



THE Apartment Report

ROBUST MARKET

*Craig McConachie, C&R Real Estate Services, Co.
Apartment Report Committee*

Low vacancy factors and increasing rents continue to dominate multifamily economics. While the building boom continues, demand remains strong and absorption of new product is keeping pace with the incoming supply. This survey's unit count is up by over 7,000 units, many of which are new product. This inclusion of new units (and their high rent rates) in our survey has caused average rent rates to increase 5% in the past six months. This type of rent growth is not indicative of seasoned property increases, which have been more modest. Market demand for purchasing apartments continues to be very strong, as Portland has emerged as one of the best markets in the country for astute investors. Average cap rates are hovering just over 5% and the median price per unit exceeds \$81,500. The median price of closed transactions in the third quarter of 2014 has topped \$100 per square foot for the first time, as buyers chase a limited supply of for sale product.

Portland/Vancouver

VACANCY:

The Portland/Vancouver vacancy factor increased, and currently stands at a healthy 3.75%. This is only slightly higher than the 3.45% rate reported in our Spring report. The Lake Oswego area is boasting the lowest vacancy factor of 1.5%, and also the biggest improvement from the Spring vacancy of 4%. Troutdale is also below 2%, with Inner Southeast, Milwaukie and Outer Northeast all under 3%.

There are some soft areas. Northwest Portland is in an unusual position as the area with the highest vacancy at 6.5%. Inner Northeast at 6% and Downtown at 5.2%, are the second and third areas with the highest vacancy factor. Wilsonville and Hillsboro both have vacancy factors over 4%. All unit types are close to 4% vacant or below,

with the exception of a 5.8% rate for studio units. Two-bedroom, one bath units continue to have the best occupancy all unit types, with average vacancy of 3%.

RENT RATES:

Overall rents in the Metro area have continued to increase at an annual rate of 11%. Year over year average rents have increased from \$1.10 p.s.f to \$1.22 p.s.f. in the past six months. Clackamas led the way in percentage increases with a 12% bump, with Troutdale right behind with a 9% increase. Overall average rents have increased 5% since the Spring Report.

Average rent per sq. ft. for all areas has increased to \$1.16. The downtown core continues to have the highest rents at \$1.97 p.s.f. Outer NE Portland and West Vancouver have the lowest rates, averaging \$.94 p.s.f. Southwest Portland and East Vancouver were the only two areas that experienced a decline in average rent.

Bigger is not necessarily more expensive in the Portland area. Average rent for a 2 bdrm., one bath unit is \$885, while 1 bdrm., 1 bath units have an average rent of \$938, and studios have an average rent of \$912. Two areas in particular, NW Portland and SW Portland, illustrate this interesting dynamic.

MARKET CONDITIONS:

Very few properties are offering rental incentives. Southwest Portland and Tigard areas are seeing a few concessions. The average number of days that a unit will stay vacant for the entire area is 38. The close in east side areas continue to see very quick turnover times, with vacant days averaging less than 12. Tenants wanting to live close-in on the east side need to jump on vacancies quickly, or they're finding themselves out of luck. They'd be better off looking in the Hillsboro, Aloha, Wilsonville or Downtown areas, which all have close to two months vacancy between tenants.

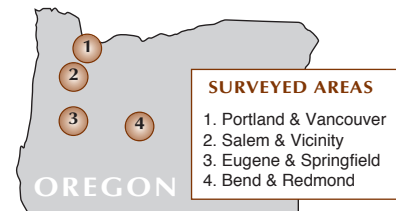
Passing through the cost of water and sewer to tenants has continued to increase in suburban markets and Downtown projects, with 60%-70% of projects adopting the practice. But inner east side properties lag behind, with less than 36% of owners

charging RUBS. Garbage collection costs follow this same trend. About half of the surveyed properties have instituted smoke free policies.

Other Areas

The Bend/Redmond area has seen a slight increase in vacancy but still reports a very strong 1.7%. Eugene/Springfield remains very stable, with a 4% vacancy, and average rents have dipped slightly to \$1.01 p.s.f. The Salem market has bounced back from last Spring's 6.45% vacancy and now has a much healthier 4.9%, and incentives have come

(continued on page 2)



SURVEY SAYS!

- Vacancy Continues Upward
- Rent Growth Strong
- Construction Plows Ahead
- Bigger is Cheaper?

TABLE OF CONTENTS

PORTLAND METRO MAP	2
TENANT PAID UTILITIES	2
AVERAGE RENT PER SQUARE FOOT	
AVERAGE MARKET VACANCY RATE	
AVERAGE NO. OF DAY VACANT	3
SURVEY RESULTS	4 & 5
TREND REPORT	6
APARTMENT VALUES	6
ECONOMIC UPDATE	7
INCENTIVES	7
APARTMENT CONSTRUCTION UPDATE ...	8-11

PORTLAND METRO AREA

MULTNOMAH COUNTY

- 5 DOWNTOWN PORTLAND
- 1 NW PORTLAND
- 13 INNER & CENTRAL SE (PORTLAND)
- 17 INNER & CENTRAL NE (PORTLAND)
- 18 NORTH PORTLAND | ST. JOHNS
- 6 SW PORTLAND
- 14 OUTER SE (PORTLAND)
- 16 OUTER NE (PORTLAND)
- 15 TROUTDALE | FAIRVIEW
- WOOD VILLAGE | GRESHAM

CLACKAMAS COUNTY

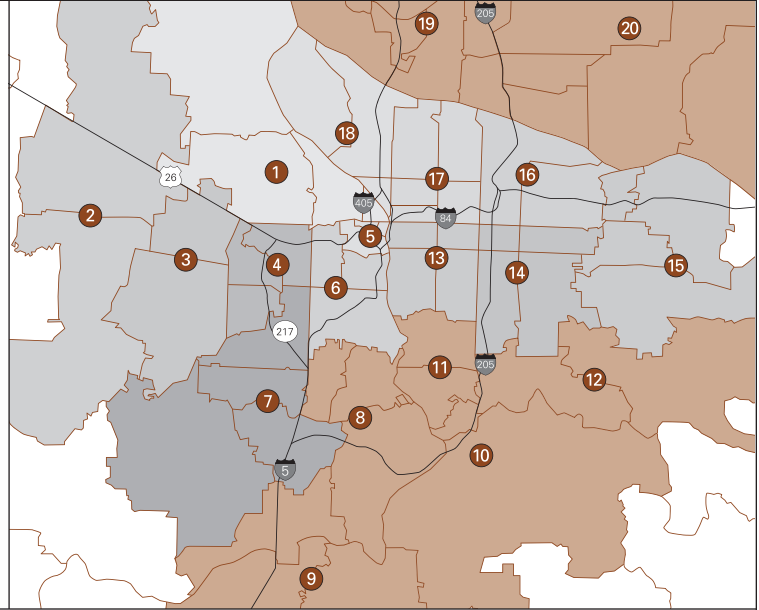
- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

