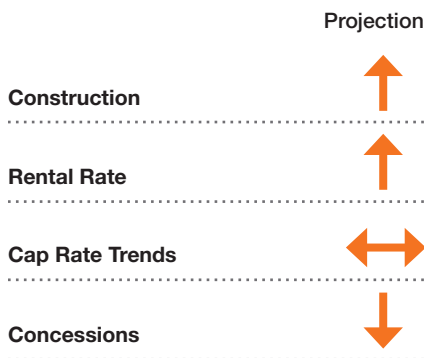


Portland Apartment

Market Forecast



Highlights

The Portland Metro area has 5,000 units currently under construction and over 12,000 units proposed.

Increased property taxes and utility costs are a concern for many landlords.

Many market participants do not believe that oversupply in the short-term is a concern.

With a vacancy rate at 3.11%, the Portland market ranks among national leaders.

The forecast is for continued growth in rental rates and property values. ■

The steady pace with which Portland’s economy continues to grow is encouraging to economists, but still slow enough to frustrate job seekers and small business owners. As this period of continued positive-but-measured growth persists, overall confidence is strengthening. This is leading market prognosticators to focus more on the quality of new jobs being created, and less on the likelihood of a second recession.

In Portland, apartment development, construction and sales continue to outshine other real estate sectors. With current Metro vacancy trending downward towards 3%, rents are on the rise and newer, up-scale properties such as the Emery Building on the South Waterfront and the Franklin Ide in Northwest are coming on-line. There are over 5,000 units under construction and 12,000 units proposed.

That said, much of the new construction is not for sale. Overall, sales figures slackened somewhat in the spring and summer of 2013 relative to 2012. Investors placed a majority of the blame for this on the lack of quality market alternatives and like-kind exchange properties, but added that increases in the capital gains tax along with the fluctuations in the U.S. Treasury bond yield had each played a role. With the onset of the winter months, the market will see some cyclical tightening, but the forecast remains positive.

Capitalization rates in the market have not changed dramatically year-over-year. They generally range from 4.5% to 7.0%, with newer, close-in properties forming the low end of the range and older, outlying properties forming the high end.

In the single-family arena, according to the most recent RMLS Market Action Report, September 2013 was the most active September for home sales since 2006. With inventory falling to 3.7 months and marketing times hovering at 72 days, the median

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Area Review

Second Half 2013 Transactions

Property	City	# Units	Sale Price	Price/Unit	Year Built	Sale Date	Cap Rate
Vancouver Portfolio	Vancouver	584	\$64,450,000	\$110,360	1990-1997	Sep-13	6.33%
The Jones Apartments	Hillsboro	193	\$39,300,000	\$203,627	2013	Sep-13	5.25%
Madison Park Apartments	Vancouver	336	\$30,175,000	\$89,807	1999	Sep-13	confidential
20 on Hawthorne	Portland	51	\$14,950,000	\$293,137	2009	Aug-13	4.70%
Cyan PDX	Portland	352	\$95,750,000	\$272,017	2009	May-13	4.25%

home price in the Portland Metro area has risen to \$275,000. However, positive sales volume and median home price growth have not necessarily translated into new home construction starts. In fact, some home builders, seeing the strength of the apartment market, have made the leap to apartment construction.

Under Construction

With 10,000 new units expected to be delivered in 2014-2015, total supply in the Portland Metropolitan area is expected to increase by 5%. Continued optimism in the apartment market is driven by the increases in apartment rents and the reluctance of some to engage in the financial risks and time investment inherent to home ownership. The following projects, currently under construction, hope to benefit from this trend.

Construction on Hassalo on Eighth, also known as the Lloyd Superblock project, began in August 2013. The plan is the brainchild of American Assets Trust, a San Diego based firm that has invested nearly half a billion dollars in Portland real estate in recent years. According to GBD Architects, the design will include 657 apartments, 31,707 s.f. of general retail space and a 26,400 s.f. retail anchor space. Completion of the LEED Platinum certified project is expected sometime in 2015.

Grant Park Village, a \$60 million 211-unit project nestled between I-84 and Broadway in Sullivan's Gulch, is slated for delivery in September 2014. Along with the apartments, the first phase of construction will include a New Season's Market. A second phase will include 150 apartment units and additional retail space. The development is partnership between the Arntson family, who owns the property, and Capstone Partners, a real estate planning and investment firm.

In Aloha, construction on Steed Creek, a 243-unit family-oriented complex, is scheduled for completion in March 2014. The 10-building development is near the Nike World Campus

and Elmonica light rail station. It is one of the few projects being marketed for sale pre-completion.

