MULTIFAMILY MARKET ANALYSIS

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The multifamily market continues to be strong. According to the Barry Report shows at least 189 projects recently completed, under construction or proposed accounting for approximately 22,800 units across the Portland/Vancouver area.

The Census bureau reported permits issued for 4,565 multifamily units in 76 buildings within the Portland Metro area in 2013, with 187 of those units permitted in December 2013.

Integra Realty Resources forecasts average annual net absorption of class A&B units at 2,150. This is 20 percent higher than the previous three year average of 1,784. This would suggest that while significant new product is coming to the market it is met with an increased demand and migration. This is supported by Allied Van Lines 2013 annual migration study which shows after four straight years as runner-up, Oregon now has the highest rate of in-migration in the U.S., with 61 percent of moves to the state inbound ones.

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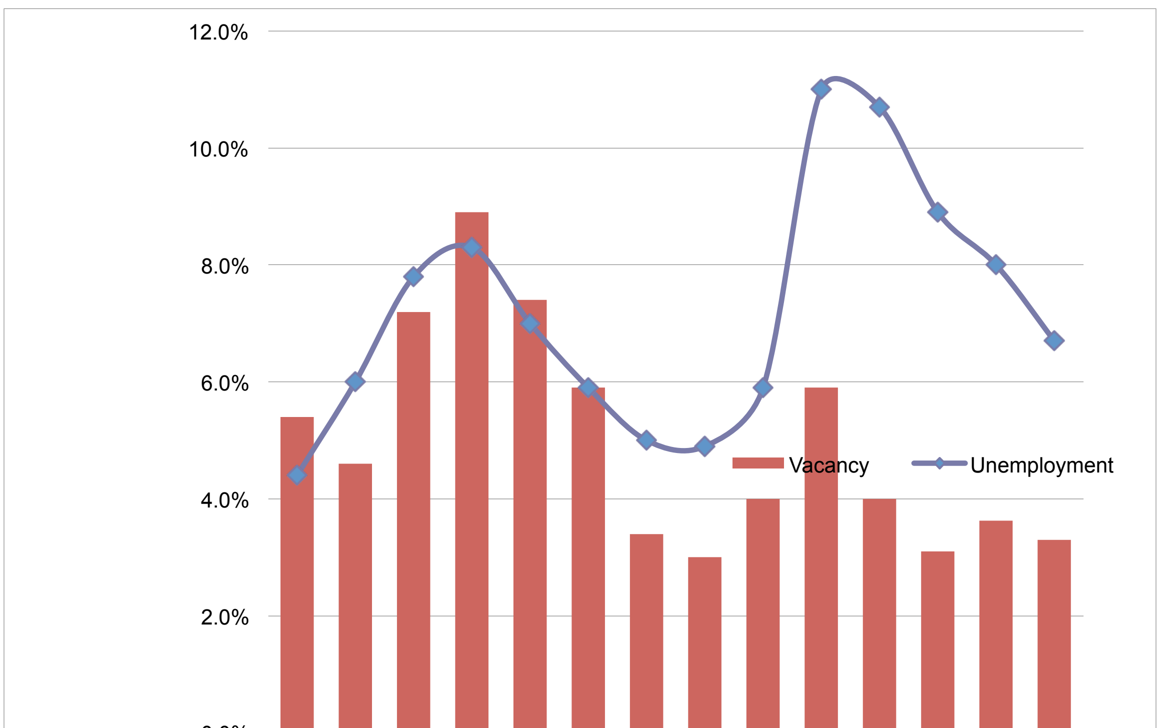
"While job growth in Portland isn't quite as strong as it is in Seattle, there are still approximately nine jobs being created for each new apartment unit delivered to the market," according to Jay Denton, vice president of research for Axiometrics. "That is a strong demand/supply ratio," he points out. The axiom that Portland is a place where people want to live is becoming more measurable.

Axiometrics, a leading provider of apartment data and market research, reports that effective rent growth remained strong, at a rate of 6.4 percent, up from 3.53 percent in February. Occupancy remained strong at an average rate of 96.7 percent at the end of 2013.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 6.7 percent, which is down from 7 percent from 3 months earlier.

