
MULTIFAMILY MARKET ANALYSIS

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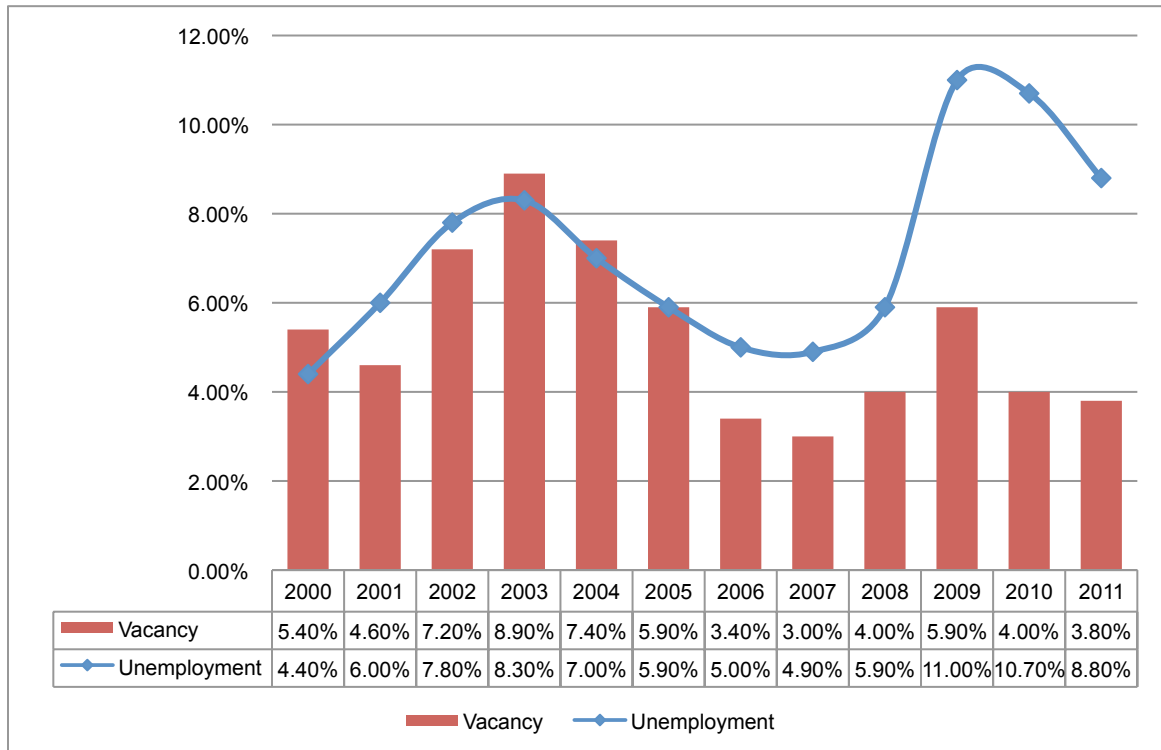
In contrast to the Portland residential market, the multifamily market in Portland is experiencing a bit of a boom. Portland's vacancy rate was 4.2 percent, at the end of 2010, which was the lowest vacancy rate in the US. Portland has been ranked among the top five cities in the nation and as high as second place for effective rent growth between March 2010 and March 2011. During this period, Portland rents increased an average of 9.92 percent, while the US increased 1.77 percent. Demand is strongly fueled by new residences in the 20-34 year old demographic and fewer buyers drawn to the single-family market.

On the supply side, there are few construction projects in the local pipeline and most are not expected to break ground until late 2012 or 2013, according to the Barry Report. Since 2008, multifamily building permits have decreased nearly 90 percent. Due to the lack of available supply to meet increasing demand, market conditions are projected to remain strong for property owners.

With more and more potential single-family buyers opting to rent instead of own, the demand for apartments is very promising. Nationally there are an estimated 77,600 apartment and condo units projected to come online in 2012, but according to the director of multifamily economics and market research for Fannie Mae, the supply is not sufficient to meet demand. The drop in the local vacancy rate reflects similar conditions in the national apartment market. Data released by MPF Research, a Carrollton, TX real estate research firm, showed that the U.S. apartment vacancy rate fell 0.8 percent to 5.8 percent in the second quarter of 2011.