Construction on Park Avenue West in the CBD has resumed after TMT Development secured a lease from the building's primary office tenant, Stoel Rives, LLP. The building will include two ground-floor levels of retail, 15 floors of apartment space, and will be topped off by 13 floors of office. Construction is targeted for completion in early 2016.

The Prescott Apartments, at the northeast corner of Skidmore and Interstate in North Portland, is a 155-unit project scheduled for completion in November. It will include 9,500 s.f. of ground level retail. Units, which will include studio, 1-bedroom and 2-bedroom floor plans, will offer rents ranging from \$900 to \$1,800 per month.

New Development

The Emery, at Zidell Yards in the South Waterfront, opened in October. The building incorporates a unique modern design with a sensible, community-oriented layout. With 118 units and ground level retail, the complex offers access to the Portland Streetcar along SW Moody Ave. Unit sizes range from 467 s.f. studios to 907 s.f. 2 bed/2 bath units, with rental rates that range from \$1,000 to \$2,500.

Marketed as "progressive retro-living," The Franklin Ide, in Northwest Portland, is a 92-unit LEED Gold certified apartment building. The property, which opened in August, includes 2,381 s.f. of retail space. The building offers a number of floor plans ranging from 477 s.f. studios to 1,169 s.f. 2 bed/2 bath units.

Terrene at the Grove, a 144-unit complex in Wilsonville, was developed by Vancouver-based Holland Partner Group. Construction was completed in the summer of 2013.

Cedar Falls Apartments, in Cedar Mills, opened in April. The luxury apartments offer 1, 2, and 3 bedroom floor plans with

3rd Quarter 2013 Portland/Vancouver Metro Area Apartment Market Data (Selected Submarkets)

	# of Properties	Data	All	Spring 2013 Report	Change	Studio	1 Bed/ 1 Bath	2 Bed/ 1 Bath	2 Bed/ 2 Bath	2 Bed/ TownH.	3 Bed/ 1 Bath	3 Bed/ 2 Bath
N Portland/St. Johns												
14	Avg. Vacancy Rate %	2.24	2.50	-10.40%	0	1.75	2.37	0.00	6.67	0	0	
	Avg. Rent/SF	1.08	1.13	-\$0.05	1.82	1.12	0.99	1.53	1.17	1.02	1.04	
	Avg. Rent/Unit Type				\$950	\$745	\$815	\$1,535	\$1,235	\$918	\$935	
	Sum of Units Surveyed	436	360		6	171	201	7	30	19	2	
Downtown Portland												
29	Avg. Vacancy Rate %	2.83	3.42	-17.25%	1.97	2.97	7.27	2.69	0	4.17	4.17	
	Avg. Rent/SF	1.82	1.88	-\$0.06	1.90	1.81	1.76	1.61	1.56	1.72	1.91	
	Avg. Rent/Unit Type				\$910	\$1,114	\$1,368	\$1,690	\$1,366	\$1,731	\$2,069	
	Sum of Units Surveyed	2,407	1,756		1,015	944	165	223	12	24	24	
Inner & Central SE												
124	Avg. Vacancy Rate %	2.29	2.85	-19.65%	1.38	2.22	2.59	1.56	3.18	2.27	0.00	
	Avg. Rent/SF	1.17	1.17	\$0.00	1.67	1.20	1.04	1.27	1.03	0.95	0.98	
	Avg. Rent/Unit Type				\$654	\$755	\$885	\$1,191	\$930	\$1,047	\$1,077	
	Sum of Units Surveyed	2,442	2,669		218	1,126	810	64	157	44	23	
Inner & Central NE												
87	Avg. Vacancy Rate %	2.10	3.89	-46.02%	1.69	1.39	3.08	3.15	6.25	5.56	0.00	
	Avg. Rent/SF	1.28	1.19	\$0.09	1.81	1.27	1.09	1.22	1.08	0.94	1.13	
	Avg. Rent/Unit Type				\$864	\$857	\$962	\$1,228	\$942	\$1,078	\$1,218	
	Sum of Units Surveyed	1,909	1,772		237	1,005	455	127	48	18	19	
NW Portland												
53	Avg. Vacancy Rate %	3.48	3.69	-5.69%	2.96	3.46	3.26	3.62	6.17	7.41	2.86	
	Avg. Rent/SF	1.61	1.43	\$0.18	2.08	1.63	1.06	1.47	0.98	1.01	1.08	
	Avg. Rent/Unit Type				\$1,024	\$1,113	\$918	\$1,518	\$906	\$1,081	\$1,433	
	Sum of Units Surveyed	3,304	2,795		742	1,416	368	608	81	54	35	
SW Portland												
36	Avg. Vacancy Rate %	3.04	2.83	7.42%	1.48	3.15	3.20	3.50	1.75	4.17	2.98	
	Avg. Rent/SF	1.35	1.06	\$0.29	2.00	1.46	1.02	1.48	1.09	0.80	0.94	
	Avg. Rent/Unit Type				\$1,050	\$1,115	\$888	\$1,707	\$1,179	\$885	\$1,166	
	Sum of Units Surveyed	2,337	1,414		203	1,016	531	314	57	48	168	
Total Average Market Vacancy Rate			3.11	3.55	-12.39%	1.94	2.80	3.06	3.77	3.56	3.47	3.32
Total Average Rent/SF			1.10	1.04	0.06	1.71	1.22	0.95	1.00	0.91	0.89	0.93
Total Average Rent/Unit Type						\$827	\$823	\$818	\$1,005	\$927	\$927	\$1,120
Total Sum of Properties Surveyed			758	721		168	615	533	235	109	115	181
Total Sum of Units Surveyed			54,282	45,378		3,445	17,981	13,641	12,611	2,250	865	3,489