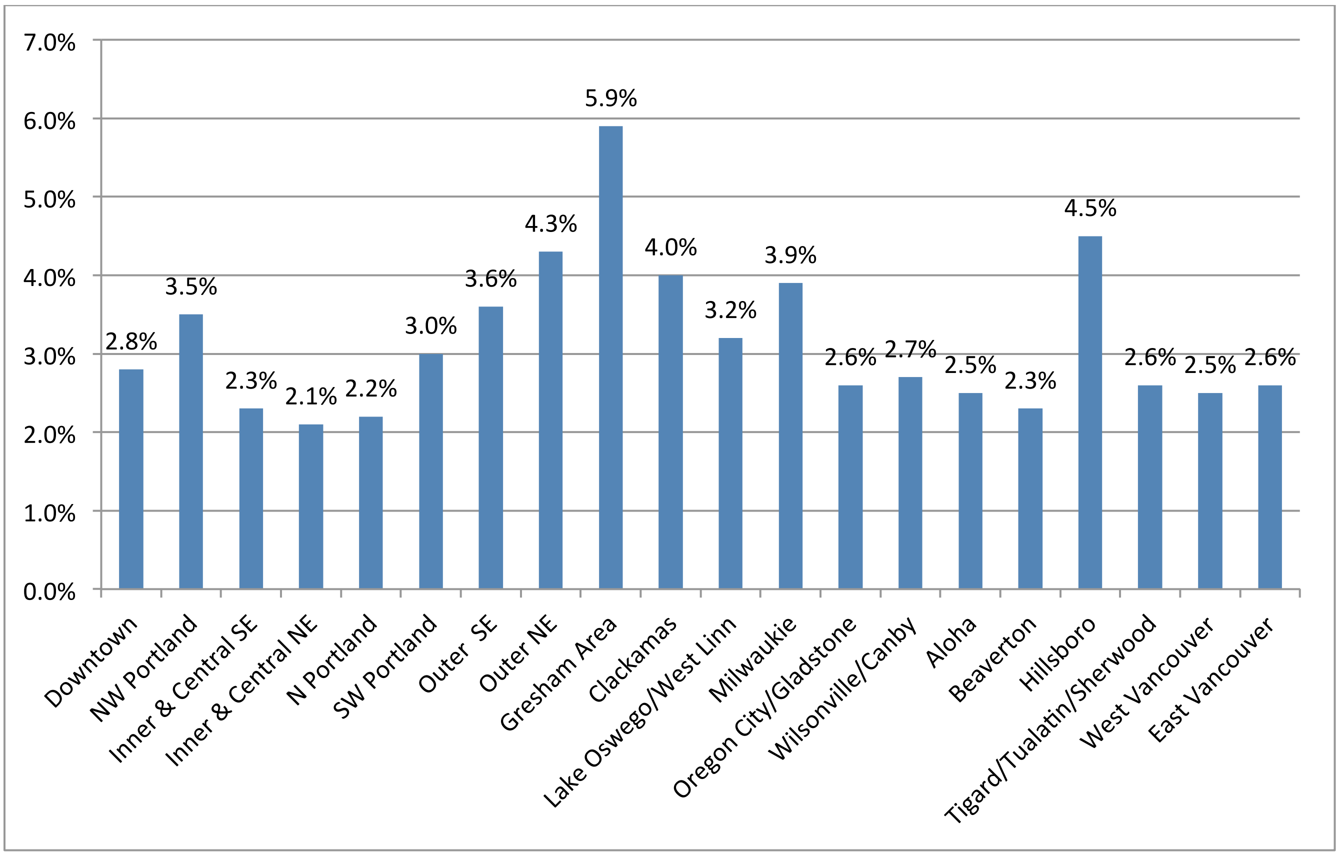
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Vacancy	5.4%	4.6%	7.2%	8.9%	7.4%	5.9%	3.4%	3.0%	4.0%	5.9%	4.0%	3.1%	3.6%	3.3%
Unemployment	4.4%	6.0%	7.8%	8.3%	7.0%	5.9%	5.0%	4.9%	5.9%	11.0%	10.7%	8.9%	8.0%	6.7%

Migration and demand have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 5.7 percent in Hillsboro and the lowest was Inner & Central SE at 2.85 percent. The highest vacancy rate among studios was Hillsboro at 14.3 percent. The highest vacancy rate for 1 bedroom (BD), 1 bath (BA) was Hillsboro at 6.9 percent, while the lowest was Outer SE with 1.95 percent. For 2 BD, 1 BA the highest vacancy was Downtown at 5.56 percent and the lowest was West Vancouver at 1.8 percent. Eight submarkets reported a 0 percent vacancy rate among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed. Inner SE and Inner NE reported 0 percent for 3 BD / 2 BA, while Oregon City / Gladstone had a 12.6 percent vacancy rate for 3 BD / 2 BA.