WASHINGTON COUNTY

- 3 ALOHA
- 4 BEAVERTON
- 2 HILLSBORO | NORTH OF HWY 26
- 7 TIGARD | TUALATIN | SHERWOOD

CLARK COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER



MAP AREA	TENANT PAID UTILITIES		
	WATER	HEAT	GARBAGE
NW PORTLAND	64.3%	88.6%	55.7%
HILLSBORO N OF HWY 26	61.9%	100%	57.1%
ALOHA	79%	100%	70.2%
BEAVERTON	69%	91.2%	53.5%
DOWNTOWN PORTLAND	65.1%	88.4%	58.1%
SW PORTLAND	69.4%	93.9%	42.9%
TIGARD TUALATIN SHERWOOD	69.7%	98.7%	55.3%
LAKE OSWEGO WEST LINN	62.5%	87.5%	50%
WILSONVILLE CANBY	71.4%	100%	57.1%
OREGON CITY GLADSTONE	61.5%	92.3%	30.8%
MILWAUKIE	70.6%	100%	32.4%
CLACKAMAS	50%	100%	50%
INNER & CENTRAL SE PTLD	34%	62.2%	20%
OUTER SE PORTLAND	65.6%	96.7%	23%
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM	61%	97.6%	29.3%
OUTER NE PORTLAND	57.1%	94.3%	34.3%
INNER & CENTRAL NE PTLD	25%	49%	16.7%
NORTH PTLD ST. JOHNS	36%	72%	20%
WEST VANCOUVER	68.8%	100%	56.3%
EAST VANCOUVER	91.3%	100%	78.3%
SALEM VICINITY	56.6%	98.5%	51.9%
EUGENE SPRINGFIELD	55.6%	96.3%	54.3%
BEND REDMOND	20%	95%	5%

(continued from page 1).....

down accordingly. Salem landlords have continued to increase tenant paid water and sewer bill-backs, with now over 56% of tenants being billed, much more in line with Portland area trends. The Eugene area is also catching up to Portland, and reporting 56% tenant paid water and sewer.

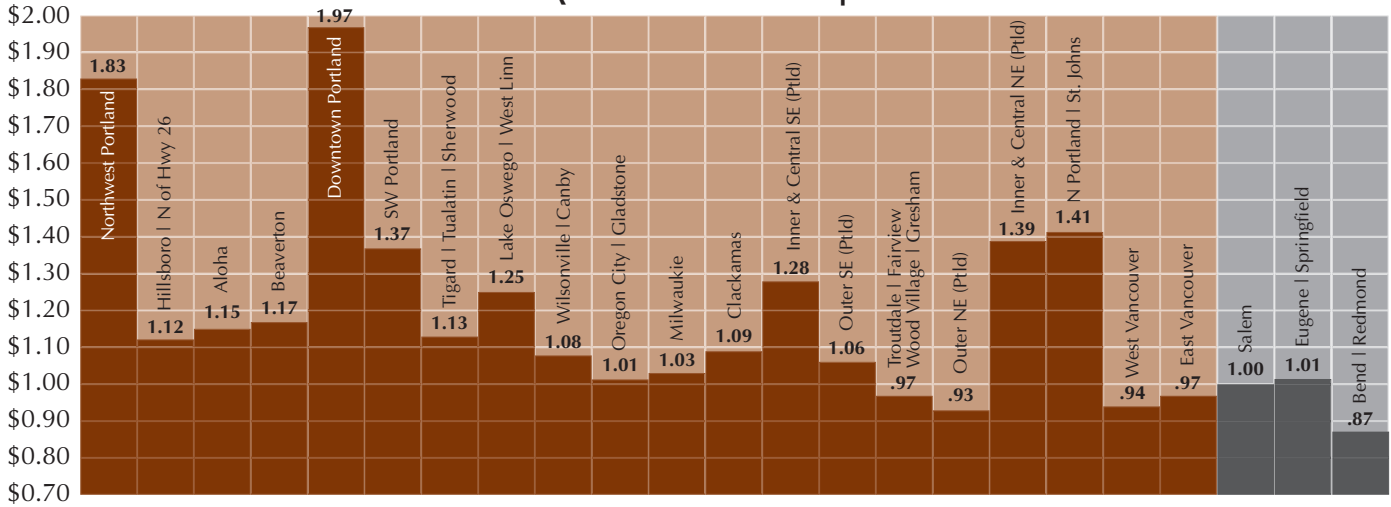
Our Contributors

Amy Vander Vliet from the Oregon Employment Department looks at the Portland area from an economist's perspective, and notes that the metro area's economic expansion is gaining speed. Portland Metro has added jobs at a 3% pace over the past year, but she recognizes that the job growth "while strong, hasn't quite kept pace with population and labor force growth." The construction job sector has seen some cooling off, but it still leads the region as the fastest growing industry, and the manufacturing sector has rebounded nicely.

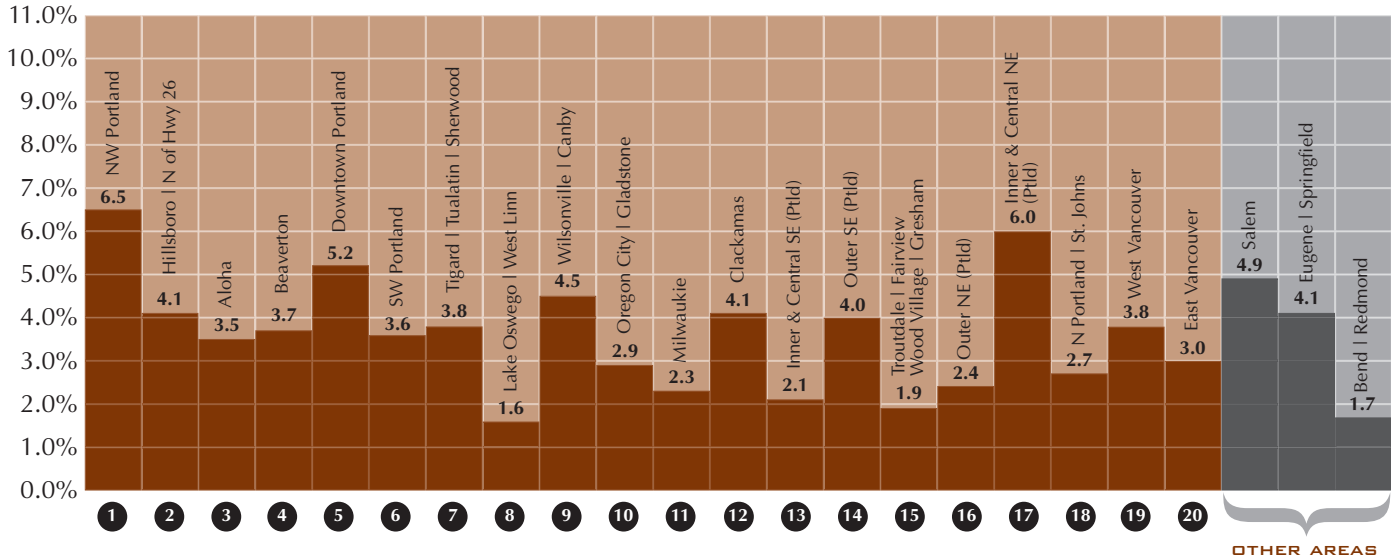
Greg Frick, with HFO Investment Real Estate, provides a well-researched article outlining the area's brokerage activity and predictions for the upcoming year. He describes how a "perfect storm" of in-migration, changing demographics and lack of new construction during the recession, has created a market where supply is "considerably smaller than demand." His concerns for 2015 include potential rising interest rates and the impact that our construction boom will have on the supply side of the market.

