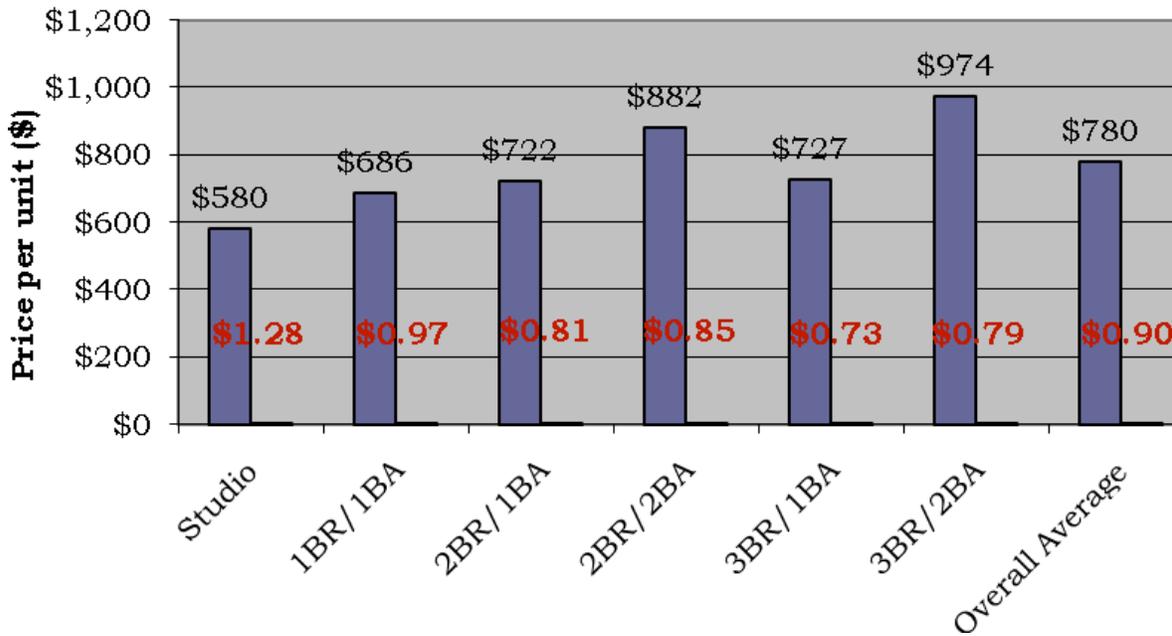


Portland Apartment Market

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According to Norris, Beggs & Simpson's Third Quarter 2009 Multifamily Report, the overall multifamily vacancy rate has decreased in the third quarter to 4.62% from 5.03% in the second quarter but is still up from 3.76% this time last year. The average rents for the quarter are \$686 (\$0.97/SF) for a 1BR/1BA, \$720 (\$0.81/SF) for a 2BR/1BA, \$876 (\$0.85) for a 2BR/2BA and \$974 (\$0.79) for a 3 BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for \$1,219 per unit, an increase of \$19 over last quarter. Seasoned 2 BR/2BA units rent for an average \$826 per unit, which is an increase of only \$2 over last quarter.

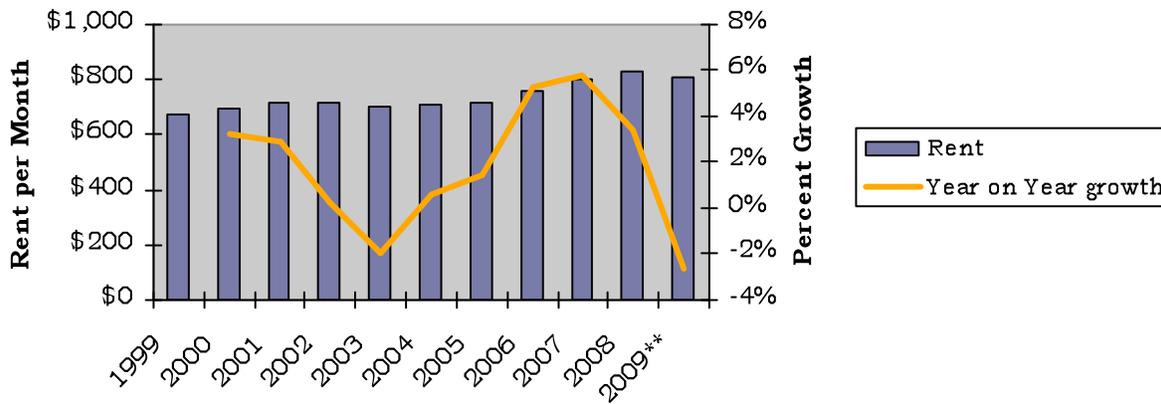
Metro-Wide Average Rents Third Quarter 2009



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

The higher vacancy issue appears to be a lagging indicator within this recession as the economy's slow recovery does not appear to be improving occupancy rates. September vacancy numbers reflect 5-7% vacancies across the Portland market, with high areas at 10% and low areas at 3%. Concessions remain commonplace though rental rates have stabilized somewhat. The primary cause of the high vacancies is the economic downturn's strong negative effect on renter affordability.