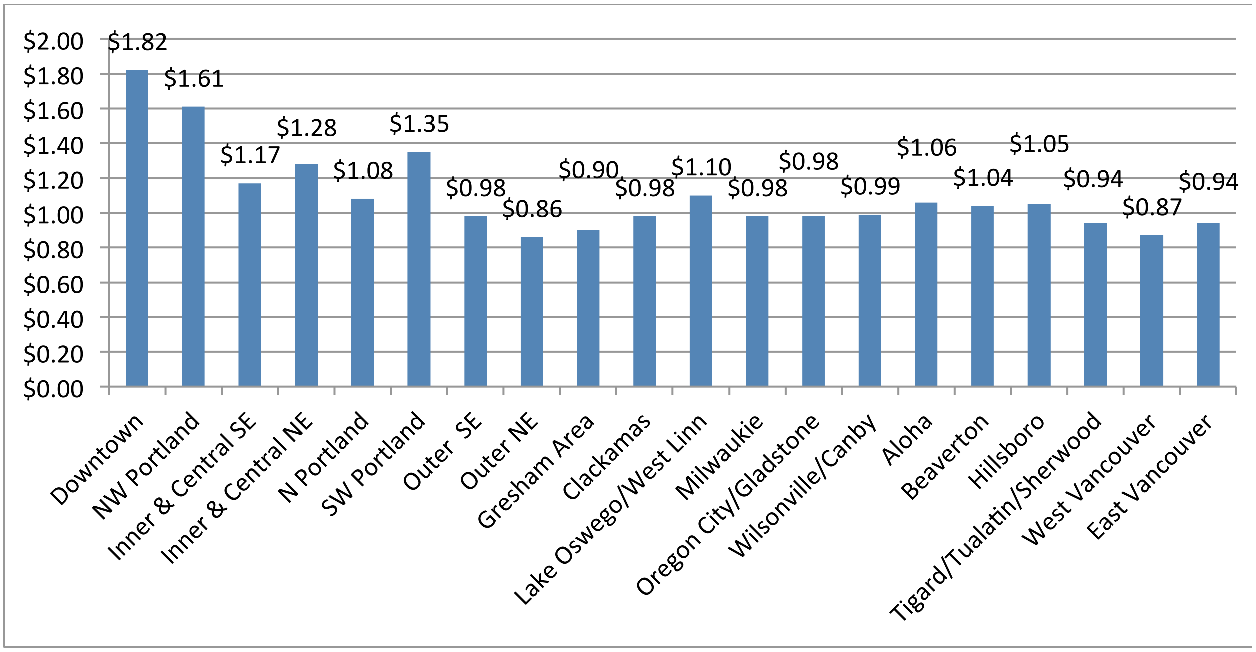
Figure 2: Vacancy Rates by Submarket Fall 2013 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent per square foot (SF) is downtown Portland with a $1.88 average, followed by NW Portland at $1.37. The lowest overall rent/SF is shared between Outer NE at $0.85 per square foot. The highest rent/SF for studios was Downtown at $1.96 and the lowest was Wilsonville / Canby at $0.82. The highest rent/SF for 1 BD, 1 BA was Downtown at $1.96 and the lowest was Outer Northeast at $0.92. The highest rent/SF for 2 BD, 1 BA was Downtown at $1.55 and the lowest was $0.82 in West Vancouver.