This survey represents a total of 72,746 units from 1038 properties. All of the articles have been reprinted without editing the content, in order to present unbiased opinions. We'd like to thank all of the management companies and property owners who have submitted information. Their participation is critical in insuring the accuracy of our data and the continued success of this report. ■

AVERAGE RENT PER SQUARE FOOT \$

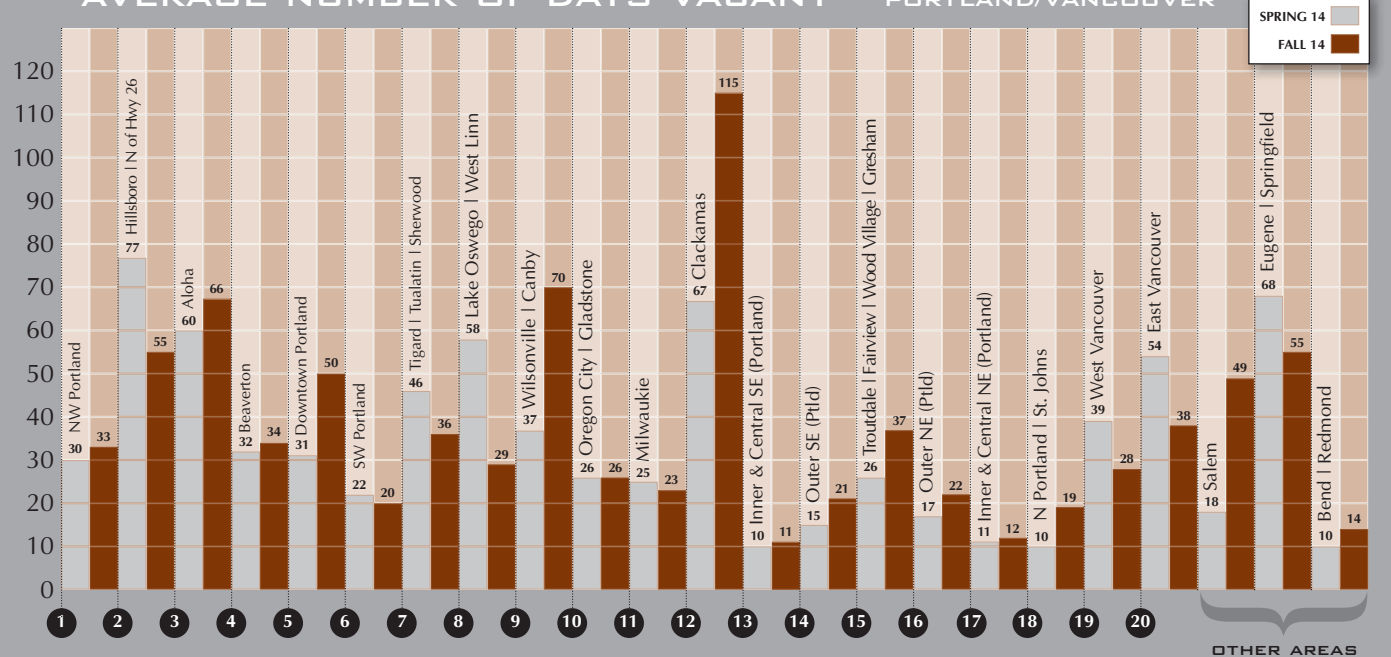


AVERAGE MARKET VACANCY RATE %



OTHER AREAS

AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



OTHER AREAS

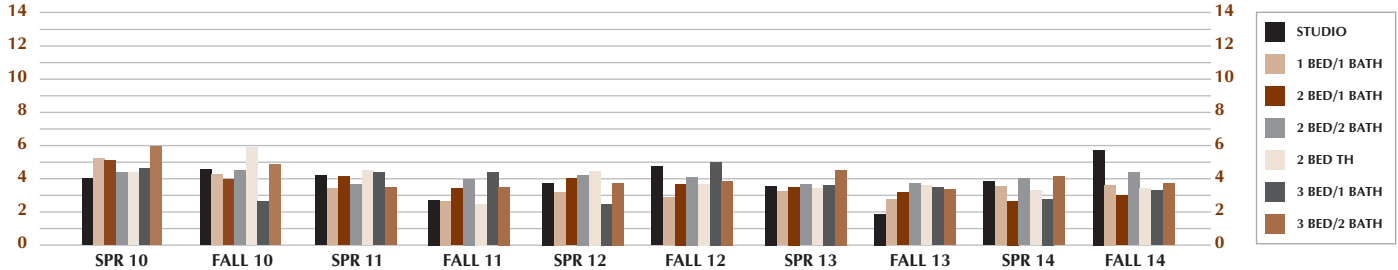
SURVEY RESULTS—FALL 2014

PORTLAND/VANCOUVER METRO AREA												
AREA NAME	# OF PROP	DATA	ALL	SPR 14 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND (5)	32	AVG MARKET VACANCY RATE %	5.2	3.5	0.48	5.42	4.69	5.88	6.07	33.33	0	6.9
		AVG RENT PER SQ FOOT \$	1.97	1.93	+0.04	2.06	1.96	1.87	1.8	1.49	1.69	1.89
		AVG RENT PER UNIT TYPE \$				906	1152	1444	1906	1554	2252	2620
		SUM OF UNITS SURVEYED	2692	1686		830	1344	204	280	3	2	29
NW PORTLAND (1)	58	AVG MARKET VACANCY RATE %	6.46	4.25	0.52	7.35	6.66	1.72	9.05	1.47	2.5	1.71
		AVG RENT PER SQ FOOT \$	1.83	1.78	+0.05	2.25	1.87	1.22	1.72	1.34	1.11	1.1
		AVG RENT PER UNIT TYPE \$				1090	1341	1069	1789	1579	1149	1302
		SUM OF UNITS SURVEYED	4259	4005		1061	1757	407	751	68	40	175
INNER & CENTRAL SE (PORTLAND) (13)	137	AVG MARKET VACANCY RATE %	2.08	3.87	-0.46	2.02	1.88	2.5	1.31	2.38	2.22	0
		AVG RENT PER SQ FOOT \$	1.28	1.26	+0.02	1.83	1.35	1.08	1.36	1.02	0.96	1
		AVG RENT PER UNIT TYPE \$				699	854	931	1324	944	1066	1163
		SUM OF UNITS SURVEYED	2851	2766		248	1288	924	153	168	45	25
INNER & CENTRAL NE (PORTLAND) (17)	91	AVG MARKET VACANCY RATE %	5.97	2.38	1.5	3.59	4.79	5.68	3.75	1.33	4.35	5.26
		AVG RENT PER SQ FOOT \$	1.39	1.29	+0.1	1.79	1.4	1.18	1.59	1.24	1.33	1.11
		AVG RENT PER UNIT TYPE \$				864	900	962	1643	1063	1236	1215
		SUM OF UNITS SURVEYED	2095	1726		237	1168	493	80	75	23	19
N PORTLAND ST. JOHNS (18)	16	AVG MARKET VACANCY RATE %	2.68	2.3	0.06	0	2.48	2.19	4.88	-	8.33	0
		AVG RENT PER SQ FOOT \$	1.41	1.34	+0.07	1.73	1.55	1.03	1.62	-	1.02	1.11
		AVG RENT PER UNIT TYPE \$				831	1146	865	1633	-	941	995
		SUM OF UNITS SURVEYED	671	766		57	323	183	82	0	24	2
SW PORTLAND (6)	44	AVG MARKET VACANCY RATE %	3.63	2.84	0.18	4.78	3.93	2.72	3.38	0	7.81	3.25
		AVG RENT PER SQ FOOT \$	1.37	1.41	-0.04	1.97	1.54	1.06	1.3	0.99	0.9	1.01
		AVG RENT PER UNIT TYPE \$				1066	1165	921	1445	1022	1053	1250
		SUM OF UNITS SURVEYED	2504	2008		209	1093	588	355	41	64	154