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 percent and the unemployment rate was 11 percent and in 2011 the vacancy rate is 3.8 percent and the unemployment rate is 8.8 percent.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



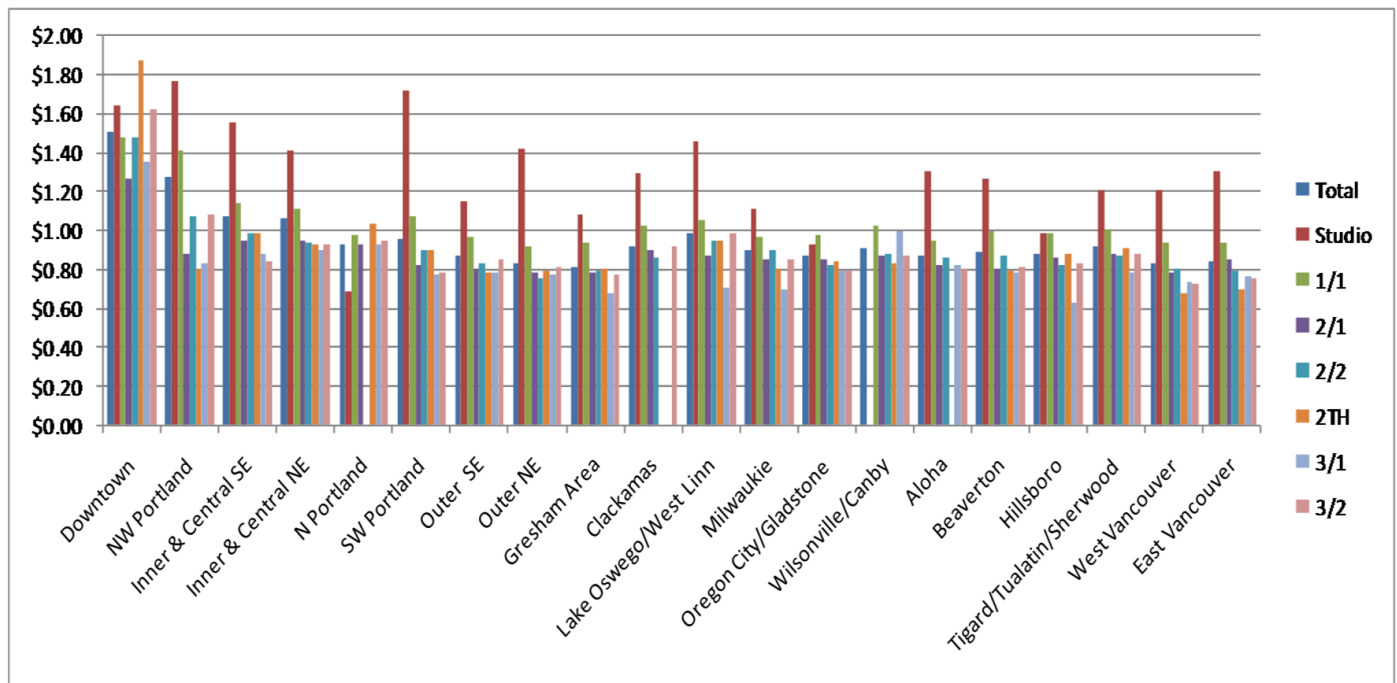
Decreased vacancy rates and increased rent have spiked interest in multifamily investment. The apartment market is still catching up to this increased demand which is driving rent rates. In addition, owners are raising rents to compensate for increasing operating expenses, notably property taxes and utilities. Nationwide rent revenue increased 2.4 percent from the first quarter of 2011, and a national annual effective rent gain of 4.9 percent for 2011 through the month of May. Reis, Inc. predicts apartment rents will jump 4.3 percent this year, marking the biggest annual increase in four years. MPF Research, which also monitors apartment rents, expects them to rise more than 5 percent this year.

These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. In the first quarter of 2011 Portland had an average vacancy rate of 3.8 percent. The highest overall vacancy submarket was 4.5 percent in Outer Northeast and NW Portland and the lowest was Oregon City / Gladstone at 2.3 percent. The highest vacancy rate was in Outer Northeast at

11.11 percent, while six submarkets reports no vacancies for studios. The highest vacancy rate for 1 BD, 1 BA was Outer Southeast at 5.28 percent, while the lowest was N Portland with no vacancies. For 2 BD, 1 BA the highest vacancy was N Portland at 6.01 percent and the lowest was Oregon City/Gladstone at 0.37 percent. Downtown Portland had no vacancies among 3 BD, 1 BA, but a 16.67 percent 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 percent for 3 BD / 1BA and modest vacancy rates for the 3 BD / 2 BA units.

