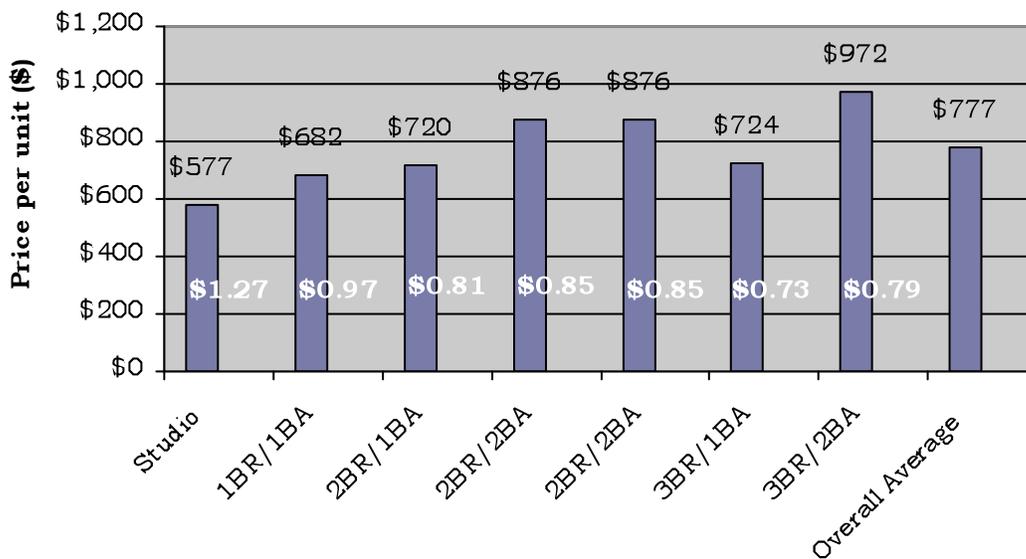


## Portland Apartment Market

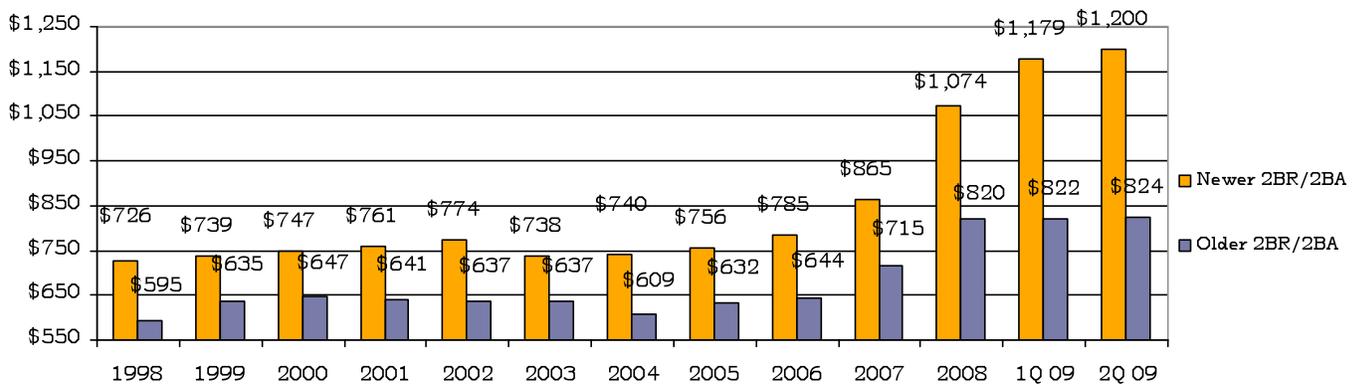
According to Norris, Beggs & Simpson's second quarter 2009 multifamily report, the overall multifamily vacancy rate has increased in the second quarter to 5.03% compared to 3.46% this time last year, which is still much lower than other markets. The average rents for the quarter are \$682 (\$0.97/SF) for a 1BR/1BA, \$720 (\$0.81/SF) for a 2BR/1BA, \$876 (\$0.85) for a 2BR/2BA and \$972 (\$0.78) for a 3 BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for \$1,200 per unit, an increase of \$21 over last quarter. Seasoned 2 BR/2BA units rent for an average \$824 per unit, which is an increase of only \$2 over last quarter.

