Norris & Stevens
APARTMENT INVESTORS JOURNAL
Spring/Summer 2011
Creating Value in Investment Real Estate®
Brokerage and Management for Apartment Investments
Portland, Oregon

Key Factors Driving the NW Apartment Investment Market in 2011

by Brian Bjornson, Managing Director

Each of the major West Coast apartment markets has been impacted by the individual characteristics of its specific economy. Overall, slow progress in job growth is taking place in all these markets — even after taking into consideration those who have dropped out of the job search, or who have accepted temporary employment at lower pay — offering a generally positive forecast for apartment investors. ***But, the unique characteristics of Oregon and Southwest Washington markets may give apartment investors here an edge.***

At the end of 2010, *Forbes Magazine* rated Oregon as the 6th best state in the union to do business, moving up from 10th place in 2009. *Forbes* determined that Oregon's lower than average cost of doing business, ample labor supply, growth prospects and quality of life outweighed its slightly stricter than average regulatory environment. Many feel we are ready to make a leap forward into a more dynamic growth pattern in both large and small cities throughout Oregon and Southwest Washington.

Our growth may very well be fueled by in-migration. People are coming to Northwest Oregon/ Southwest Washington with, or without, jobs! Many are young and have university degrees or special training and skills. ***Although our "official" unemployment rate is 9% plus, these new arrivals are not deterred - and they need housing!*** APARTMENTS! Our portfolio demonstrates that the demand is holding steady, and in many submarkets, growing.

The supply, on the other hand, is not growing much! So is it time to start building? On the surface, rents appear to be moving upward. But what is the real net gain when you factor in all the costs of development, such as higher materials costs and infrastructure fees, and consider the costs of operation, such as higher utility costs and taxes? ***Rent levels may not yet be at a point where it makes sense to start new developments.*** Although some developers have begun feasibility studies, in general they are proceeding much more cautiously than in the past — especially in light of the abundance of pre-2007 homes and condos still on the market. (See Frank Banton's article on development for more details.)

So, there are more potential residents coming to the door of existing communities, the rent is rising, and there is little competition from new development. But there is one final factor that improves the overall quality of apartment investments: ***We are currently seeing some of the most advantageous financing we have seen in many years, whether you choose 5, 7, 10, or even 30 year loans!*** When the initial term runs out, owners are no longer faced with "balloon payments." They now can simply

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A Strengthening Apartment Market

More Alternatives for Financing and Lower Interest Rates in 2011

by Kirk Ward • Senior Multifamily Investment Broker

The market fundamentals that impact profitable apartment operation are favoring apartment investors this year. The current high cost of new apartment construction, national demographics that predict a larger pool of likely renters, increasing demand, lower vacancies, and rising rent levels have had a very positive effect on apartment financing alternatives.

The capital markets, evaluating "Risk Adjusted Return," have determined that there is no better debt today than apartment debt. This means more money is available for apartment loans than the current demand. How does this positively affect apartment investors?