Average Historical Rents & Rent Growth



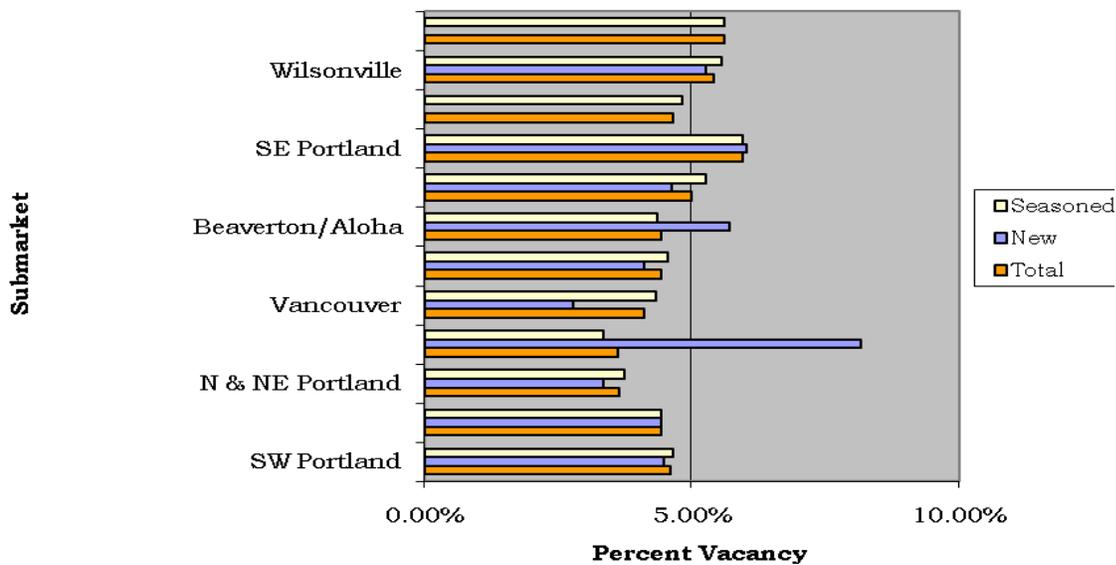
*Based on 1BR rate

**2009 estimated.

Source: Brokers, Gary Winkler & Beth DuPont, Colliers multifamily investment, "Portland Multifamily Private Capital News, Year End 2008"

The SE Portland submarket shows the highest total vacancy rate at 5.94%, while Lake Oswego/West Linn has the lowest submarket vacancy at 3.61%. However, Lake Oswego has the highest new unit vacancy at 8.16% while Vancouver has the lowest new unit vacancy at 2.78%.

Third Quarter 2009 Submarket Vacancy



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

According to Colliers International, the high local unemployment rates are having a strong negative impact on vacancies, as shown in the charts below. The rise in the unemployment rate from 6.2% in 2008 to 11.3% in 2009 suggests that vacancy rates might continue to rise until unemployment levels stabilize and decline.

