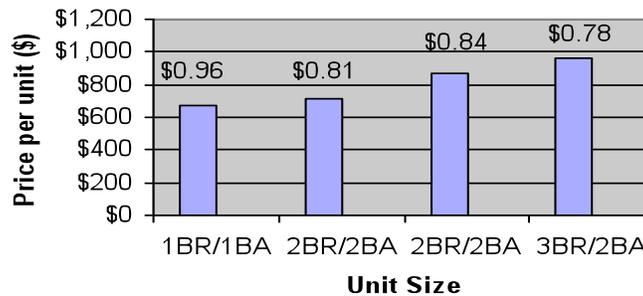


Portland Multifamily Market

According to Norris, Beggs & Simpson's Fourth Quarter Multifamily Report, the multifamily vacancy rate has increased in the fourth quarter to 4.71% compared to 3.31% this time last year. It reports a total overall average rent of all apartments in the Portland metro area, from studios to 3BR/2BA, both new and seasoned units, to be \$0.88 per square foot.

Metro-Wide Average Rents Fourth Quarter 2008

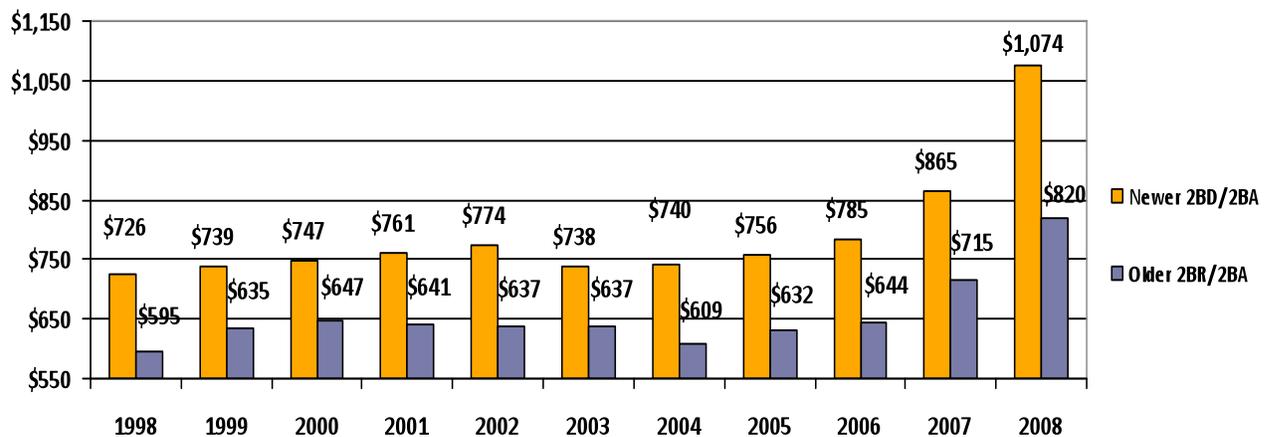


*Price per square foot per unit shown above the bar.

Source: Norris, Beggs & Simpson Multifamily Report Fourth Quarter, 2008

Norris Beggs reports an average 2BR/2BA rent for new units of \$1,074 per unit or \$0.98 per square foot, which is an increase of 24% over 2007 asking rents. Seasoned 2BR/2BA units rent for an average \$820 per unit or \$0.81 per square foot, which is an increase of nearly 15% over last year.