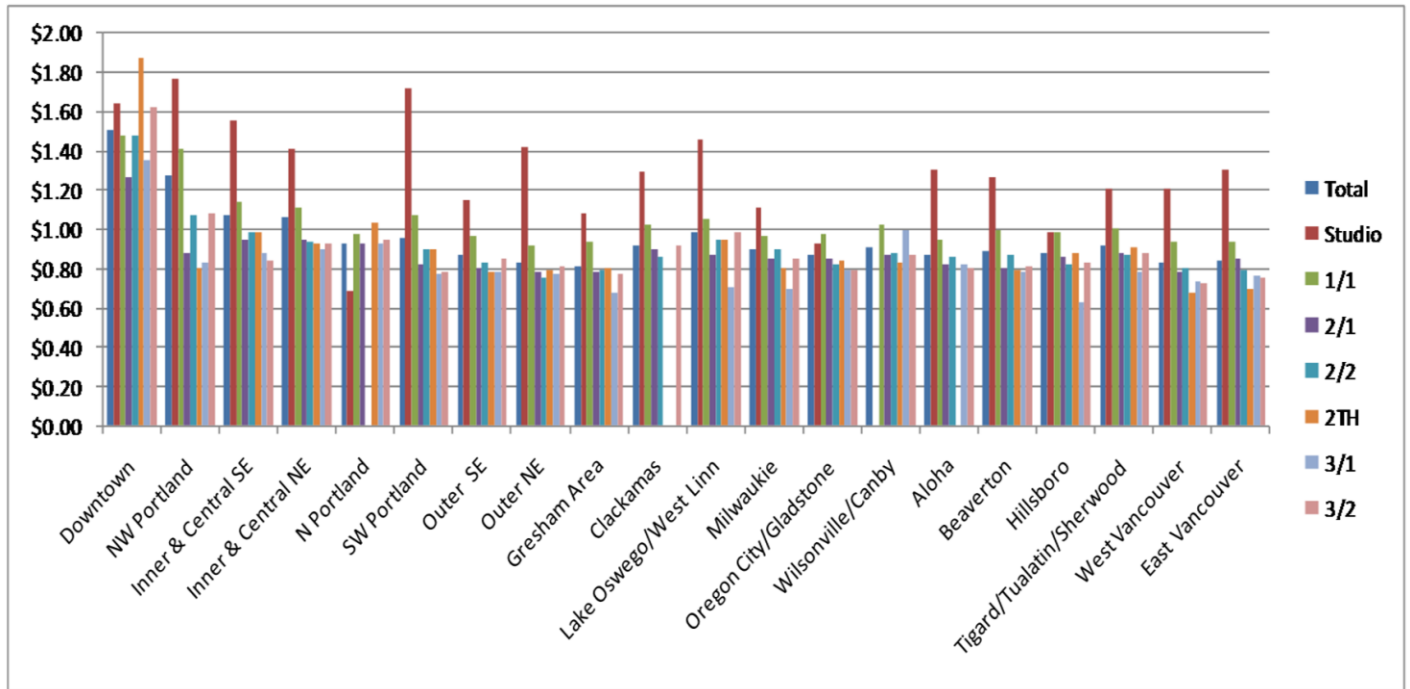
Figure 2: Vacancy Rates by Submarket 2011 Portland Metropolitan Area

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. Several 100+ unit, Class A, institutional quality properties traded in the second quarter of 2011, at below-market cap rates. These major sales transactions included One Jefferson Parkway (\$51 million) in Lake Oswego, Tanasbourne Terrace (\$38 million) and Club at Tanasbourne (\$31 million) in Hillsboro, and Kearney Plaza (\$36 million) in downtown Portland. Institutional buyers aggressively pursued core close-in properties in the second quarter, and are paying a premium.

Figure 4: Major Sales Transactions, 2nd Quarter, 2011, Portland Metropolitan Area

Q2 2011 Major Sale Transactions					
Building	Buyer	Price	Units	Price/Unit	Submarkets
Tanasbourne Terrace	Martin Van Ardenne	\$ 69,400,000	725	\$ 95,724	Hillsboro
One Jefferson Parkway	Pat Calihan	\$ 51,200,000	342	\$ 149,707	Lake Oswego
Kearney Plaza	JP Morgan Asset Management	\$ 36,875,000	132	\$ 279,356	NW Portland
Kempton Downs	HPR Kempton Downs LLC	\$ 22,550,000	278	\$ 81,115	Gresham/Troutdale