Positive Trends in Apartment Financing

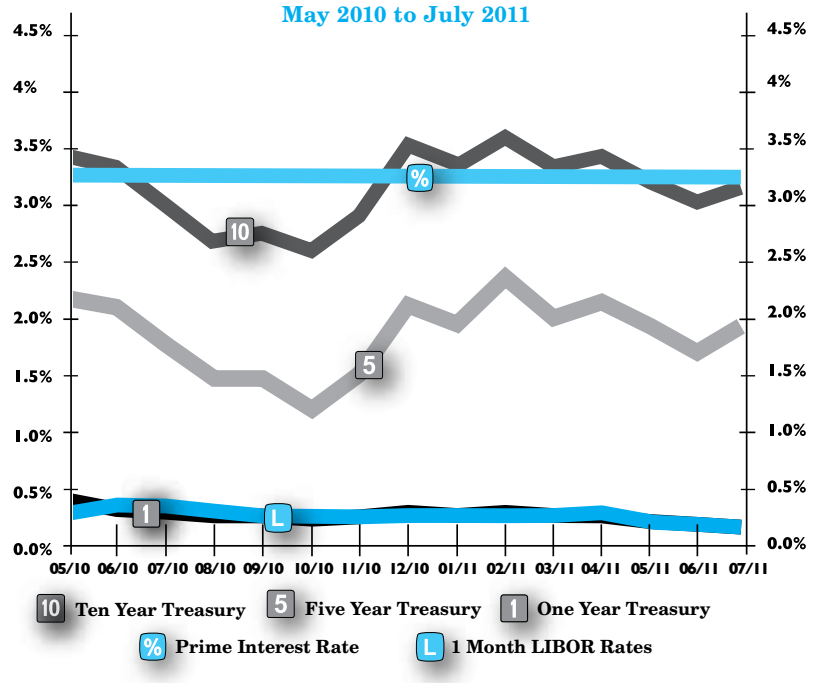
- Increased competition for multifamily loans will result in decreasing spreads.
- Savings banks and portfolio lenders are dramatically increasing their market share and presence.
- Agency lending [Fannie and Freddie] are decreasing their market share, which has been approximately 70% over the last 24 months.
- Increasing leverage is possible, in apartment loans exclusively, due to a reduction in the underwriting standards in place over the last 24 month. Note: this is NOT, however, a return to the underwriting standards of 2005 to 2007.
- Life insurance companies offering the best rates for larger, low leveraged loans are increasing their market share.
- CMBS and conduit loans are now increasing the volume of funded loans from an anemic $20 billion dollars last year, to approximately $50 to $60 billion dollars in 2011. This is still a far cry from the $230 billion dollars worth sold on Wall Street in 2007. CMBS and conduits will be a vital sector in financial markets, permitting future loan maturities to be met and providing liquidity in the capital market.

Conclusion: The good news for apartment investors thinking about financing or re-financing a multifamily investment is that they will have a far greater array of choices than have been available during the past 24 months. The knowledgeable investor will be able to choose the right lender for the loan, taking into consideration the size of the loan, the quality of the asset, the loan terms, the loan-to-value ratio, the availability of recourse or non-recourse financing, and prepayment options. Oftentimes these are more important considerations than just the interest rate.

Norris & Stevens' brokers have a thorough understanding of the current real estate financing market, and can help investors maximize their returns by coordinating and matching the best structured loan to the investor. N&S

Kirk can be reached at 503-225-8448 or kirkw@norris-stevens.com

PRIME INTEREST RATES, LIBOR AND TREASURY RATES



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Apartment Fundamentals Improve After Slow 2010

by Tom Davies CPM®, CCIM® • Multifamily Investment Broker

Operating information for apartments in Oregon and SW Washington continues to improve at the halfway point of 2011. While occupancy and rent levels were good throughout 2010, operating indicators are firming up this year. Our most recent rental market survey shows average Portland Metro occupancy at 95.56%, which is an increase of 1.31% over the previous survey completed in the fall of 2010. According to Reis, Inc., the national vacancy rate for the apartment sector was 6.2% for Q1 2011, and ***the US Census Bureau also ranked Oregon as having the best occupancy in the nation for Q1 2011.***

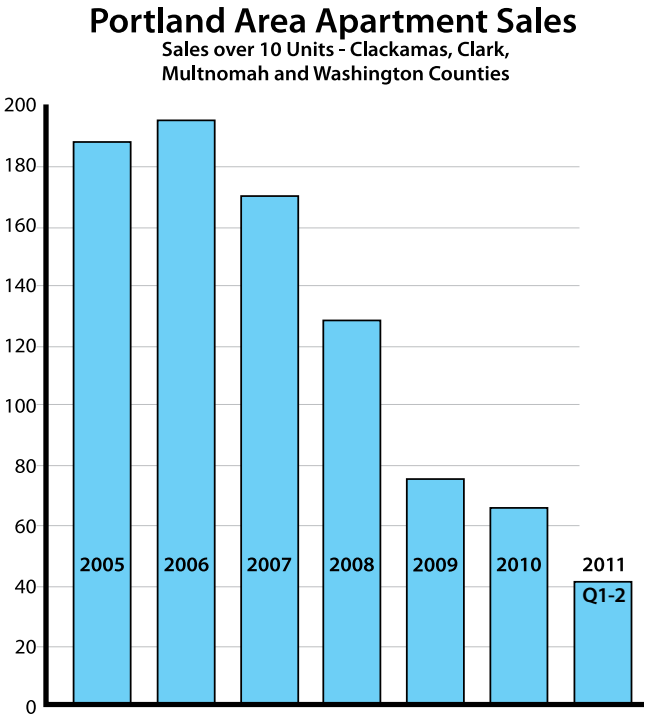
Rents continue to rise as well, with rents up 3.9% compared to our last report. For seasoned two bedroom, one bath apartments, the average rent is now $745, and for newer (including new construction) two bedroom, two bath apartments, the average rent is at $990 in the Portland Metro Area.