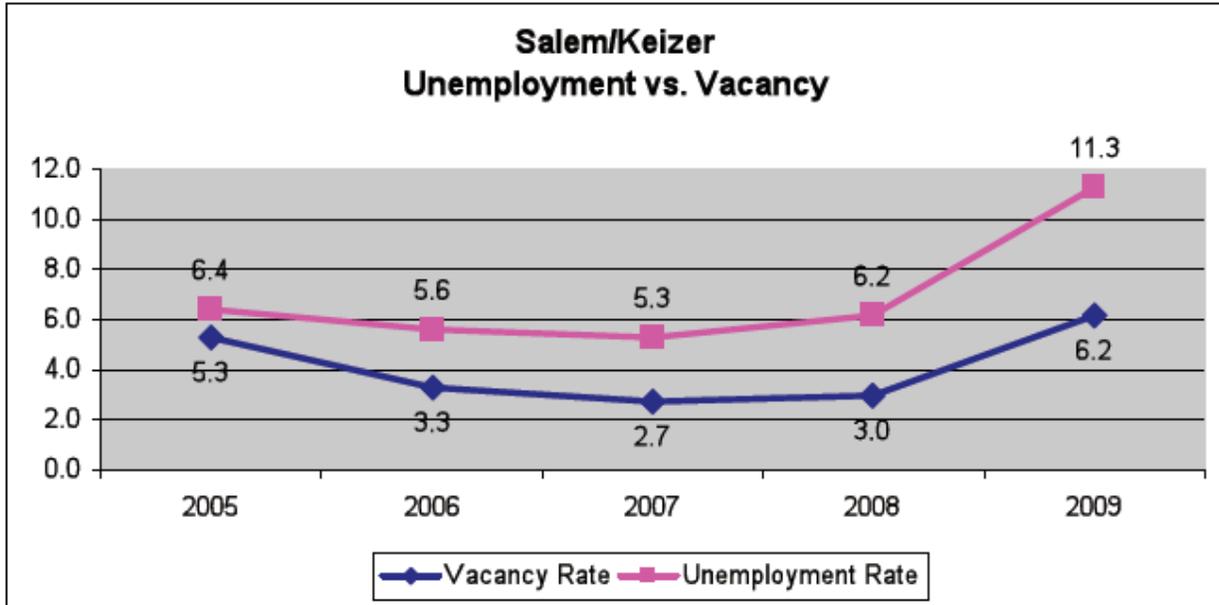
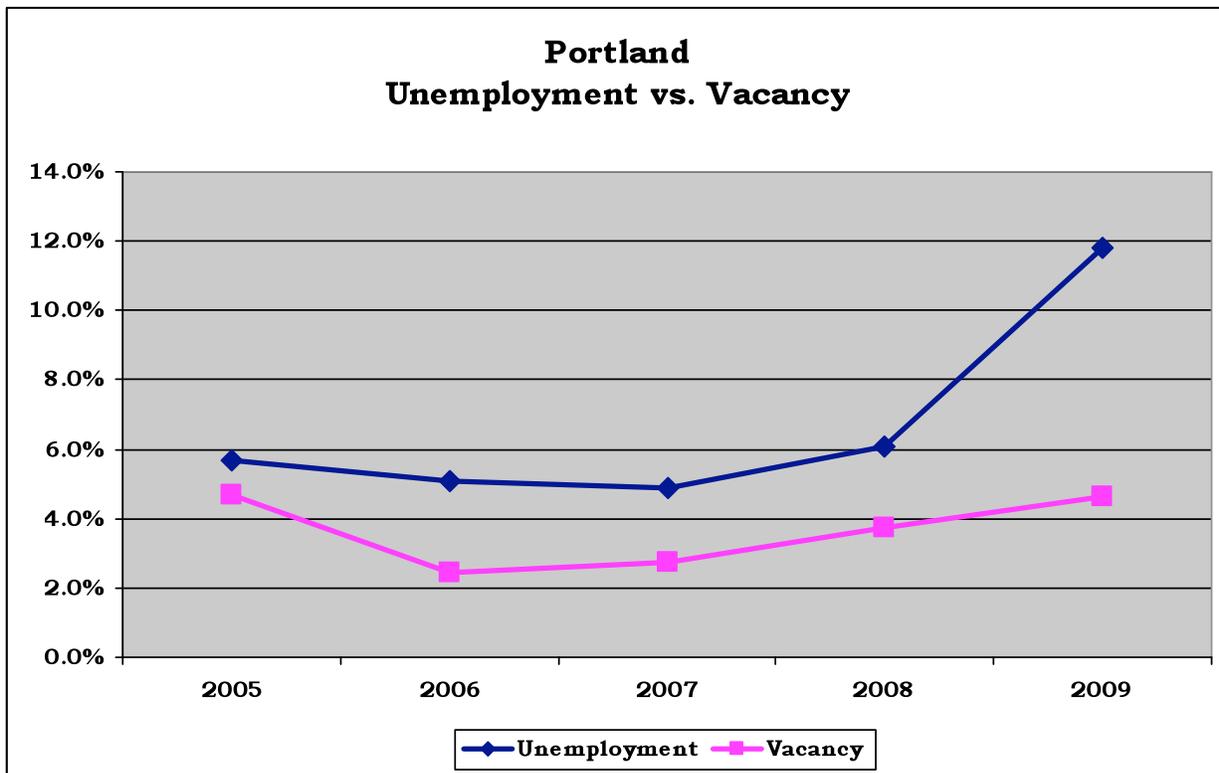


Chart data provided by Shirley Layne, Powell Valuation Inc



Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Third Quarter (2009, 2008, 2007, 2006, 2005), U.S. Bureau of Labor Statistics (Aug 2009, 2008, 2007, 2006, 2005)

Vacancies are up not necessarily because residents are moving from Portland but also due to tenants doubling up, moving in with family, or moving into single-family rental homes. According to Mark Barry, condominium 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.

