MULTIFAMILY MARKET ANALYSIS

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In late November, the National Association of Realtors indicated that Portland had the lowest multifamily vacancy rate in the nation at 2.1 percent. Strong rental demand has persisted as fewer buyers are drawn to the single family market. According to the 2012 Barry Report: "The apartment market has everything going for it, with increasing rents, increasing income, low vacancies, financing which is readily available, relatively slow apartment construction, and good investor demand." The report projects stronger performance in the market in 2012 and 2013 and forecasts that we are in the midst of a "two to four year sweet spot in the market and the real estate cycle."

On the supply side, construction for multifamily in 2012 increased significantly from 2011 and 2010, but is still below historical figures. From January-November 2012 there have been multifamily building permits issued for 2,677 units in the tri-county area. In 2011 permits were issued for 1,696 units in the three county metro area, compared to 1,100 in 2010, according to the Barry Report. From 2004-2008 an average of 4,700 units came online annually.

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Half of the units being built are in the close-in areas where vacancy is lowest. The high demand for rentals is expected to persist over the next several years and absorb the new construction projects. New construction has begun to ramp up as more projects are approved in the coming year. The market is projected to have remained in balance absorbing approximately 2,000 units annually over the next 3-4 years, and vacancy rates are projected to remain low and market conditions should remain strong for property owners.

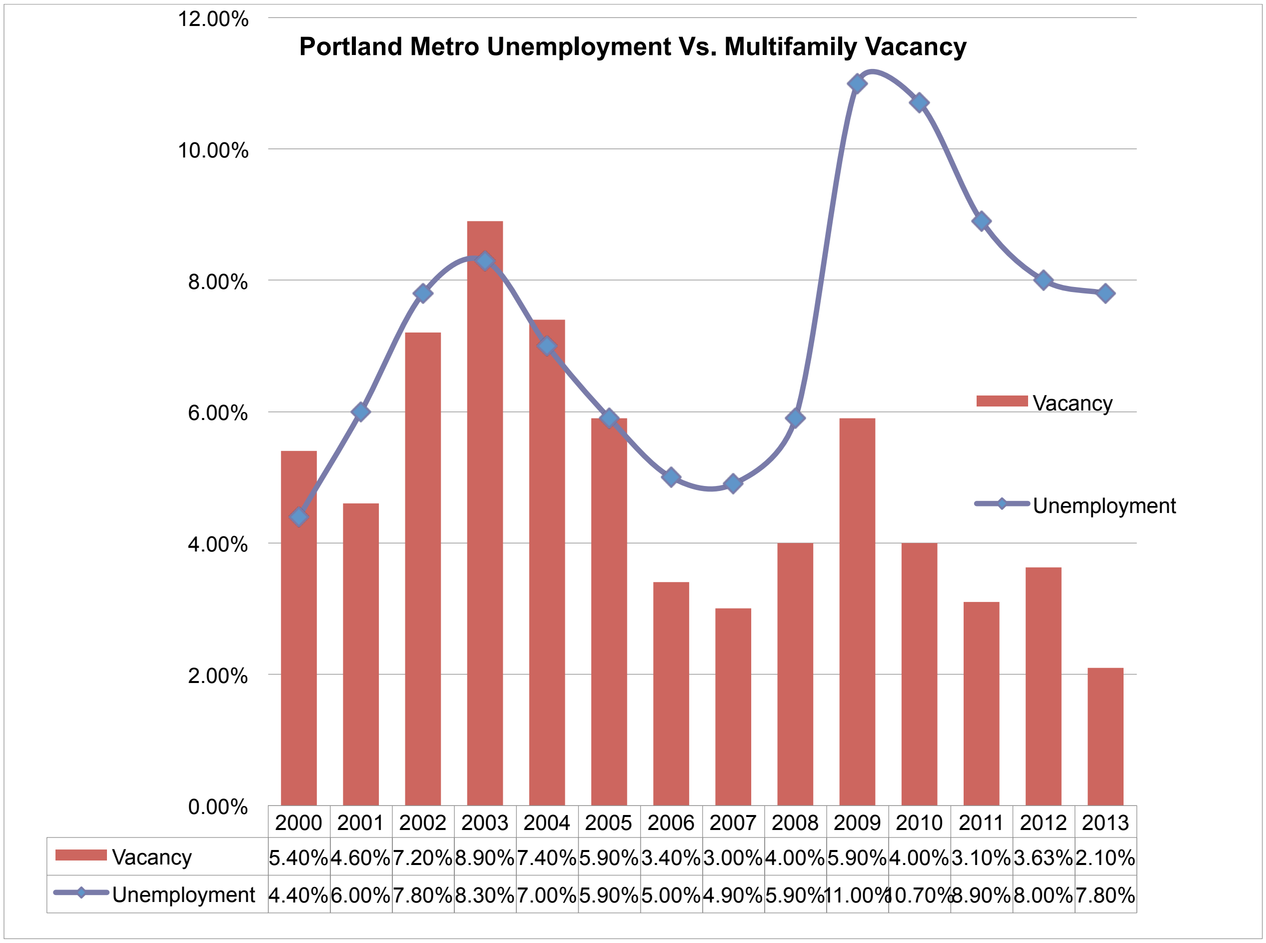
Countering the typical seasonal trend, annual effective rent growth for the apartment market increased from 3.60 percent in October to 3.72 percent in November according to the latest data from Axiometrics Inc., the leading provider of apartment data and market research. Annual occupancy growth also increased by 48 basis points (bps), making November the sixth consecutive month with an increase, though on a sequential basis there was a decline in the occupancy rate from October to November.