OUTER SE (PORTLAND) (14)	48	AVG MARKET VACANCY RATE %	4	3.7	0.08	3.11	3.63	4.35	3.37	6.33	1.41	5.59
		AVG RENT PER SQ FOOT \$	1.06	0.98	+0.08	1.57	1.2	0.91	0.94	1.09	0.92	1.02
		AVG RENT PER UNIT TYPE \$				660	769	760	919	1112	940	1211
		SUM OF UNITS SURVEYED	3175	1738		193	963	897	653	237	71	161
OUTER NE (PORTLAND) (16)	29	AVG MARKET VACANCY RATE %	2.39	2.41	-0.01	0	2.35	2.48	1.14	0	8	4.82
		AVG RENT PER SQ FOOT \$	0.93	0.87	+0.06	1.42	1.03	0.92	0.79	0.79	0.85	0.88
		AVG RENT PER UNIT TYPE \$				577	680	790	794	873	1011	1041
		SUM OF UNITS SURVEYED	1338	1051		15	340	645	175	55	25	83
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM (15)	34	AVG MARKET VACANCY RATE %	1.93	2.34	-0.07	1.8	1.97	2.03	1.97	1.5	0	2.04
		AVG RENT PER SQ FOOT \$	0.97	0.88	+0.09	1.32	1.19	0.94	0.87	0.96	1.15	0.9
		AVG RENT PER UNIT TYPE \$				662	741	813	852	1090	885	1167
		SUM OF UNITS SURVEYED	2744	2906		111	406	789	865	266	13	294
CLACKAMAS (12)	4	AVG MARKET VACANCY RATE %	4.06	2.7	0.5	7.41	3.83	5.7	3.66	-	-	2.25
		AVG RENT PER SQ FOOT \$	1.09	0.97	+0.12	1.45	1.23	1.04	0.99	-	-	0.99
		AVG RENT PER UNIT TYPE \$				675	840	955	995	-	-	1140
		SUM OF UNITS SURVEYED	863	814		27	261	158	328	0	0	89
LAKE OSWEGO WEST LINN (8)	15	AVG MARKET VACANCY RATE %	1.55	4.04	-0.61	2.04	1.75	1.03	1.59	2.67	0	0
		AVG RENT PER SQ FOOT \$	1.25	1.2	+0.05	1.56	1.37	1.24	1.21	1.03	1.34	1.07
		AVG RENT PER UNIT TYPE \$				729	949	1142	1193	1058	1430	1416
		SUM OF UNITS SURVEYED	1161	1558		49	401	194	252	150	8	107
MILWAUKIE (11)	32	AVG MARKET VACANCY RATE %	2.29	2.49	-0.08	1.89	2.85	1.8	2.16	2.5	6.67	2.52
		AVG RENT PER SQ FOOT \$	1.03	1.01	+0.02	1.53	1.14	0.98	1.02	0.84	0.8	0.99
		AVG RENT PER UNIT TYPE \$				552	714	832	934	816	838	1123
		SUM OF UNITS SURVEYED	2013	2350		53	561	834	231	200	15	119
OREGON CITY GLADSTONE (10)	11	AVG MARKET VACANCY RATE %	2.9	3.78	-0.23	0	1.4	3.06	4.04	2.88	0	3.27
		AVG RENT PER SQ FOOT \$	1.01	0.94	+0.07	1.87	1.16	0.96	0.92	0.97	1.04	0.97
		AVG RENT PER UNIT TYPE \$				820	829	852	972	806	992	1304
		SUM OF UNITS SURVEYED	1139	1469		23	215	360	272	104	12	153
WILSONVILLE CANBY (9)	11	AVG MARKET VACANCY RATE %	4.5	3.67	0.27	0	5.03	4	4.73	6.45	0	3.19
		AVG RENT PER SQ FOOT \$	1.08	1.05	+0.03	0.85	1.21	1.02	1.07	0.91	1.01	1.04
		AVG RENT PER UNIT TYPE \$				765	855	882	1062	944	950	1199
		SUM OF UNITS SURVEYED	1422	1200		1	358	325	486	62	2	188
ALOHA (3)	47	AVG MARKET VACANCY RATE %	3.52	4.11	-0.14	0	3.62	3.08	3.7	1.03	2.7	3.84
		AVG RENT PER SQ FOOT \$	1.15	1.08	+0.07	1.83	1.3	1	1.09	0.97	1.07	1.05
		AVG RENT PER UNIT TYPE \$				759	858	874	1078	1209	939	1198
		SUM OF UNITS SURVEYED	7395	6585		13	2627	1428	2542	97	37	651