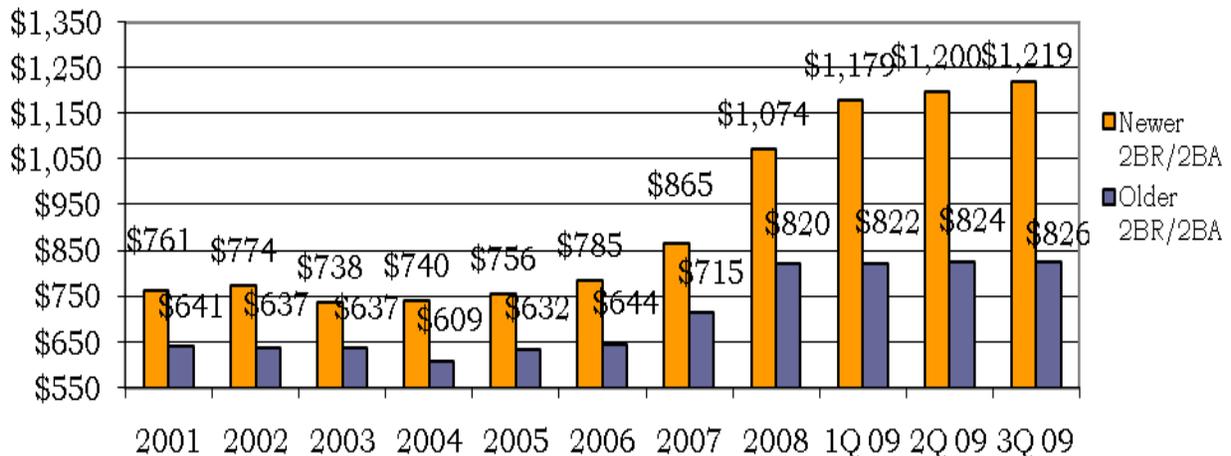
The threat of fleeing tenants has caused some landlords to offer lower rents, one or two months worth of free rent concessions as well as free parking. Colliers International states in its midyear report that, “some new buildings even guarantee that if a tenant loses his/her job, they can end their lease agreement without penalties, early termination fees or adverse impact on credit.” The widespread discounting produces net effective rents, including parking and rent concessions in select buildings throughout the metro area, ranging from 5.6% to 16.8% lower.

One of the driving factors behind the vacancy issue is affordability. According to Colliers International, the middle income work force that drives demand for multifamily rental housing earns between 50% and 80% of median family income (MFI). The 2009 MFI for a single person in Portland is \$49,000. Assuming rents are a 30% of gross income, the individual could afford a monthly rent of between \$613 and \$980. Options are very limited within this price range in the Portland area as studios and one-bedrooms are between \$710 and \$740 and higher range luxury options are in excess of \$1,000.

	2009 MFI	Single Person
50% MFI	Gross Income	\$24,500
	Affordability	\$613
60% MFI	Gross Income	\$29,400
	Affordability	\$735
80% MFI	Gross Income	\$39,200
	Affordability	\$980
100% MFI	Gross Income	\$49,000
	Affordability	\$1,225

Source: Colliers, "Portland Multifamily Private Capital News, 3rd Quarter 2009"

Average Portland Metro Rents



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

Norris, Beggs & Simpson's list of major apartment sale transactions indicates a drastic decline in apartment sales over the previous year. The sum of the purchase prices from the list of the seven major sale transactions in NBS's Third Quarter 2008 Report amounts to \$249,523,900. This year's list totals only \$9,879,123, or 4% of the previous year's total. Thus major apartment sales were few and far between in the third quarter of 2009. Similarly, multifamily land sales for future development have also dried up. However, as NBS indicates in its report, it expects sales to accelerate once the availability of financing increases.

Two transactions, as reported by the Portland Business Journal¹, took place after the quarter ended. Nevins Adams Lewbell Schell purchased The Colonnade, a 268-unit complex at 20311 NW Colonnade Drive, Hillsboro for \$21.42 million (\$79,925/unit). The same company also purchased the Park at Mill Plain, a 352-unit complex at 206 NE 126th Ave, Vancouver, for \$23 million (\$65,340/unit).

MAJOR SALE TRANSACTIONS					
Buyer	Building	Price	Units	Price/Unit	Submarket
NW DPL V, LLC Kelly and Linda Finerty	Emerson Apartments Yorktown Gardens Apartments	\$2,659,123	26	\$102,274	North/NE Portland
Fircrest Investment, LLC	19511 NE Halsey Street	\$1,660,000	30	\$55,333	Gresham/Troutdale
Dash Investments, LLC	The Meadows	\$1,450,000	27	\$53,704	North/NE Portland
Bill and Georgia Pappas	View North Apartments	\$1,250,000	22	\$56,818	Beaverton/Aloha
5625 SE Gladstone, LLC	Triangle Terrace	\$1,075,000	20	\$53,750	North/NE Portland
Park Place Partners, LLC	220-244 NE 143rd Avenue	\$1,035,000	14	\$73,929	Southeast Portland
		\$750,000	13	\$57,692	North/NE Portland

¹ "California firm buys apartment complexes for \$48M", Portland Business Journal October 16, 2009