**Metro-Wide Average Rents Second Quarter 2009**



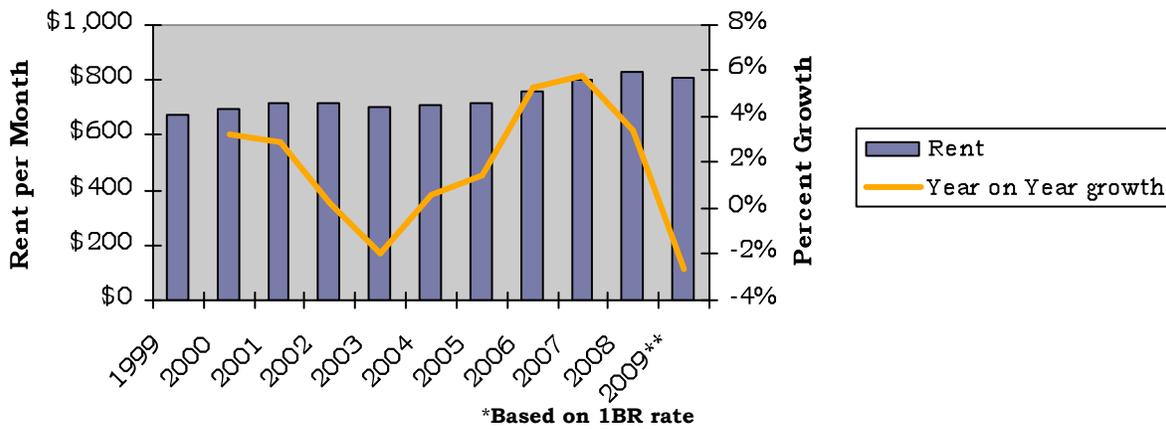
Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Second Quarter, 2009, \*Price per square foot shown in white

**Average Portland Metro Rents**



Source: Norris & Stevens "Portland Metro Area Multifamily Report, Second Quarter 2009"

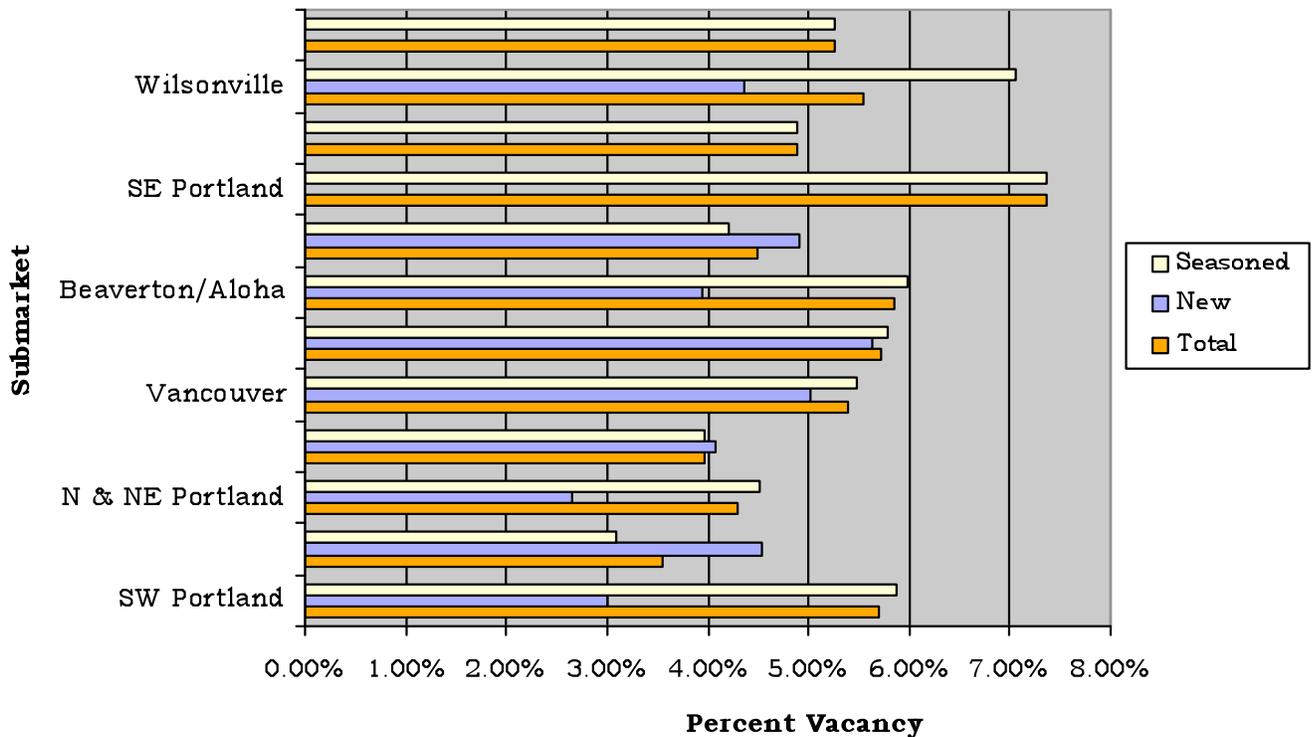
### Average Historical Rents & Rent Growth