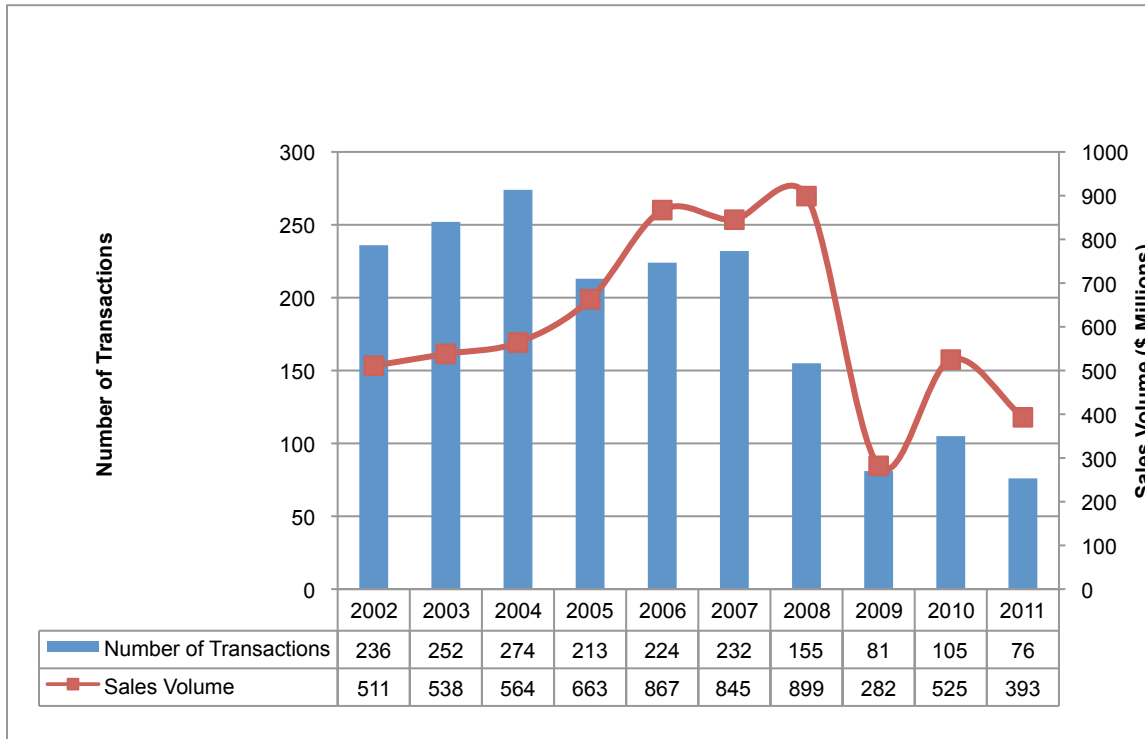
Source: Costar

In Portland, approximately 70 percent 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.

There were 33 multifamily transactions completed in the second quarter, up from 28 in the first quarter. There were 2,255 units transacted in the second quarter, nearly twice as many units as the 1,158 in the first quarter. The second quarter has had over five times the sales volume as first quarter with over \$516 million up from \$91 million.

The number of transactions and sales volume has rebounded nicely since 2009. Based on the numbers through July, the year 2011 is poised to surpass 2010 in number of transactions and total sales volume. The current year is on track to approach the high activity years of 2006-2008 in terms of sales volume. Financing for multifamily properties is becoming easier as Fannie Mae and Freddie Mac join with major banks, regional banks and life insurance companies as a good source for development financing. Banks are generally lending at 70 percent loan to value for qualified buyers of apartments. The buyer's history of owning apartments, credit rating, proof of income, and net worth are criteria that the bank considers when determining the number of dollars to loan.