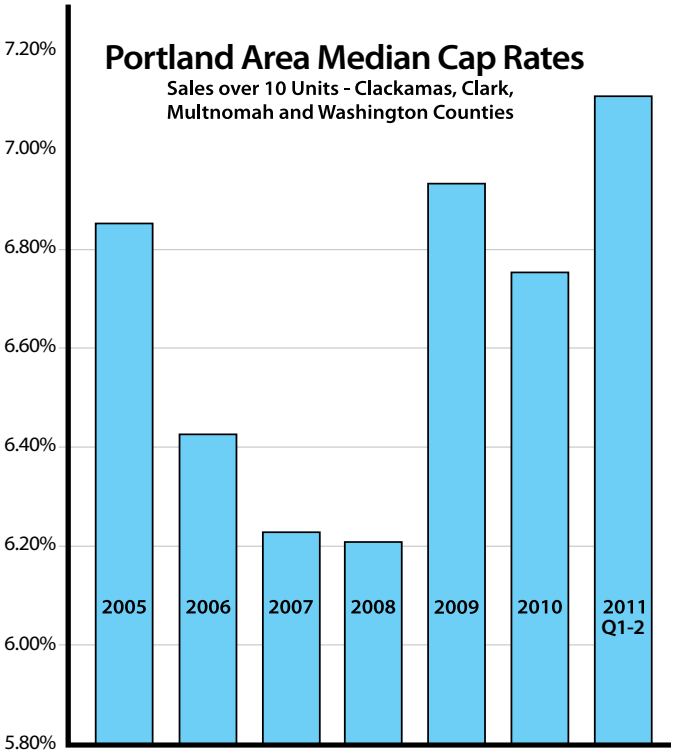
Since 2006 apartment sales volume has been on a steady decline, although in 2011 there appears to be a change in direction. The attached graph demonstrates the low activity level of sales for properties above 10 units for the Metropolitan Area. For 2010 there were only 66 sales above ten units for the Portland Metropolitan market, which includes Clackamas, Clark, Columbia, Multnomah, Skamania, Washington and Yamhill counties.

For the first half of 2011, however, the pace of sales has picked up. There were 41 sales in the Portland Metropolitan market above 10 units during the first two quarters, and indications are that sales activity is accelerating. Brokers are reporting more inquiries and requests for proposals.

The median price per unit declined to $62,338 for 2010 in the Portland Metro market, although with the lower sales volume, the trend on a county by county basis is mixed. Conversely, ***average sale prices increased due to several larger higher end sales completed during the year.*** On a per square foot basis, the median sale price in 2010 was $77.37/sf.

Capitalization rates are up so far in the Metro area, with a median cap rate of 7.11% for sales in 2011. This is still lower than the average cap rate for the last 10 years, which has been 7.25%. For apartment sales of ten or more units, capitalization rates hit their





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The New Normal – Good for Apartments

by Charles Conrow, CPM® • Multifamily Investment Broker

The Boomer Effect

According to the Pew Research Center, over the next 19 years 10,000 "Baby Boomers" will celebrate their 65th birthday ***each day***. Many Boomers will downsize into apartments, which will add to the rental pool. More importantly, the "Echo Boomers," born between 1981 and 1995, are beginning to enter the job market and, as most of their parents adamantly hope, will eventually form households of their own.

The Boomers are hanging on to their jobs longer, both by choice and necessity, making for a more crowded labor market in a time of economic stress. Their children are staying in school longer, and delaying careers to travel or volunteer. The Echo Boomers number about 80 million, and account for about one third of the total U.S. population. ***This group, aged 16 to 30, will provide a potential supply of renters entering a weak job market, under pressure to form independent households.***

Overall wages and benefits for U.S. workers continue to stagnate or even fall. The majority of the Echo Boomers will have to make do with less, and save more, if they are ever going to be able to buy a home, send a child to college, or retire comfortably. Inflationary pressures are increasing on the basic necessities of food and fuel. Higher prices for these necessities leaves less money available for housing.