Figure 3: Rent / SF by Submarket Fall 2013 Portland Metropolitan Area



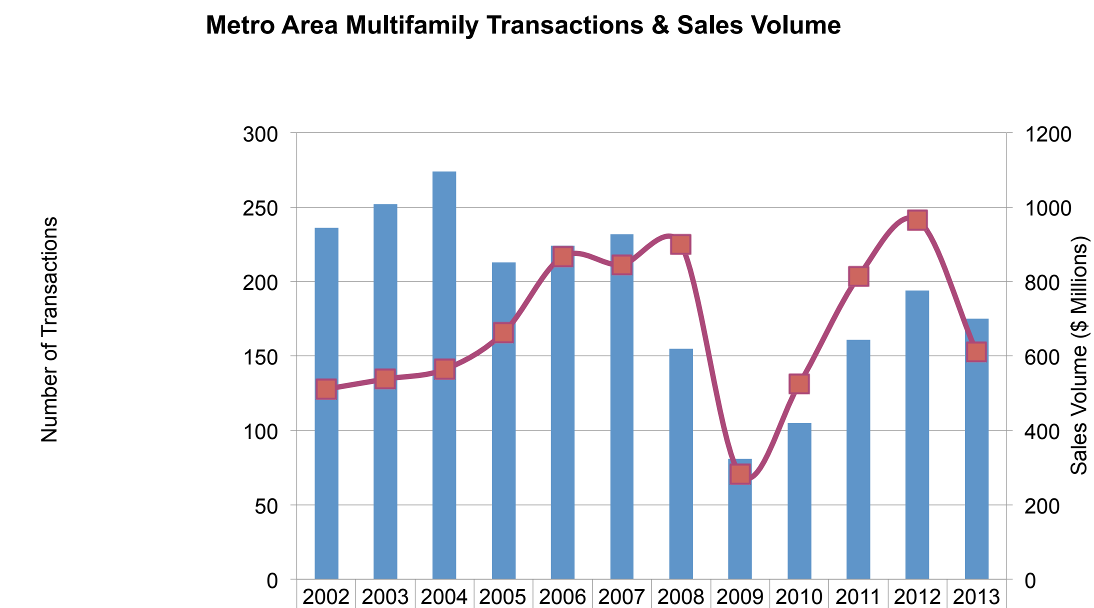
Source: MMHA

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. In the third quarter of 2013 the sold price per unit was $54,115. The average number of units sold per property was 42 in third quarter 2013 and 40 in the second quarter of 2013.

There have been three deals with a sales price over $10 million in the fourth quarter of 2013. Wimbledon Square and Gardens (599 units) sales price undisclosed, Reflections at Happy Valley (372 units) sold for $35.5 million, and Savier Flats (179 units) sold for $61.4 million.

In 2012, according to Multifamily Northwest, there were 194 transactions and $965 million in sales volume. As of September 2013, there have been 130 transactions and $458 million in volume putting us in track for 175 sales and $610 million in volume. Reasons for the slowdown may be due to higher capital gains taxes, low yields, lack of sellers and lack of exchange properties.

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, December 2013

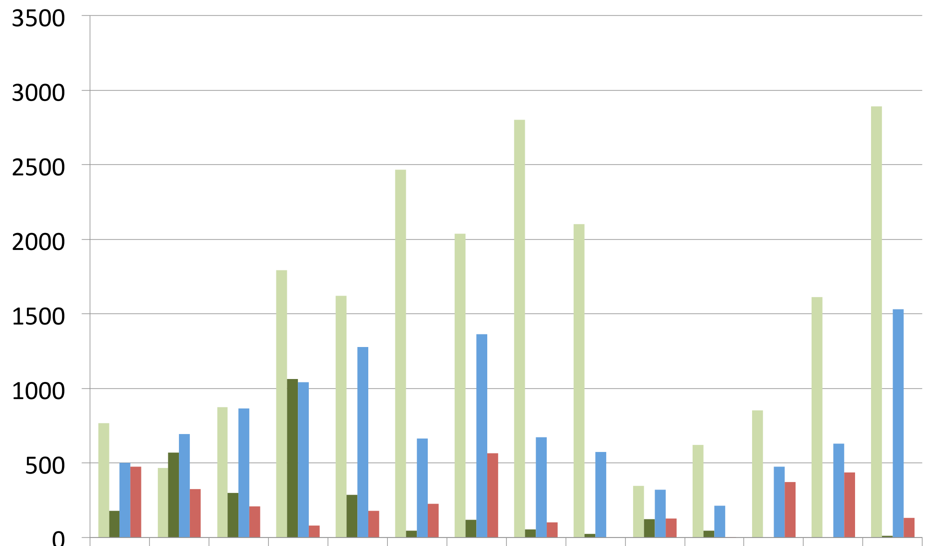


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of Transactions	236	252	274	213	224	232	155	81	105	161	194	175
Sales Volume	511	538	564	663	867	845	899	282	525	813	965	610

Source: Costar

Through December 2013, multifamily building permits have increased within the metro area compared to 2012. Permits have been issued for 2,891 multifamily units built in the City, which is 79.3 percent increase over 2012. MMHA reports there are 11,939 proposed units, 5,052 under construction and 5,389 completed in 2013 for a total of 22,390 units. Many of the proposed units will be abandoned to high acquisition and development cost or higher yields elsewhere.

Figure 5: Multifamily Building Permits Issued, December 2013



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
City of Portland	767	465	874	1793	1623	2466	2038	2802	2103	345	622	852	1,612	2,891
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	0	0	12
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	473	630	1,531
Clackamas County	473	327	208	81	181	226	564	100	0	128	5	371	435	131

Source: US Census

Mark and Patrick Barry predict that despite the uptick in new apartment construction, the market will not become overbuilt. They emphasize the projected population growth of 25,000-30,000 per year and that the new units will be delivered in intervals. They expect that some neighborhoods will experience slow absorption, higher vacancies, and possible concessions until there is sufficient time for the new units to be absorbed. ■