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 14 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEAVERTON (4)	54	AVG MARKET VACANCY RATE %	3.67	2.98	1	5.08	2.85	3.7	4.88	2.54	2.73	4.26
		AVG RENT PER SQ FOOT \$	1.17	1.11	+0.06	1.5	1.35	1.02	1.16	1.08	0.88	1.06
		AVG RENT PER UNIT TYPE \$				709	940	936	1162	1217	935	1362
		SUM OF UNITS SURVEYED	6077	4477		59	2073	1785	1415	236	110	399
HILLSBORO N OF HWY 26 (2)	19	AVG MARKET VACANCY RATE %	4.13	3.13	0.32	0	2.66	2.48	4.83	7.14	0	7.11
		AVG RENT PER SQ FOOT \$	1.12	1.12	0	1.25	1.24	1.06	1.08	1.1	1.11	1.04
		AVG RENT PER UNIT TYPE \$				639	868	896	1147	1169	945	1239
		SUM OF UNITS SURVEYED	1768	2058		7	563	242	683	42	6	225
TIGARD TUALATIN SHERWOOD (7)	59	AVG MARKET VACANCY RATE %	3.83	4.37	-0.12	3.25	3.45	3.56	4.48	2.99	2.48	5.39
		AVG RENT PER SQ FOOT \$	1.13	1.09	+0.04	1.93	1.26	1.02	1.06	0.95	0.98	1.08
		AVG RENT PER UNIT TYPE \$				849	852	864	1048	1031	993	1302
		SUM OF UNITS SURVEYED	6426	5165		123	2176	1575	1652	234	202	464
WEST VANCOUVER (19)	26	AVG MARKET VACANCY RATE %	3.77	3.32	0.13	0	3.53	1.48	6.28	2.78	0	3.73
		AVG RENT PER SQ FOOT \$	0.94	0.93	+0.01	1.93	1.09	0.88	0.91	0.81	0.8	0.91
		AVG RENT PER UNIT TYPE \$				935	759	749	979	870	793	1192
		SUM OF UNITS SURVEYED	2440	2743		12	566	609	748	216	21	268
EAST VANCOUVER (20)	22	AVG MARKET VACANCY RATE %	2.96	2.99	-0.01	9.52	2.55	0.7	2.49	6.46	0	3.77
		AVG RENT PER SQ FOOT \$	0.97	0.97	0	1.48	1.09	0.96	0.94	0.84	0.73	0.92
		AVG RENT PER UNIT TYPE \$				744	765	841	948	1053	1056	1130
		SUM OF UNITS SURVEYED	2534	2420		42	548	426	843	294	10	371
TOTAL AVG MARKET VACANCY RATE %			3.75	3.45	0.08	5.82	3.65	3.02	4.2	3.3	3.15	3.85
TOTAL AVG RENT PER SQ FOOT \$			1.22	1.17	+0.05	1.97	1.39	1.02	1.11	0.97	0.97	1.02
TOTAL AVG RENT PER UNIT TYPE \$						912	938	885	1120	1040	999	1240
TOTAL SUM OF PROPERTIES SURVEYED			789	695		185	627	542	236	126	111	193
TOTAL SUM OF UNITS SURVEYED			55567	49491		3370	19031	13066	12846	2548	730	3976

VACANCY RATE SINCE SPRING 2010—PORTLAND/VANCOUVER METRO AREA



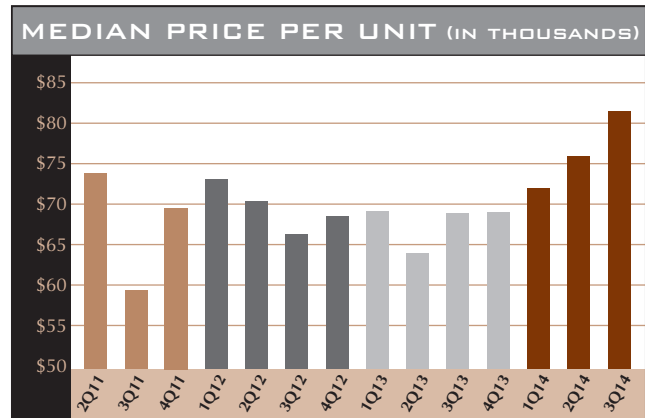
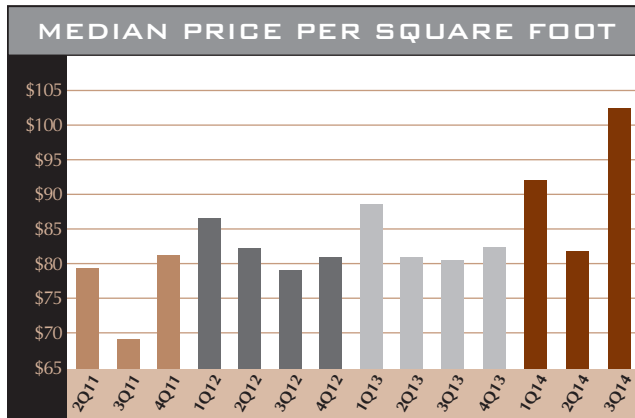
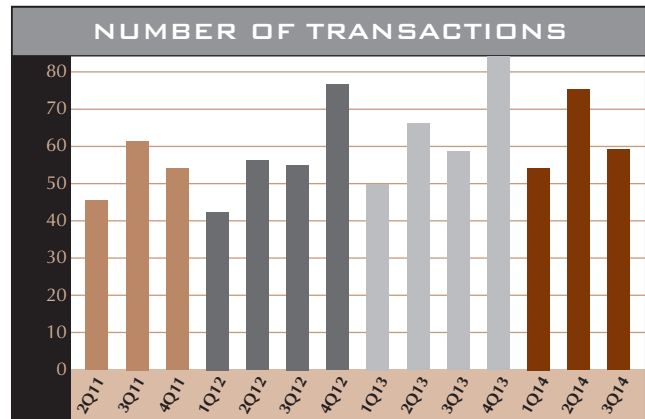
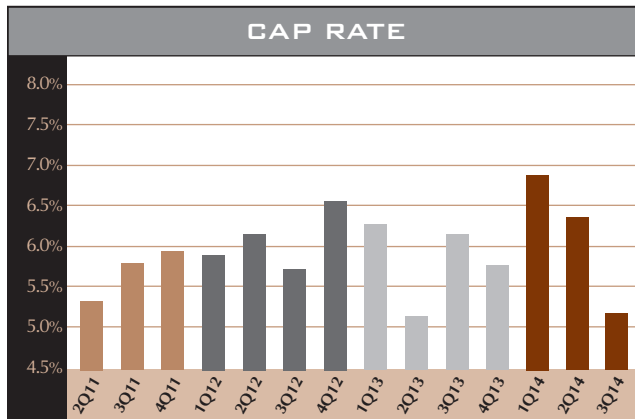
OTHER AREAS

SALEM & VICINITY	99	AVG MARKET VACANCY RATE %	4.88	6.45	-0.24	6.9	4.78	5.28	4.02	2.87	7.46	4.96
		AVG RENT PER SQ FOOT \$	1	0.98	+0.02	1.34	1.19	0.95	0.91	0.9	1.26	0.93
		AVG RENT PER UNIT TYPE \$				540	747	777	896	897	1018	1084
		SUM OF UNITS SURVEYED	4614	3686		87	920	2272	747	279	67	242
EUGENE SPRINGFIELD	65	AVG MARKET VACANCY RATE %	4.12	3.84	0.07	5.25	2.68	2.87	4.62	6.67	8	9.74
		AVG RENT PER SQ FOOT \$	1.01	1.05	-0.04	1.58	1.05	0.94	0.88	0.9	0.72	0.93
		AVG RENT PER UNIT TYPE \$				561	694	797	886	1046	905	1100
		SUM OF UNITS SURVEYED	3523	2557		305	1007	941	888	90	25	267
BEND REDMOND	6	AVG MARKET VACANCY RATE %	1.68	1.06	0.5	-	2.27	2.88	0	0	0	3.85
		AVG RENT PER SQ FOOT \$	0.87	0.75	+0.12	-	1	0.82	0.83	0.78	0.84	0.84
		AVG RENT PER UNIT TYPE \$				-	697	721	915	1006	800	1248
		SUM OF UNITS SURVEYED	358	471		0	88	104	114	10	16	26
TOTAL AVG MARKET VACANCY RATE %			4.43	5.09	-0.13	5.61	3.62	4.52	4.06	3.69	6.48	7.29
TOTAL AVG RENT PER SQ FOOT \$			1	0.99	+0.01	1.53	1.11	0.94	0.89	0.9	1.07	0.92
TOTAL AVG RENT PER UNIT TYPE \$						556	718	780	892	935	960	1100
TOTAL SUM OF PROPERTIES SURVEYED			170	123		21	78	88	41	14	33	45
TOTAL SUM OF UNITS SURVEYED			8495	6714		392	2015	3317	1749	379	108	535

*Surveys received from Sec 42, Sec 8 and other subsidized affordable housing programs are not included in the current survey data.

TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 4/2011—9/2014; unit: 5 units and greater.



YEAR	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
# OF TRANS	45	61	53	42	56	54	77	50	65	60	90	53	74	59
TTL \$ VOLUME	\$356,155,959	\$186,222,133	\$286,764,280	\$211,727,051	\$141,152,370	\$197,773,333	\$303,310,310	\$192,838,400	\$225,930,334	\$234,777,798	\$520,425,697	\$180,247,285	\$387,362,487	\$415,543,940
TTL BLDG SF	3,259,478	2,177,660	2,583,675	2,710,605	1,423,729	1,565,059	3,205,868	2,145,115	1,934,113	2,585,842	5,135,940	1,628,213	3,068,373	2,841,297
TTL UNITS	173.44	119.97	124.46	121.68	96.84	80.27	202.74	110.15	112.69	149.36	238.90	66.62	162.23	113.99
AVG PRICE	7,555,046	5,225,89336	5,421,478	5,300,381	4,218,350	3,496,561	8,831,354	4,798,134	4,908,776	6,506,122	10,406,484	2,901,967	7,066,739	4,965,404
AVG # OF SF	72,433	294	48,749	66,112	25,886	28,983	42,182	42,902	30,221	43,828	57,066	30,721	42,033	48,158
AVG PRICE BLDG SF	\$110.28	\$94.73	\$111.86	\$79.09	\$100.79	\$130.14	\$95.05	\$95.65	\$122.25	\$102.14	\$102.51	\$112.43	\$127.19	\$151.14
MED PRICE P/SF	\$79.63	\$69.77	\$80.74	\$85.96	\$82.04	\$78.76	\$80.49	\$88.49	\$80.65	\$80.14	\$82.31	\$91.67	\$81.74	\$102.66
AVG PRICE P/UNIT	\$105,873	\$88,384	\$101,330	\$94,819	\$89,938	\$103,655	\$83,332	\$86,012	\$92,594	\$78,390	\$93,889	\$109,175	\$124,371	\$142,456
MED PRICE P/UNIT	\$73,741	\$59,167	\$69,500	\$73,111	\$70,122	\$66,056	\$68,536	\$70,833	\$63,944	\$68,125	\$68,937	\$71,875	\$76,250	\$81,504
AVG # OF UNITS	76	39	54	56	29	36	49	48	39	56	62	32	44	51
ACTUAL CAP RATE	5.35%	5.71%	5.96%	5.90%	6.12%	5.66%	6.52%	6.22%	5.09%	6.14%	5.70%	6.80%	6.29%	5.13%
AVG GRM	7.91	8.34	10.70	8.16	9.78	8.03	9.35	8.96	7.90	7.88	8.85	8.91	8.28	8.67
AVG GIM	—	10.00	7.88	—	—	—	9.20	8.95	—	7.71	12.03	—	—	8.29

PORTLAND ECONOMIC UPDATE: ACCELERATING GROWTH

Amy Vander Vliet, Oregon Employment Department

Portland metro's economic expansion is gaining speed. After hovering around two percent (annualized) in the early years of the recovery, the pace of job growth kicked into high gear in late 2013. Over the past year, the greater metropolitan area has added jobs to the tune of three percent; a pace more akin to the housing boom years preceding the Great Recession, and faster than all but 10 of the nation's largest metro areas.

The region reached a milestone in late 2013; we finally recovered all of the jobs lost during the recession. Since then, employers have added an additional 24,000 jobs—employment is at an all-time high. The recovery has been broad-based: most major industries have contributed to the growth. Although the construction sector has cooled from the red-hot, double-digit growth rates earlier this year as some major commercial projects have wound down, it still remains the region's fastest-growing industry. After taking a breather, manufacturing is back with some of the strongest gains in three years. Financial activities is the only broad sector still struggling.

As the region adds jobs, the unemployment rate is declining. But unlike the jobs situation, it hasn't returned to pre-recession levels. There are thousands more unemployed residents today than before the recession hit. Why? People continued to move into the area during the downturn, and the pace of in-migration has picked up in the years following. In addition, people who had dropped out of the labor force because they were discouraged about their job prospects in the weak economy are coming off the sidelines and rekindling their job search. Consequently our labor force – those working or looking for work—is at an all-time high. Job growth, while strong, hasn't quite kept pace with population and labor force growth. As a result, the unemployment rate has been slow to come down.

The outlook is positive. Statewide forecasts call for continued job gains and stronger personal income growth. Portland will likely outperform the rest of the state in both. Our population will expand as people are drawn to the region's quality of life—one of the cornerstones of our economic health. If the future is like the past, about half these new residents will arrive with a Bachelor's degree or higher. With growth comes the challenge of maintaining the amenities that make Portland such an attractive place to live. Are we up to the challenge? ■

Amy Vander Vliet is an Economist for the Oregon Employment Department, covering the Portland metropolitan area. She produces and analyzes employment trends, including the unemployment rate and monthly job growth in the region's major industries.



DO YOU OFFER INCENTIVES?

MAP AREA	SPRING 2014	FALL 2014
NW Portland	4.1%	4.3%
Hillsboro/North of Hwy 26	0%	0%
Aloha	3.9%	7.0%
Beaverton	4%	5.2%
Downtown Portland	0%	4.7%
SW Portland	8.8%	8.2%
Tigard/Tualatin/Sherwood	9.3%	9.2%
Lake Oswego/West Linn	11.8%	6.3%
Wilsonville/Canby	5.9%	14.3%
Oregon City/Gladstone	12.5%	0%
Milwaukie	2.5%	2.9%
Clackamas	0%	0%
Inner & Central SE (Portland)	2.2%	2.6%
Outer SE (Portland)	0%	4.9%
Troutdale/Fairview/Wood Village/Gresham	10.3%	2.4%
Outer NE (Portland)	0%	0%
Inner & Central NE (Portland)	1.1%	0%
North Portland/St. Johns	3.2%	4.0%
West Vancouver	5.6%	3.1%
East Vancouver	11.1%	8.7%
Salem/Vicinity	22.7%	16.3%
Eugene/Springfield	16.1%	4.9%
Bend/Redmond	0%	0%

SECTION 42 SURVEY RESULTS • FALL 2014

TOTAL # OF PROPERTIES = 80 • TOTAL # OF UNITS = 8686

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT (\$)
STUDIO	2.61	1.72
1 BED / 1 BATH	1.55	1.24
2 BED / TH	2.65	0.95
2 BED / 1 BATH	4.13	0.96
2 BED / 2 BATH	2.65	0.92
3 BED / 1 BATH	2.43	0.83
3 BED / 2 BATH	2.82	0.83
TOTALS	2.48	1.13