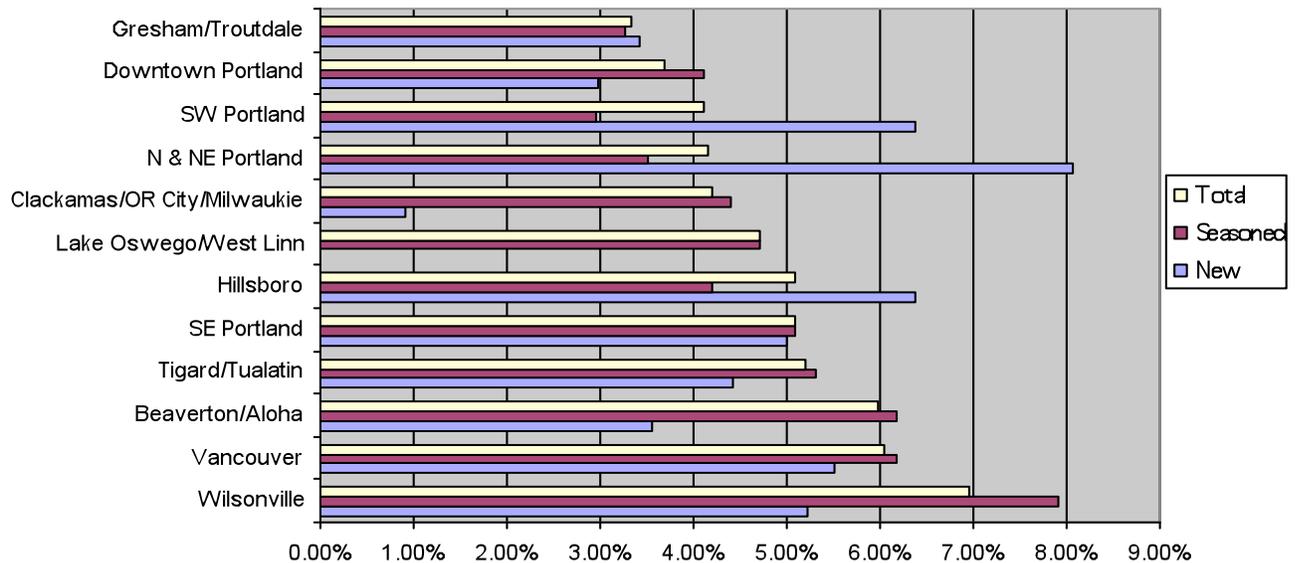
Average Portland Metro Rents



Source: Norris, Beggs & Simpson, Multi-family Report 4th Quarter 2008.

The Wilsonville submarket shows the highest total vacancy rate at 6.95%, while Gresham/Troutdale has the lowest submarket vacancy at 3.33%.

Fourth Quarter 2008 Market Vacancy



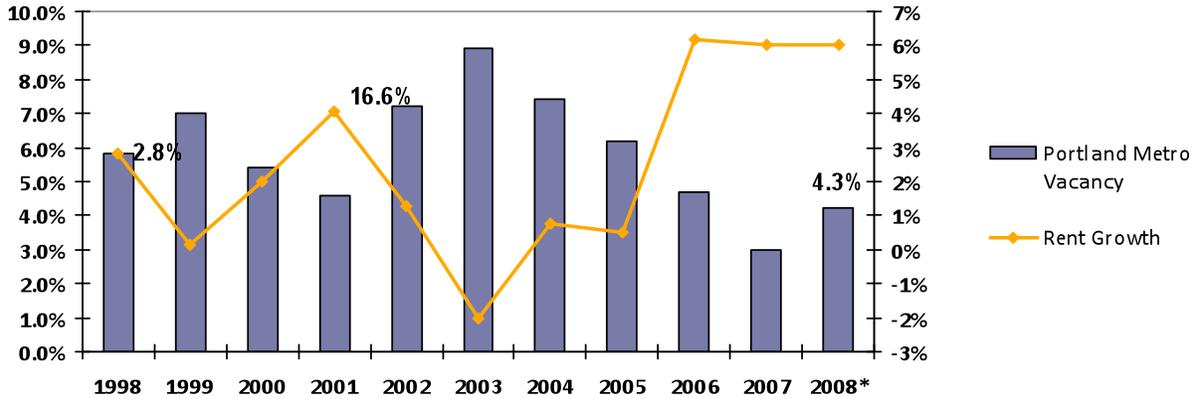
Source: Norris, Beggs & Simpson Multifamily Report Fourth Quarter, 2008

Most sources agree that the single-family market is affecting the multi-family market, as the “shadow inventory”, or the amount of available single family rentals as well as the rental of unsold condominiums, increases due to problems in those markets. Mark Barry estimates a current 2.5 to 3.5 years of inventory in the condominium market. He also mentions that the homeownership rate in Oregon has dropped from 69% at the peak of the housing bubble to its current level of 65%.

Some homeowners have put their houses up for rent in an effort to hold on to them. Some previous homeowners are returning to the market as renters after having lost or rented their homes, while other would-be-renters have chosen to live with relatives or roommates, making 2BR apartments very popular.

