

MULTIFAMILY REPORT

Portland Metro Area | Second Quarter 2010



TRENDS:

Vacancy Rate



Rental Rates



Permits



Construction



OVERVIEW

Multifamily vacancy decreased to 4.11% during Second Quarter. Downtown Portland units continued to be leased up at a healthy rate, as vacancy for both new and seasoned units fell around 2 percentage points. Last quarter, this report began tracking a number of recent central city deliveries, and two new properties, the Matisse in South Waterfront (272 units) and the Broadstone Enso in the Pearl (152 units), will be added to the report when they are stabilized in 2011. Rental rates increased by \$10 overall, or a cent per square foot, and as expected, downtown units led these increases.

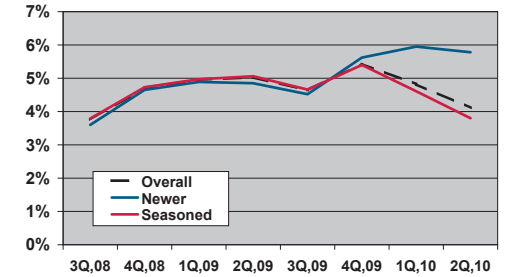
Market Trends

It's a good sign that vacancy is down and rents are increasing, and landlords are offering fewer concessions (except for new downtown properties), which indicates a healthier market. If new units continue to be absorbed at the current rate and the economy shows signs of solid recovery, we should see stabilization in 2011. But owners and managers remain guarded in their optimism, questioning whether recovery will occur without significant job creation, which we haven't yet seen.

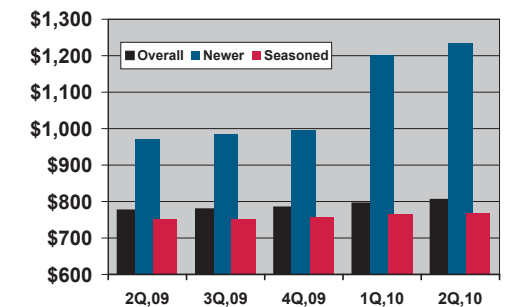
Despite the uptick in occupancy and some other positive indicators, the multifamily investment market remains sluggish. According to CoStar's sales comparables, just two transactions over \$3 million occurred during Second Quarter, one being the \$38.75 million sale of the 188-unit Tupelo Alley in North Portland, which was a solid institutional sale. Investors remain uncertain about the region's economic outlook, and worry that the Portland Metro Area doesn't have one particular economic driver or growth engine, which may lead to a flat recovery. Companies are hunkered down, waiting to see significant improvement before investing, and the volatility on Wall Street in May didn't help. Potential owners are also deterred by the increased costs of utilities and fees associated with owning and developing.

The deals being done in Portland and around the Pacific Northwest are

Vacancy Comparison (%)



Rental Rate Comparison



at lower cap rates; this doesn't necessarily indicate recovery, but of finding the ideal buyer on the transaction. Few aggressive buyers are currently active, though, and there's little leverage to do deals. Financing remains challenging, with a limited number of lenders. Fannie Mae and Freddie Mac are the two most active lenders, and a number of other sources, like Chase and some life insurance companies, are becoming more active in pursuing deals.

Major Sale Transactions

Buyer:	Building:	Price:	Units:	Submarket:
Behringer Harvard Holdings LLC	Tupelo Alley	\$38,750,000	188	N/NE Portland
Steed Properties	1492 NE Edgefield St., Hillsboro	\$6,760,000	52	Hillsboro
Rose Community Development Corp.	The Glen at Mt. Scott	\$2,525,000	40	Southeast Portland
Anderson Investments LLC	538 NE Anderson St.	\$1,675,000	5	Vancouver
Granite Group LLC	Moreland Apartments	\$1,130,000	8	Southeast Portland
Scot H and Mary Abplanalp	610 SE 17th	\$950,000	10	Southeast Portland
David Froode	Continental Apartments	\$931,850	22	Southeast Portland

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SUBMARKET	AVERAGE RENT PER UNIT				% VACANT
	1 Bed/1Bath	2 Bed/1 Bath	2 Bed/2 Bath	3 Bed/2 Bath	
MULTIFAMILY*					
Downtown Portland	\$1,193 (\$1.61)	\$1,196 (\$1.33)	\$1,992 (\$1.67)	\$2,820 (\$1.60)	8.06
Southeast Portland	\$615 (\$0.92)	\$701 (\$0.80)	\$763 (\$0.76)	\$907 (\$0.78)	4.01
North/Northeast Portland	\$725 (\$1.05)	\$725 (\$0.81)	\$993 (\$0.97)	\$856 (\$0.80)	3.14
Southwest Portland	\$674 (\$0.99)	\$736 (\$0.84)	\$968 (\$0.93)	\$1,048 (\$0.83)	4.51
Gresham/Troutdale	\$616 (\$0.90)	\$675 (\$0.79)	\$754 (\$0.77)	\$865 (\$0.76)	4.51
Lake Oswego/West Linn	\$791 (\$1.03)	\$817 (\$0.90)	\$1,004 (\$0.91)	\$1,193 (\$0.87)	3.45
Wilsonville	\$641 (\$0.90)	\$713 (\$0.77)	\$775 (\$0.81)	\$893 (\$0.77)	3.39
Tigard/Tualatin	\$624 (\$0.92)	\$692 (\$0.81)	\$803 (\$0.80)	\$918 (\$0.79)	4.40
Beaverton/Aloha	\$657 (\$0.95)	\$709 (\$0.80)	\$822 (\$0.83)	\$963 (\$0.82)	3.64
Hillsboro	\$697 (\$0.94)	\$742 (\$0.79)	\$862 (\$0.81)	\$1,033 (\$0.80)	4.17
Clackamas/Or Cty/MIwk	\$616 (\$0.87)	\$705 (\$0.80)	\$758 (\$0.78)	\$906 (\$0.75)	4.30
Vancouver	\$594 (\$0.84)	\$660 (\$0.73)	\$758 (\$0.74)	\$863 (\$0.71)	3.57
TOTAL	\$716 (\$1.01)	\$735 (\$0.83)	\$921 (\$0.88)	\$991 (\$0.80)	4.11

*Additions and Subtractions to the numbers above are in our detailed report.

Featured Deals



Box & One Sale

A private investor purchased the Box & One, two innovative mixed-use buildings on SE 28th and Ankeny in Portland, for \$1.7 million. The transaction had a 7.2% cap rate and was a market-rate deal. The 7,318 sf project has ground-floor retail and five loft-style apartments above. It is home to Crema Bakery & Café and Coalition Brewing. The retail and residential spaces have been fully occupied since the buildings were constructed in 2002, and the apartments garner market-leading rental rates. The buildings are energy efficient and sustainable, and their strong occupancy, unique design and excellent location were appealing. Associate Vice President Robert Black represented the seller.

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