Axiometrics also notes that the average square footage for new apartment construction is decreasing, reversing a trend that reached its peak at an average of 1,008 square feet for properties built in the 2001-2005 timeframe. Still, while the current average of 982 square foot for properties in lease-up is lower than in recent years, it still has a way to go before dropping to the 834 square foot average for properties built from 1981-1985, according to Axiometrics.

"As we believed would be the case at the beginning of the year, Class C properties have led the way in both effective rent and occupancy growth throughout the year, and helped lead a turnaround in momentum since August," said Ron Johnsey, president of Axiometrics. "In addition, while many coastal areas and the top Texas markets continue to lead the nation in effective rent growth, it is interesting to note that for the first time in four years Las Vegas posted positive annual growth during November."

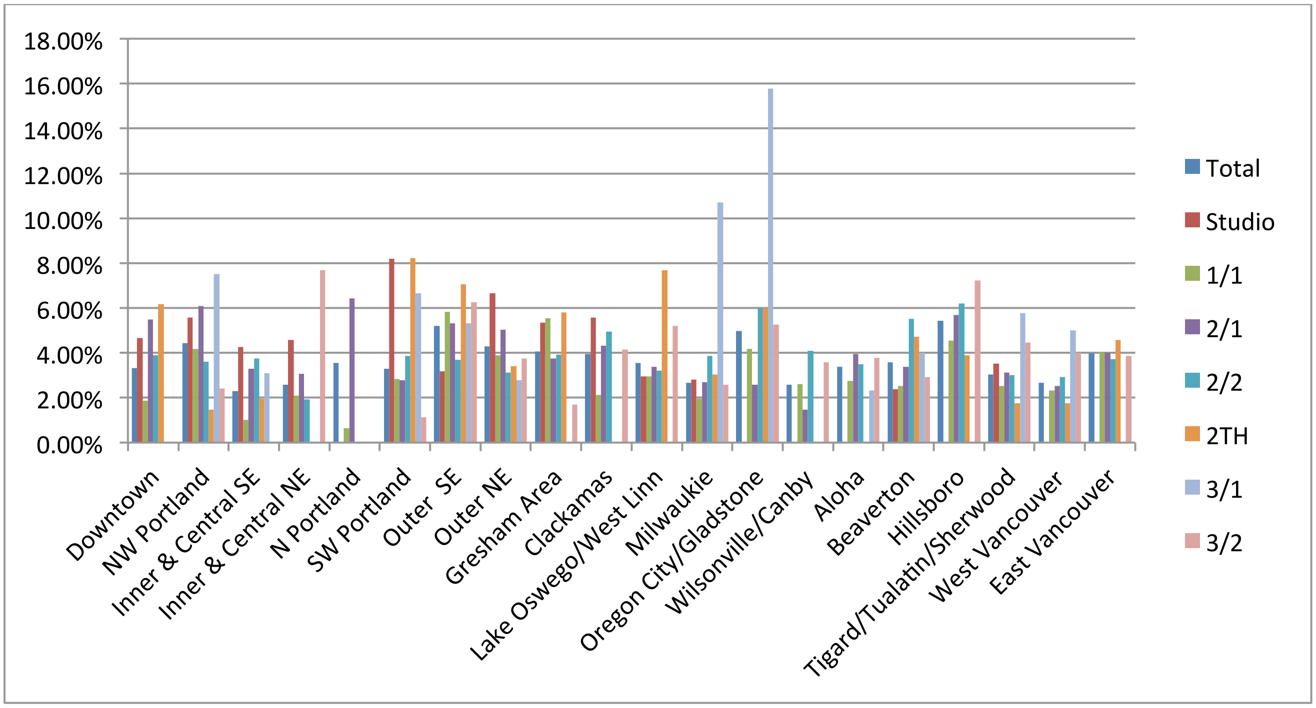
Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 7.8 percent, which is lower than the state average of 8.4 percent on par with the national average of 7.8 percent.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 5.42 percent in Hillsboro and the lowest was Inner & Central SE at 2.29 percent. The highest vacancy rate among studios was SW Portland at 8.2 percent, while four submarkets reports 0 percent vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was Outer SE at 5.83 percent, while the lowest was N Portland with 0.65 percent. For 2 BD, 1 BA the highest vacancy was N Portland at 6.44 percent and the lowest was Wilsonville / Canby at 1.48 percent. Six submarkets had a 0 percent vacancy rate among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed, as 3 BD / 1 BA units are relatively unusual. Downtown, N Portland, and Inner NE reported 0 percent for 3 BD / 2 BA, while Inner NE had a 7.69 percent vacancy rate for 3 BD / 2 BA.