The Economy

Several effects of the recent recession also bode well for apartment investors. Housing prices have declined, and will probably not recover in the near future, The Wells Fargo Economic Group reported: "Once the housing bubble burst, households were confronted with high unemployment, falling stock prices and falling home prices. The DSR ratio rose to a level beyond their ability to pay and a wave of negative equity, delinquency, foreclosure and write-offs swept the financial system." According to Clear Capital, U.S. home prices have double dipped. Nationally, year-over-year prices have declined 4.9% as of the first quarter. Additionally, national REO saturation reached 34.5%. This has discouraged many potential homeowners. According to Credit Suisse in their May 2011 monthly survey, ***"Many potential buyers continue to fret about buying before prices stabilize, leading to significant demand for rentals across many markets. While renting had historically been out of necessity, many now seek to rent given financing difficulties and worries about losing money on the home."***

At the same time, while wages and benefits have stagnated, lending standards have tightened. If the 20% down payment requirement for conforming home loans remains the standard, ***it will take about 14 years to save the down payment for a medium-priced [2009] home, assuming a typical household income and interest rate, according to the Center for Responsible Lending.***

The Apartment Supply

In addition to the increasing demand, the supply of new apartments has been constrained by the lending environment. Limited acquisition and development funds have been available, and the loans that are available have tough lending guidelines and high equity requirements.

At the same time, according to the *Barry Apartment Report*, just 737 apartment units were issued permits in 2010, compared with an average of 4000 units per year for the previous 10 years. This year, only 363 units have been permitted thus far for the Portland, Salem and Vancouver market, according to *Construction Monitor*.

Conclusion: The result is that the Portland area has the nation's lowest apartment vacancy rate at 4% as reported by the U.S. Department of Commerce's Census Bureau. The "New Normal" will favor apartments as home ownership rates decline due to both demographics and economics. Until supply catches up with demand, there will be upward pressure on occupancy and rents. It should be a good time to own apartments!

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Charles can be reached at 503-225-8439 or charlesc@norris-stevens.com

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Apartment Fundamentals Improve

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low point in 2008 with a median rate of 6.20%.

Recent economic news provides support for an improving outlook for the apartment market. The June issue of Portland Labor Trends shows a 1.8% improvement in employment numbers for the Portland Metro area compared with the previous year. Unemployment is still high at 8.6%, but the trend is positive. Portland is now lower than the national average of 9.0%. Manufacturing jobs continued to show gains, and the hard-hit construction sector is now showing signs of recovery, including a plus 600 job improvement for April 2011 compared to April 2010. National economic news has been encouraging in many areas, including GDP at record levels, and corporate profits hitting an all time high at the end of 2010. According to Bloomberg.com, the first quarter of 2011 recorded the highest level of corporate profitability in 18 years.

Of course the real estate industry recovery has been slow so far, but that is changing as well. The first quarter survey of real estate investors by Price Waterhouse Coopers indicates growing confidence, and an eagerness to complete real estate transactions. It further notes that the Multi-Family sector is well ahead of the other commercial property types in terms of recovery. Demand for multi-family housing will remain high due to more restrictive single family lending practices, and the recent slow pace of apartment construction.

