactions included Timber Ridge ($39 million) in NW Portland, Westview Heights ($29 million) in NW Portland, The Beverly ($29 million) in NE Portland, Reflection at the Park ($21 million) in Vancouver, and Woodspring ($15 million) in Tigard. Institutional buyers aggressively pursued core close-in properties in the second quarter, and are paying a premium. Several of the transactions have resulted in cap rates between 4 and 5 percent.

Figure 4: Major Sales Transactions, 4th Quarter, 2011, Portland Metropolitan Area

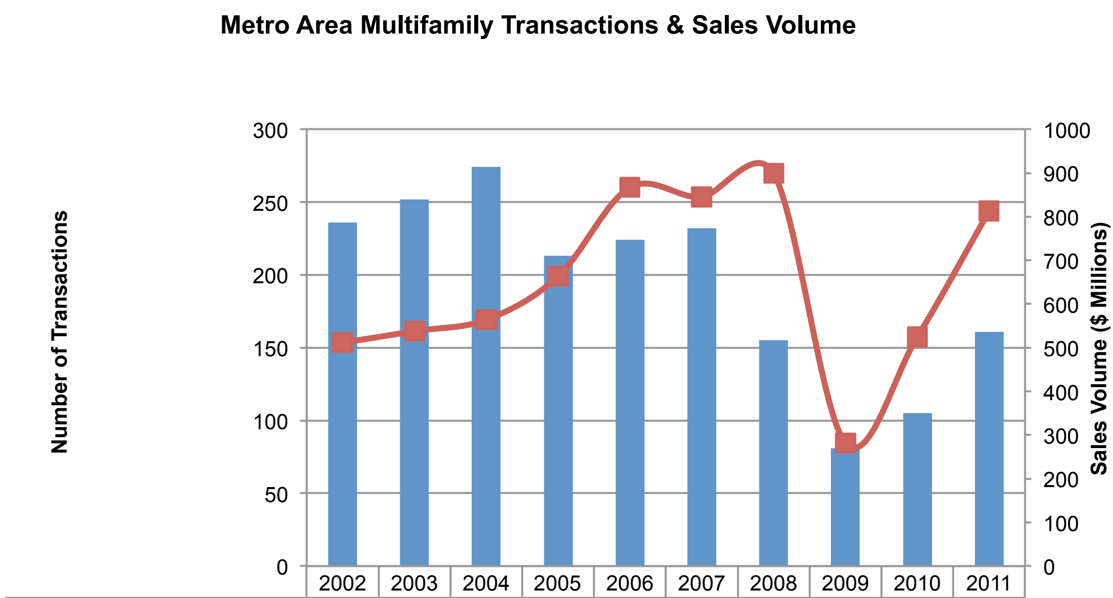
Q2 2011 Major Sale Transactions					
Building	**Buyer**	**Price**	**Units**	**Price/Unit**	**Submarkets**
Timber Ridge	David Dufenhorst	$ 39,500,000	238	$ 165,966	NW Portland
Westview Heights	William McMorrow	$ 29,500,000	198	$ 148,989	NW Portland
The Beverly	Morgan Deal	$ 29,000,000	54	$ 537,037	NE Portland
Reflection at the Park	Vancouver Apt Associates LLC	$ 21,000,000	244	$ 86,065	Vancouver
Woodspring	Wstpi LLC	$ 15,250,000	172	$ 88,682	Tigard

Source: Costar

The majority of the product in Portland is Class B and C quality properties based on location and condition of the building. In Portland, approximately 70% of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the $50,000-$80,000 per unit range depending on rents, location, condition, and other factors.

The number of transactions and sales volume has rebounded nicely since 2009. In 2011 there were 161 transactions and $813 million in sales volume compared with 105 transactions and $525 million in 2010. This is 65% more transactions and a 64% increase in sales volume. Experts are projecting that the increases in sales volume and transactions will continue to be strong in 2012 and the next several years.

Figure 5: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, June 2011 Year to Date



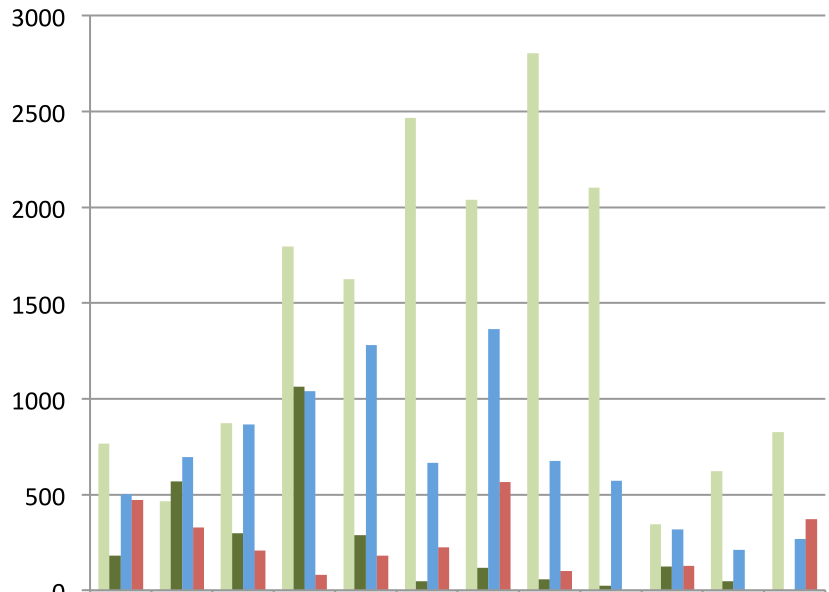
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Transactions	236	252	274	213	224	232	155	81	105	161
Sales Volume	511	538	564	663	867	845	899	282	525	813

Source: The Barry Apartment Report

Through the first eleven months of 2011, multifamily building permits have exceeded 2010 levels within the City of Portland. There have been 371 multifamily units built in Clackamas County, the most since 2006, and a significant increase from 2010 when only 5 units were permitted. Of the 371 units, 327 were the large Brenchley Estates development in Wilsonville. Through November 2011, total building permits for 825 units have been issued in the City of Portland. In the City of Portland, the number of permits is on pace to be the highest since 2008, but remains significantly below 2003-2008. Washington County has had multifamily permits for 267 units issued, with 230 units spread over 14 projects in Hillsboro.

Factors contributing to the current lag in new construction include the weak economy, difficulty obtaining financing, and the current gap between replacement cost and market value. In light of the microscopic vacancy rate in the metropolitan region and lack of new construction, many real estate professionals and would argue that the market is experiencing a shortage in apartments this year. In order to get back in balance the market needs 5,000-7,000 apartment units, and it will take developers three years to produce this supply, according to the Barry Report. This shortage will be felt first within the urban core and later in the suburbs, where there is slightly more inventory available.

Figure 6: Multifamily Building Permits Issued, November 2011 Year to Date



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 YTD
City of Portland	767	465	874	1793	1623	2466	2038	2802	2103	345	622	825
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	0
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	267
Clackamas County	473	327	208	81	181	226	564	100	0	128	5	371

Experts predict a spike in number of transactions and sales volume as a result of owners and investors positioning their portfolios to capitalize on the further rent growth projected and persistent low vacancy in the market. The Barry Report asserts that sales volume of $700-$800 million and 175-200 transactions per year in 2012 and 2013 are possible. ■