Source: Brokers, Gary Winkler, and Beth DuPont, Colliers, "Portland Multifamily Private Capital News, Year End 2008" \*\*2009 estimated.

The SE Portland submarket shows the highest total vacancy rate at 7.37%, while Gresham/Troutdale has the lowest submarket vacancy at 3.54%.

### Second Quarter 2009 Submarket Vacancy



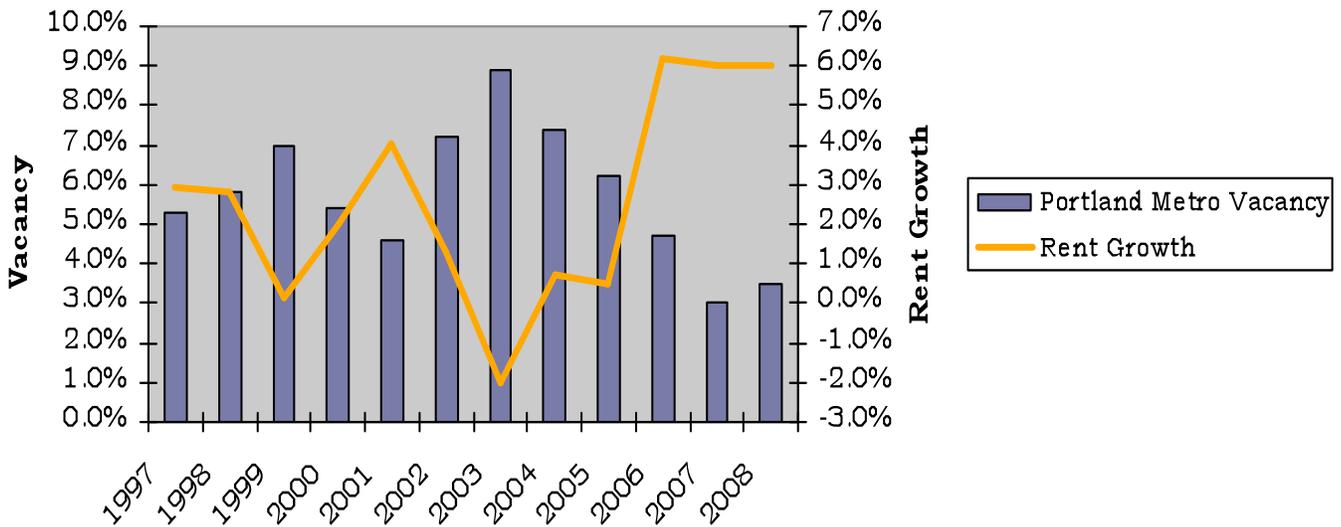
Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Second Quarter, 2009"

According to Colliers International, the high local unemployment rates are having a strong negative impact on vacancies. Vacancies are up not because of residents moving away from Portland but due to tenants doubling up, moving in with family, or moving into single-family rental homes.

According to Mark Barry, condo conversions are also having an impact on vacancy rates. He estimates a current 2.5 to 3.5 years of inventory in the condominium market. He expects to see between 2,500 and 3,500 new apartment units in 2009 as some investors take advantage of lower labor and material prices and less competition for high density sites from the condo and row house developers.

The threat of fleeing tenants has caused some landlords to offer lower rents, one or two months worth of concessions as well as free parking. Colliers International states in its midyear report that, “some new buildings even guarantee that if a tenant loses his/her job, they can end their lease agreement without penalties, early termination fees or adverse impact on credit.” The total discount of the net effective rent with parking and concessions in select buildings throughout the metro area range from 5.6% to 16.8%. As the chart below shows, rents have increased significantly since 2005 while vacancy decreased. Brokers at Colliers expect this trend to change in the coming year.