PORTLAND METRO AREA UPDATE

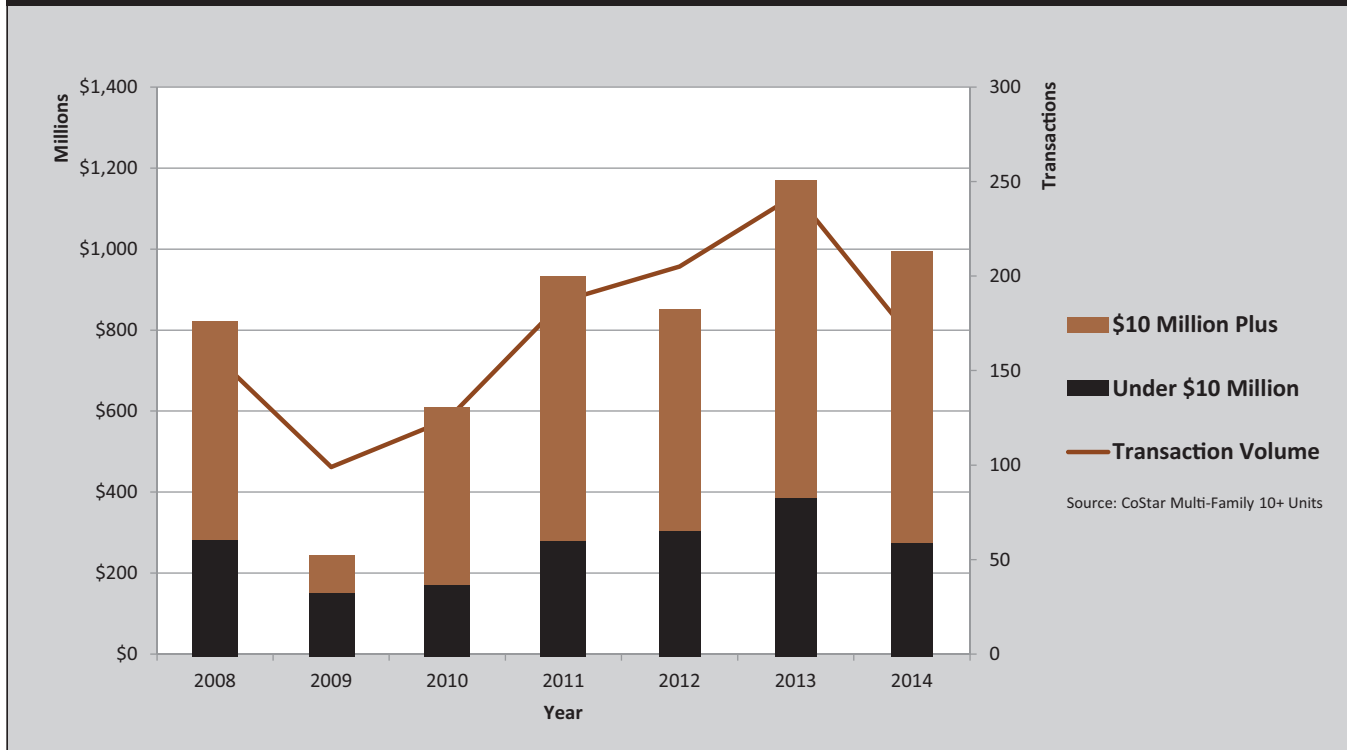
By Greg Frick, HFO Investment Real Estate

The party is still going strong but the wee hours of the night are approaching, and it's anyone's guess when the lights will come on. Multifamily investors looking for a foothold in one of the nation's strongest apartment markets have continued to inject capital into Portland in 2014.

It's no surprise that investment dollars are looking for a place to call home in Portland. A perfect storm of in-migration, changing demographic preferences, and the recessionary slowdown in apartment construction resulted in a supply of rental housing considerably smaller than demand. As this Apartment Report states, the market's overall vacancy rate is still under 4 percent and rental rates continue to climb.



PORTLAND METRO AREA APARTMENT TRANSACTION VOLUMES



Transaction Volumes

While the number of overall transactions is trending down for 2014, we are currently well on the way to surpassing last year's dollar volume. Through September of 2014, there have been 187 apartment transactions involving 5 or more units in the Portland market area. These transactions have accounted for more than \$984 million in transaction volume. This compares to a total of \$1.17 billion and a total of 265 apartment transactions for all of 2013. If this pace holds up through the 4th quarter, the Portland Market will have more than \$1.31 billion in transaction volume – a 10% increase over the record achieved in 2013.

Institutional Transactions of (\$10 million and up)

The catalyst for the huge increase in transaction volume is the large number of institutional transactions involving properties valued at more than \$10 million.

Through September 2014, there were 21 apartment transactions over \$10 million, compared to 20 for all of last year. In terms of dollar volume, these 21 transactions account for more than \$794 million in sales. This is \$80 million more than last year's total, and \$250 million more than 2012. These impressive sales do not take into account a number of large properties currently under contract and set to close in the 4th quarter of 2014.

(continued on page 9)

EXAMPLES OF INSTITUTIONAL TRANSACTIONS THIS YEAR INCLUDE:



THE ASA FLATS + LOFTS
231 UNITS IN THE PEARL DISTRICT SOLD FOR \$105.5 MILLION
\$456,710 PER UNIT



REFLECTIONS AT SUMMER CREEK
351 UNITS IN BEAVERTON SOLD FOR \$53 MILLION
\$150,997 PER UNIT



MONTEREY SPRINGS
390 UNITS IN HAPPY VALLEY SOLD FOR \$51.25 MILLION
\$131,410 PER UNIT



THE ADDY
105 UNITS IN NW PORTLAND SOLD FOR \$26.65 MILLION
\$253,810 PER UNIT



WESTVIEW HEIGHTS
198 UNITS IN PORTLAND SOLD FOR \$44.8 MILLION
\$226,263 PER UNIT



KEMPTON DOWNS APARTMENTS
278 UNITS IN GRESHAM SOLD FOR \$27 MILLION
\$97,122 PER UNIT



SENECA VILLAGE
264 UNITS IN HILLSBORO SOLD FOR \$51 MILLION
\$193,182 PER UNIT



LEWIS RIDGE
112 UNITS IN VANCOUVER SOLD FOR \$15.79 MILLION
\$140,938 PER UNIT

(continued from page 8)

The increase in institutional sales can be attributed to the investment capital market aggressively seeking opportunities to achieve secured returns. This capital is finding security in hard assets, located in markets with strong fundamentals. Portland fits the description of a market with strong fundamentals: in-migration, employment growth, barriers of entry and West Coast location. Capitalization (CAP) rates continue to be at the lowest levels we have ever seen. Assets in the core are trading at CAP rates from 4.00% to 4.75%, while suburban properties have CAP rates which are up to 100 basis points higher. Buyers' willingness to pay these historically low CAP rates is allowing owners who are yield-driven to capture long-term performance targets in shorter hold periods—resulting in more apartments going to market.