Incomes and jobs are down so many renters cannot afford to pay rent on their own. In light of these market factors, most investors expect a challenging year ahead. Most forecasters expect vacancies to increase and rents to remain stable or decrease. As in other markets, landlords are starting to make concessions to attract and keep renters, such as giving free rent for a month or more with a new rental contract and not increasing rents for existing tenants.

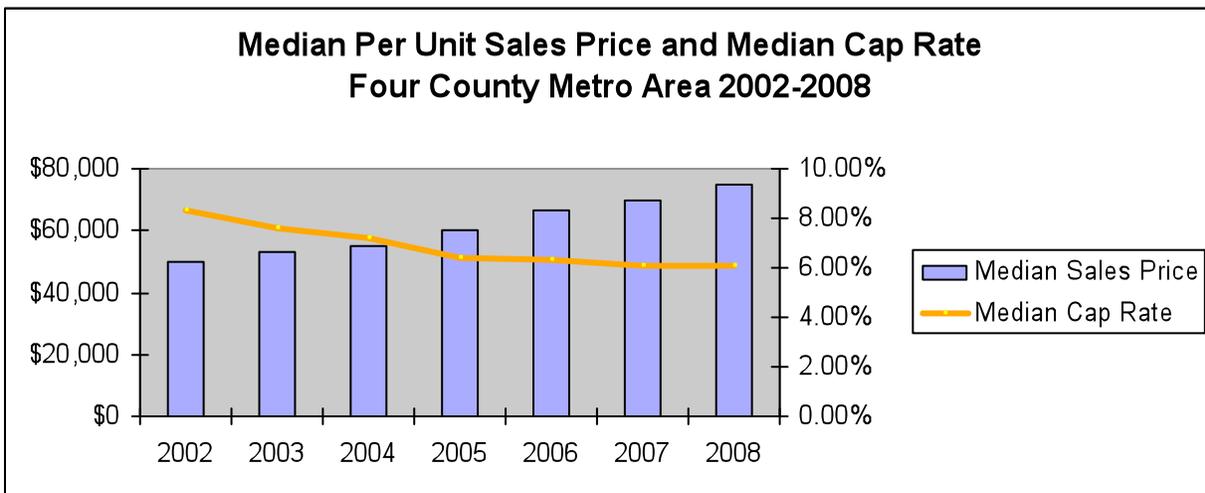
Portland Metro Vacancy v. Rent Growth



Source: Mark D Barry, The Barry Apartment Report, Winter 2009 (* 2008 estimate)

As the chart above shows, rents have increased significantly since 2005 while vacancy has remained fairly low. Colliers International, in its Portland Multifamily 2008 Year End Report, expects this trend to change in the coming year. It forecasts an increase in cap rates, which will decrease the market value of apartment buildings, especially those that were recently purchased. Combined with the addition of another 2,400 units expected to be delivered by the end of this year, this could prove very challenging for investors in the multi-family market in Portland.

**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 chart, based on the figures reported by Mark Barry, shows the inverse relationship between the median sales price and the cap rate, showing how big the bubble has been and how we need to get closer to the 2002 cap rate to get to more normal valuation levels.

According to recent apartment sales reported by Norris, Beggs & Simpson, the average sales price is \$92,594 per unit. However, the average price drops to \$69,772 when the 28-unit complex, at 7701-7820 NW Quinalt in Clark County, purchased for \$11,790,000 by Columbia Credit Union, which is much higher than the other reported sales, is dropped from the equation. Mark D. Barry & Associates report a median sales price of \$75,000 per unit in the four county metro-wide area.

As shown in the table below, fully 2100 new, higher-end units will have been added to the supply in and around downtown Portland by late 2009. The large increase in supply, coupled with the deep recession, will be expected to adversely affect absorption, rents and vacancies.

Project	Units	Location	Developer	Expected Completion
Wyatt	245	Pearl	Sobrato	complete
2120 Belmont	109	Close-in SE	WD	complete
3720	323	South Waterfront	Gerding Edlen	Aug-08
Lovejoy Apartments	234	Pearl	Unico	Dec-08
North Mississippi	188	N. Portland	TCR	Jun-09
12th & Washington	274	Downtown	Gerding Edlen	May-09
Park Apartments	101	Northwest	Opus	2009
Alexan	294	South Waterfront	TCR	late 2009
Ladd Tower	332	Downtown	Opus	late 2009
Total	2100			

Source: Norris, Beggs & Simpson Multifamily Report Fourth Quarter, 2008