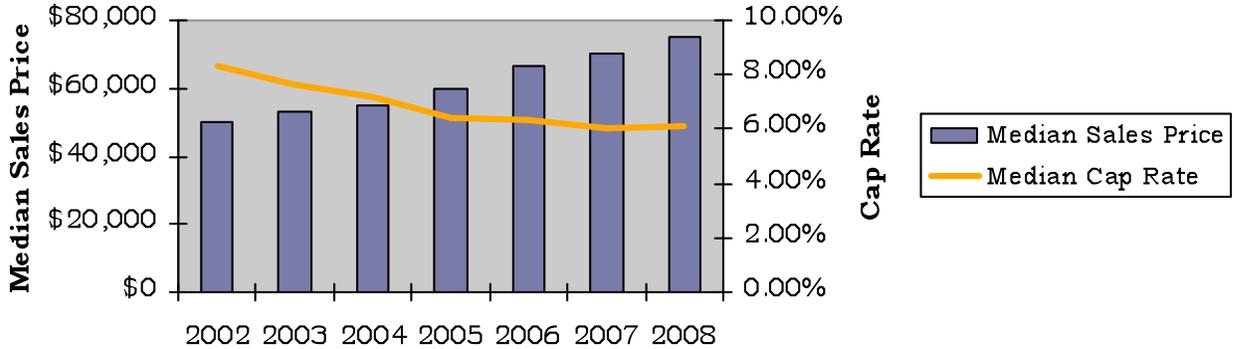
### Portland Metro Vacancy and Year on Year Rent Growth



Source: Mark D Barry, the Barry Apartment Report, Winter 2009

Most experts forecast an increase in cap rates, which will decrease the market value of apartment buildings, especially those that were recently purchased. Another challenge that investors face, as noted by Mark Barry, is an increase in utility costs of 11% for water and sewer, 14% for electric and natural gas, and 10% for garbage, which will increase operating expenses.

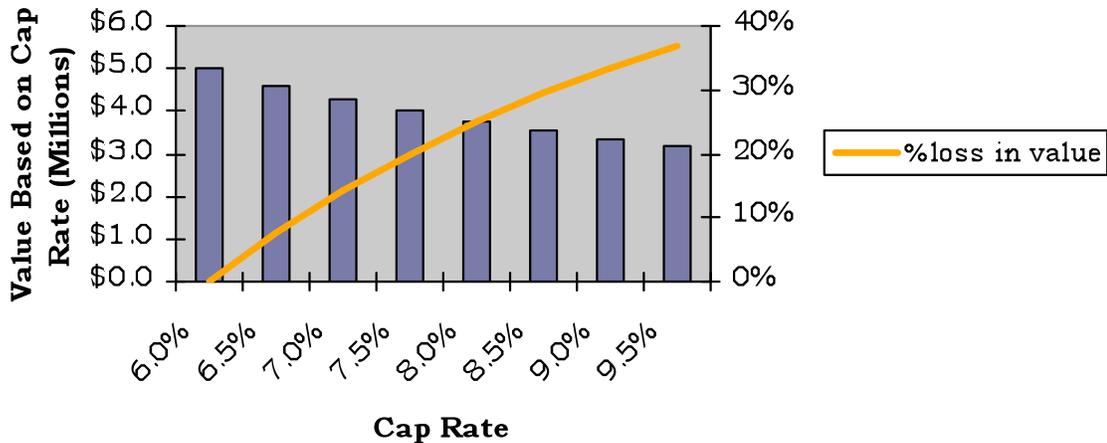
**Median Per Unit Sales Price and Median Cap Rate  
Four County Metro Area 2002-2008**



Source: Mark D Barry, the Barry Apartment Report, Winter 2009

The above graph based on the figures reported by Mark Barry, shows the inverse relationship between the median sales price and the cap rate of sales from 2002 to 2008, which illustrates how big the bubble has been. The following graph, produced by Colliers, gives an example of how a rising cap rate will affect property values, and gives an indication of the expected trend reversal, until we reach the historical average 7% to 9% cap rate. With lower property values as a result of increasing cap rates owners may be reluctant to sell and buyers may wait for further declines, which will reduce the number of transactions in the coming year. Norris, Beggs & Simpson notes that “cap rates will be calculated more conservatively with much more scrutiny on underwriting, in-place income, historic performance, cost of capital and market stability.

**Impact of rising cap rates on values based on  
\$300,000 net operating income**



Source: Colliers, "Portland Multifamily Private Capital News, Year End 2008"