In terms of price-per-unit and price-per-square-foot there is a wide variety due to age, location, condition and the ability to put new debt on the property at the time of purchase.

Institutional buyers' underwriting standards have remained relatively consistent, with the exception of rent growth. Future rent growth predictions have been dialed back to account for the increase in new product hitting the market. To offset this underwriting adjustment, buyers are getting more aggressive with their capital structure to achieve their yield goals. Similar to the heyday of 2006, we are once again seeing interest-only commitments, and high amounts of leverage on first and second loans.

Non-Institutional Transactions (under \$10 million)

Turning to Portland metro non-institutional transactions below \$10 million, we have seen roughly 165 transactions accounting for \$190 million in dollar volume. This is trending slightly below what the Portland market experienced last year.

The downward trend in sales is likely due to: (1) The lack of suitable 1031 Exchange options for current owners; (2) Current owners' taking advantage of historically low interest rates and refinancing instead of trading up.

(continued on page 10)

(continued from page 9)

As a result, many owners are choosing to invest in upgrades at their existing properties. The result: the number of non-institutional transactions will not reach the levels seen last year.

Even with the reduction of the number of transactions, non-institutional CAP rates are in the low 6 percent to 6.75 percent range, but well-maintained properties in the urban core are pushing rates down even further. When Buyers find a suitable apartment property to purchase, they are finding the market for acquisition debt to be very beneficial. Long-term rates are still in the mid-4.5 percent range or better depending on the loan-to-value ratio, property condition and borrowers' strength. As we have said for the last 2 years, the fundamentals of the Portland apartment market remain very strong.

Factors That Could Temper The Market in 2015

- Rising interest rates, the corresponding increase in yield expectations and hike in Cap Rates.
- Construction pipeline. When will the market feel the impact of all the new apartment projects coming out of the ground?

The above factors will need to be monitored as to the effect they will have on our market. The supply crunch and in-migration has resulted in impressive rent growth and the current construction boom. But as more units come on-line, will rent growth continue to push skyward?

Predictions for 2015:

- Investor demand for institutional apartments will continue to be strong. The number of transactions over \$10 million will be at or above levels seen in 2014 as developers look to make a profit in this low CAP Rate environment and sell new projects.
- The number of non-institutional transactions will continue to increase slightly as some owners decide to exit the market due to the recovery of values.
- Values and CAP Rates: CAP Rates will stay at their historical low levels. The rise in values will be attributed to the increase in Net Operating Income, not the compression of CAP Rates.

Party On!

As we have said for the last 3 years, the good feelings are still flowing in the Portland apartment market for both the operations side and investment side. Winston Churchill once said, "One does not leave a convivial party before closing time." The Portland apartment market is still going strong and no one is headed for the door just yet.■

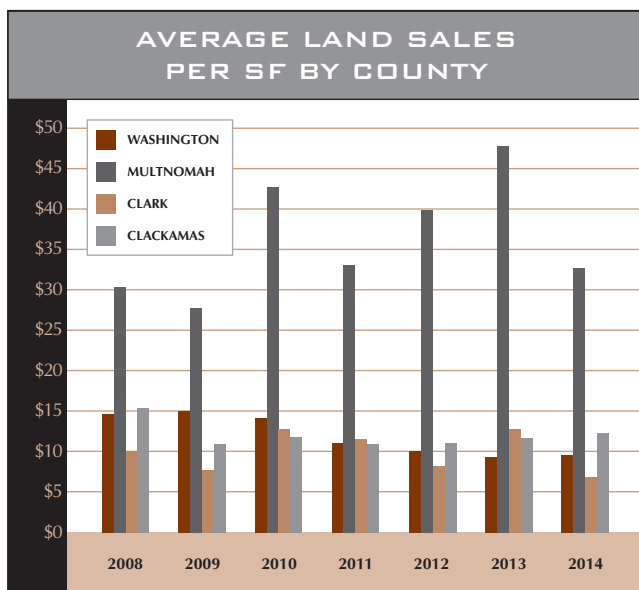
Greg Frick is a partner at HFO Investment Real Estate, now celebrating its 15th year in business. HFO's partners have brokered transactions of more than 15,000 units valued at \$1.86 billion throughout Oregon and Washington. Greg works with both private market and institutional clients and can be reached directly by phone at 971-717-6332 or e-mail greg@hfore.com.



APARTMENT BOOM SPURS RECORD LAND VALUES

Robert Black, NAI Norris, Beggs & Simpson

Portland, Oregon (October 3, 2014) – Portland’s burgeoning multifamily market continues to post incredibly low vacancy rates quarter after quarter and this trend has effectively pushed land values to record highs.



In 2010, local developers began targeting Multnomah County for future projects. This activity kicked off the first phase of Portland’s apartment renaissance. During this infancy stage of new growth, developers sought infill locations suitable for 30-100 units. The average price ranged between \$30-50 per foot in the Eastside and \$80-100 per foot Downtown.

As projects in Portland progressed, it became evident that top tier markets like San Francisco and Seattle were simultaneously becoming oversaturated with similar product. It was only a matter of time before institutional developers eyed Portland for more opportunity. Showing strong fundamentals and livability, Portland was poised as the next boom town for apartments. This spurred the second phase of apartment growth, which was well underway by 2012.

The second phase of development was much more aggressive and driven by an overwhelming amount of capital. Institutional investors competitively prospected and secured quality sites in the CBD and Close-In Eastside. As a result, land values skyrocketed.

Now at the tail-end of 2014, the multifamily market shows no signs of stopping momentum. Institutional developers continue to bleed the market for bigger, larger projects. Before 2009, projects in excess of 150 units were almost laughable. Yet now, 150 units have become the standard starting point. With the bulk of today’s land sales concentrated in Multnomah County, Portland has approximately 26,000 new units in the current pipeline.

The floodgates have clearly opened on institutional deals and Portland is in the crosshairs of high rent, high occupancy and low cap rates driven by enormous capital. The ambitious hunt for quality close-in and urban sites has impacted land values tremendously, bumping prices to \$150-300 per foot in the CBD. Such premium values haven’t been seen since the last condominium boom in 2007. In the Eastside, sales comps in the North Williams neighborhood once traded at \$30-50 per foot, but today the numbers have ballooned to \$80+ per foot.

With evidence of a robust and healthy market on every street corner, there’s no better indication that Portland’s multifamily market is in its prime. Land values are at record highs and until the market peaks, prices will continue to climb. ■

NAI Norris, Beggs & Simpson, a real estate brokerage and asset/property management company with offices in Portland, Oregon, and Vancouver and Seattle, Washington, is affiliated with NAI Global, an international commercial real estate network with over 350 offices in 55 countries worldwide. NAI NBS is a division of Norris, Beggs & Simpson Companies, which was recently recognized for the eighth consecutive year as one of the most admired commercial real estate companies in Oregon as chosen by Oregon CEOs in the Portland Business Journal. NBS Companies’ other specialties include apartment management and mortgage banking.



Thank you to all who contributed to the making of this report.

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