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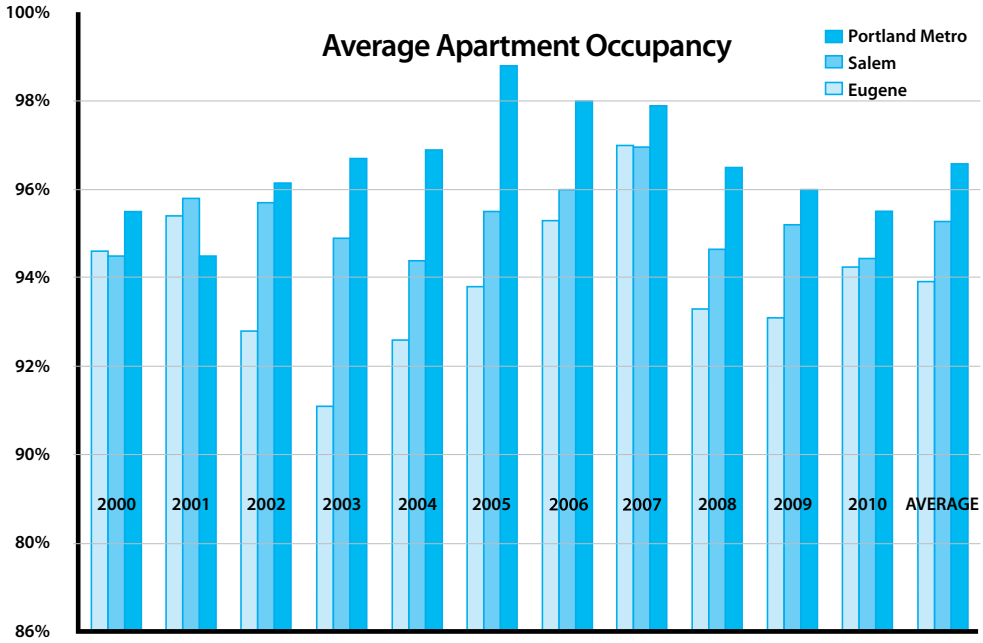
7/01/2010 - 6/30/2011 Sales Activity by County

		Median Values - Sales over 10 Units				
County	Sales	Avg Units	GRM	Cap Rate	Price/Unit	Price/SF
Clackamas	9	31	8.23	7.60%	$55,917	$67.34
Clark	4	148	N/A	7.21%	$71,740	$59.16
Lane	8	31	8.30	6.99%	$58,690	$82.55
Marion	9	28	7.22	7.48%	$36,842	$48.07
Multnomah	48	24	9.24	6.60%	$68,182	$77.37
Washington	17	48	8.91	6.36%	$73,636	$86.64

Source: CoStar

Information contained herein has been obtained from others and considered to be reliable: however, a prospective purchaser or lessee is expected to verify all information to his/her satisfaction.



Tom can be reached at 503-225-8449 or tomd@norris-stevens.com

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Portland Market: The Future Looks Bright

by Todd VanDomelen • Senior Investment Broker

The Portland metro multifamily market is well-positioned for continued rent increases. In the last six months we have seen increasing demand from apartment renters. The vacancy rate has decreased from 5.75% to 4.44% since our last rent survey one year ago. As our economy slowly improves, and more jobs are created, we anticipate this trend will continue. Potential renters who moved back with parents or doubled up with roommates will be back looking for apartments as they find employment.

There has been very little new supply of apartments. New permits are at an all-time low, with approximately 737 units in 2010, and only 363 year to date 2011. Many of the new projects have been low income / subsidized programs. New development has been difficult as lenders are very reluctant to finance new projects because they are still recovering from the recession.

The combination of growing demand with a static supply is creating an increasingly positive environment for apartment investors. As the economy recovers, demand will continue to grow with very little new construction planned for the next few years. Multifamily property owners should see good rent increases in the years to come.

According to a report recently released by the U.S. Census Bureau, Portland Metro has the lowest vacancy rate in the top 75 U.S. metropolitan areas.

The apartment market has not suffered like other commercial sectors. The lack of new construction and the slow improvement in the economy will continue to put upward pressure on rents for the foreseeable future.