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



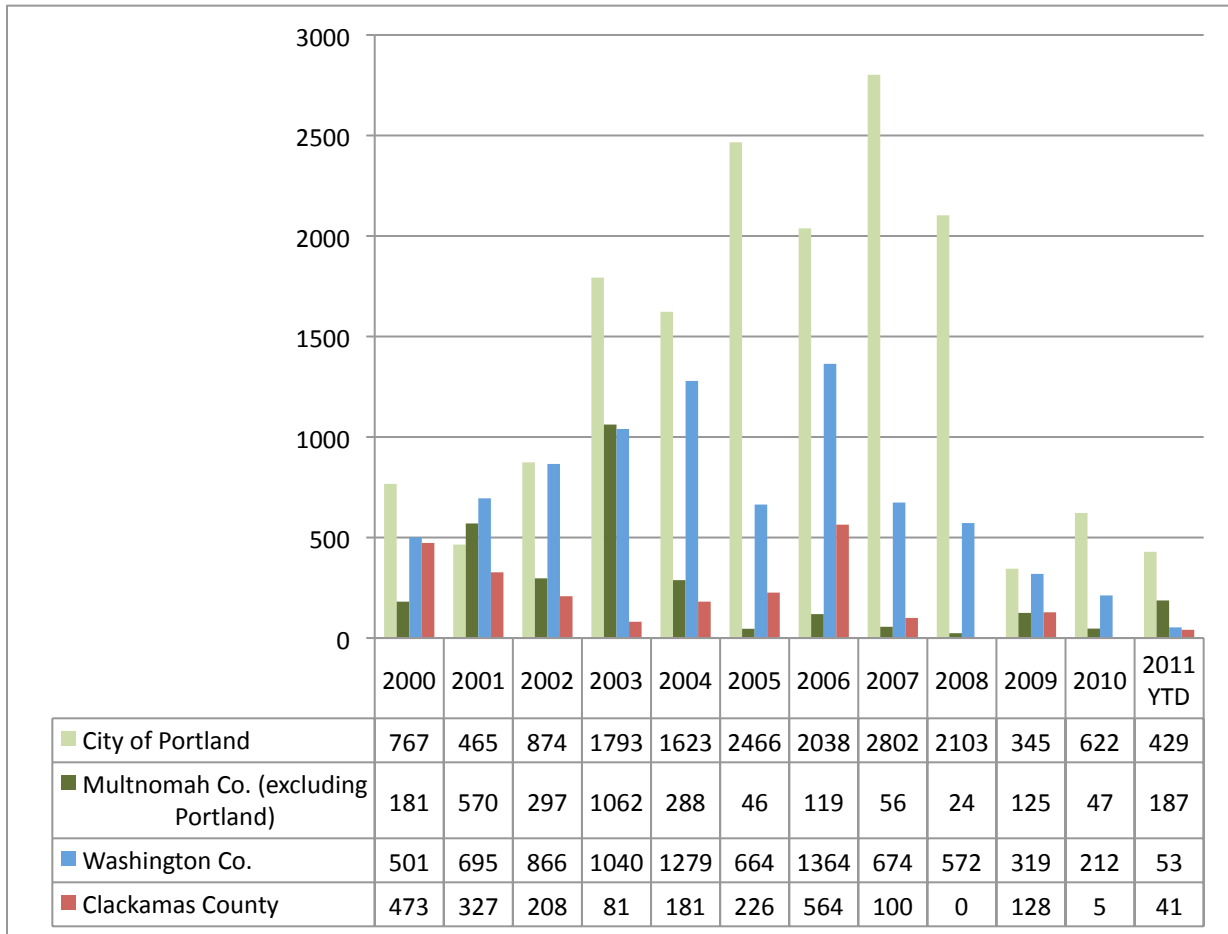
Source: The Barry Apartment Report

Through the first six months of 2011, multifamily building permits are on pace to exceed 2010 levels within the City of Portland. Most of the new permits have been built in Portland and Multnomah County year to date. Over three times as many permits have been issued in Multnomah County excluding Portland (187) from 2010, and these areas are on track for highest number since 2003. For the 2011 year to date, a total of 429 building permits 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 53 multifamily permits issued, which is well below the norm of the past ten years. Clackamas County has 41 units issued so far this year, a significant increase from 2010 when only 5 units were permitted. One of the larger projects that very recently broke ground is the first phase of Brenchley Estates in Wilsonville. The first phase of the development will consist of 363 residential units with 324 rental units among 15 buildings.

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 current low 2.69 percent vacancy rate in the

metropolitan region and lack of new construction, many knowledgeable multifamily brokers and investors are predicting a shortage in apartments by 2012. This shortage will be felt first within the urban core and later in the suburbs, where there is slightly more inventory.

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



Owners and investors are positioning their portfolios for the sharp rent increases projected by most multifamily experts in late 2012. The number of transactions is on pace to increase approximately 30 percent from 2010. Buyers are active in the Portland metro market taking advantage of low interest rates and the strong performance of many properties. Apartment owners are evaluating their investment strategies and many are beginning to recognize that in this market with low-interest rates and low vacancy, they may have an opportunity to build more wealth by selling their current building and leveraging the equity to acquire better properties with superior location, condition, and / or more units.