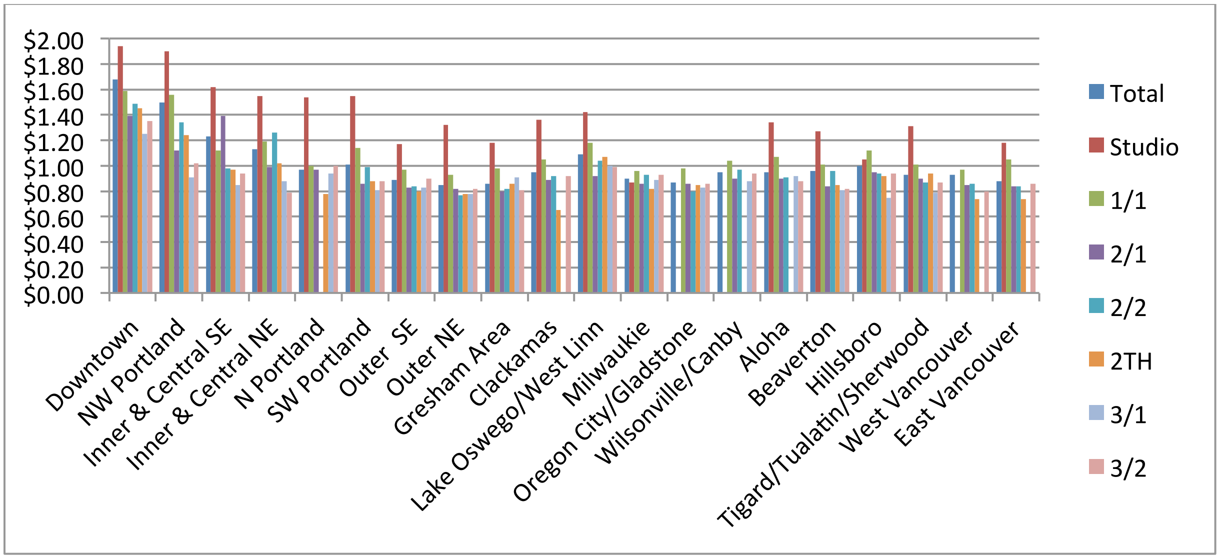
Figure 2: Vacancy Rates by Submarket Fall 2012 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a $1.68 average, followed by NW Portland at $1.50. 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 $1.94 and the lowest was Milwaukie at $0.87. The highest rent/SF for 1 BD, 1 BA was Downtown at $1.59 and the lowest was Outer Northeast at $0.93. The highest rent/SF for 2 BD, 1 BA was downtown at $1.39 and the lowest was $0.80 in the Gresham area.