SOURCE: FALL 2013 MULTIFAMILY NW REPORT

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in-unit washers and dryers, balconies, and fireplaces. Complex amenities include a club house, swimming pool, and playground. Rent includes a carport or garage. Rents at the 147-unit complex range from \$1,000 to \$1,600.

Transactions of Note

In Vancouver, WA, a three-property portfolio comprised of The Brentwood, Carriage House Apartments, and the Village at Vancouver Mall sold in late September for \$64,450,000. The buyer was Security Properties Inc., a Seattle-based multi-family real estate firm. The properties, which averaged 97% leased at closing, sold at a 6.33% capitalization rate based on in-place-income.

In late September, The Jones Apartments, a 193-unit apartment complex in Hillsboro, sold for \$39,300,000, or \$203,627 per unit. The newly-constructed property, which was completed in August, was 81% occupied at the date of sale.

Also in Vancouver, the Madison Park Apartments sold in September for \$30,175,000, or \$89,807 per unit. The 336-unit property, built in 1999, was 98% occupied at the date of sale.

In Southeast Portland, the 20 on Hawthorne, a property famous for its “matrix” automated, three-tier parking system, sold in August. The 51-unit complex was 97% occupied and sold at a 4.70% capitalization rate. The LEED Gold certified building was purchased by JP Morgan Chase.

In May, Cyan PDX, a 352-unit luxury apartment tower near Portland State University in the CBD, sold for \$95,750,000, or \$272,017 per unit. The 16-story LEED Gold certified building was built in 2009. The building, which was purchased by TIAA-CREF, was 95% occupied at the date of transaction and sold at a 4.25% capitalization rate based on pro forma income.

Market Data

Portland’s average vacancy fell by 44 basis points to 3.11% since the Spring 2013 Multifamily NW Apartment Report was published. Nationally, apartment vacancy has hovered near 5.00% since 2011. While the rate remains particularly stable throughout the market, the Inner & Central NE and Inner & Central SE submarkets exhibit the lowest overall rates, ranging from 2.10% to 2.29%, respectively. Conversely, vacancy in outlying areas of the Troutdale-Fairview-Wood Village-Gresham submarket is the highest in the Metro Area, at 5.89%.

According to the Multifamily NW Apartment Report, rents in the Metro market increased by \$0.06 per s.f., or 5.77% from the spring to the fall. Downtown Portland has the highest rents at \$1.82 per s.f. This figure is down \$0.08 from the Spring report figures. Northwest Portland, conversely, edged up \$0.18 to \$1.61 per s.f., closing the gap between the market leaders. Outer NE and West Vancouver remain at the bottom of the heap, averaging \$0.86 and \$0.85 per s.f., respectively.

Forecast

The outlook for the Portland apartment market includes continued positive growth through the remainder of 2013 and 2014. Portland’s steady economic progress is expected to continue into the foreseeable future, bolstered by a formidable tech sector, a burgeoning manufacturing base and an established apparel industry. New construction will continue to feed demand while encouraging rents to maintain a steady upward trend. Overall, the apartment market will likely remain a strong and stable force for some time to come.