Figure 3: Rent / SF by Submarket Fall 2012 Portland Metropolitan Area



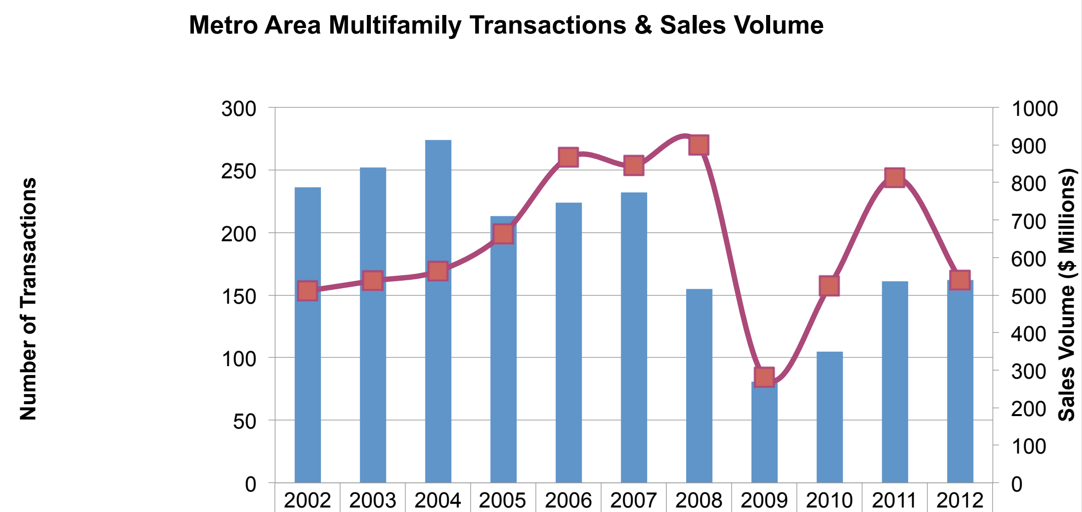
Source: MMHA

In 2011 there were 26 institutional transactions, which was the highest total in ten years according to MMHA. This trend is not projected to continue as the majority of the product in Portland is Class B and C quality properties based on location and condition of the building. 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 the sold price per unit was $71,400. The average number of units sold per property was 28 in second quarter 2012 and 32 in the third quarter.

There have been ten deals thus far in 2012. In the third quarter the Alexan Villebois in Wilsonville (275 units) sold for 30.4 million, Forest Rim in Tualatin (300 units) sold for $42.1 million, Axcess 15 (202 units) in NE Portland sold for $48.6 million, and Forest Creek (160 units) in NW Portland sold for $25.7 million.

The number of transactions and sales volume has rebounded nicely since 2009. In 2011 there were 161 transactions and $813 million in sales volume compared with 105 transactions and $525 million in 2010. This is 65 percent more transactions and 64 percent increase in sales volume. Through the end of September 2012, there have been 162 deals that have closed and $541 million in volume, which already exceeds the volume transacted in 2010. Experts are projecting that the increases in sales volume and transactions will continue to be strong in 2012 and over the next several years.

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, November 2012 Year to Date

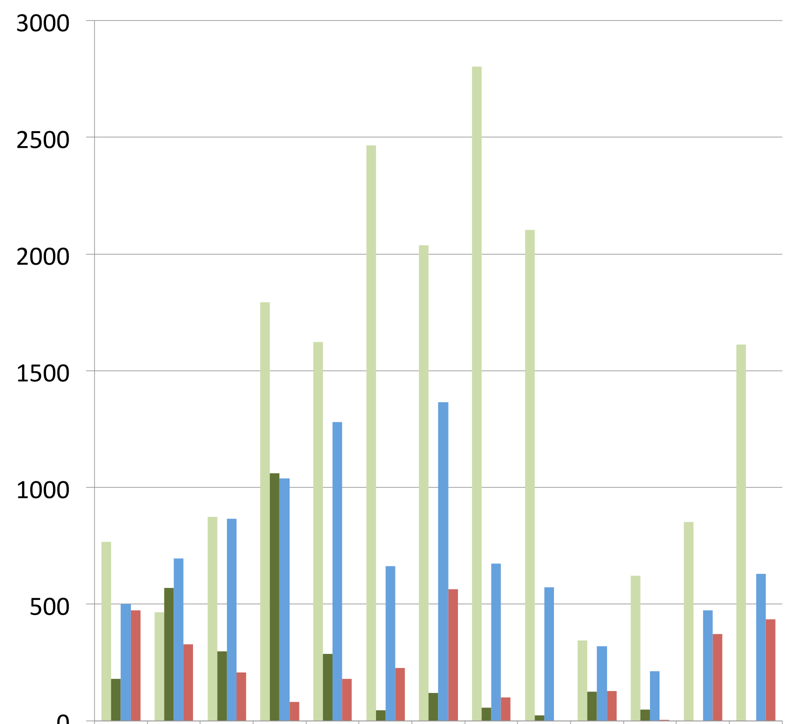


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Transactions	236	252	274	213	224	232	155	81	105	161	162
Sales Volume	511	538	564	663	867	845	899	282	525	813	541

Source: Costar / Joseph Bernard Investment Real Estate

Through November 2012, multifamily building permits have increased within the City of Portland. Permits have been issued for 1,612 multifamily units built in the City, which is already the highest total since 2008. In 2012, there are 21 new apartment projects with 2,619 units slated to open. There are approximately 2,924 market rate apartment units in 26 different complexes that are currently leasing up or under construction now and into 2013. The majority of projects are in the suburban west side and close-in eastside markets. These are the areas that have market rents that can support the high costs and risks associated with new construction. New development for multifamily rebounded in 2011 with a total of 1,696 units built. However this number is still significantly lower than 2003-2008. In order to get back in balance the market needs 5,000-7,000 apartment units, and it will take developers three years to produce this supply, according to the Barry Report.

Figure 5: Multifamily Building Permits Issued, November 2012 Year to Date



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

Source: US Census