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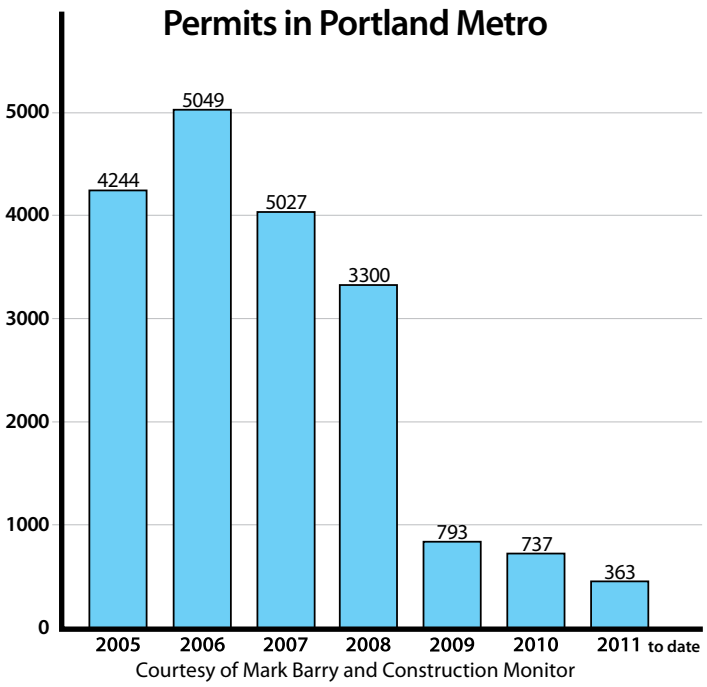
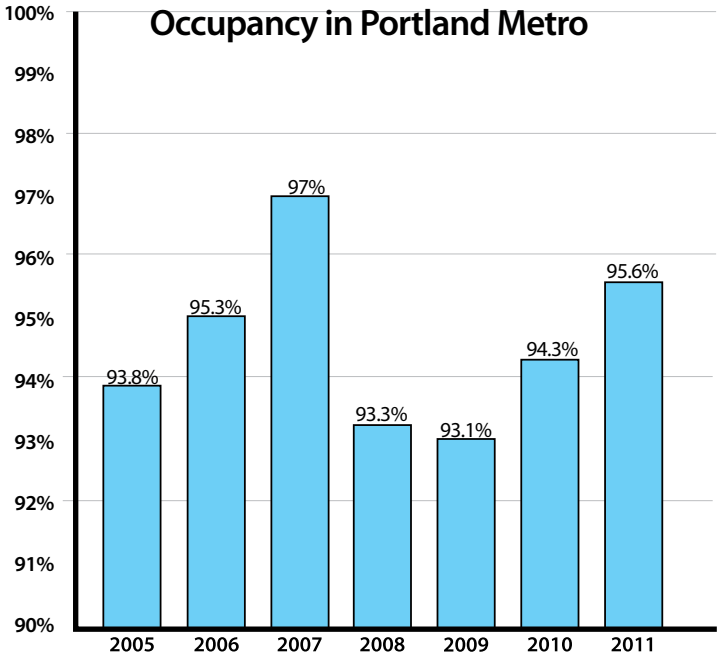
Todd can be reached at 503-225-8475 or toddv@norris-stevens.com



Courtesy of Mark Barry and Construction Monitor



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Passing the Financial Torch

by Chase B. Brand • Multifamily Investment Broker

Norris & Stevens has been managing multifamily communities since 1973. In many cases, we are now managing for the children of our original clients, and in some cases, the grandchildren. ***Handling the succession of ownership from one generation to the next can be one of the most complex real estate transactions — more complex than buying, selling or refinancing.***

Technically, there are issues of gift taxes, estate taxes, and in some instances, transfer taxes. In addition, there may be conditions to the loan or other contracts that have been entered into by the current owner that must be addressed when there is a change in ownership. Legal and accounting issues can be dealt with by a competent estate lawyer and a CPA. Investors should consult these professionals when planning the succession of property ownership.

But by far the biggest issues when real estate moves from one generation to the next are the relationship between the heirs who are inheriting the property and the nature of their personal and financial goals, which may differ. In many cases the real estate will be the single biggest asset that is changing hands when parents pass away or transfer the property to their children or the next generation.

You may now have partners in real estate making major financial decisions that not so long ago could not get along in the back of a station wagon or decide whether the window should be up or down. These siblings are faced with the question of what to do with real estate that may have taken their parents a lifetime to accumulate. ***Quite often these are multi-million dollar decisions.***

When real estate moves from one generation to the next, the first question to answer is whether to sell the property for immediate gain. Sometimes this is necessary to satisfy estate taxes, or one or more of the siblings has pressing financial needs that must be satisfied. The other option may be to hold the property for cash flow and long-term gain. Because these two options are mutually exclusive, this is where conflict and bitterness arises amongst heirs, without even considering what the parents' original intention was as to how the property is to be handled when they pass it along.

Since the baby boom generation is now entering the retirement era of their professional lives, we are seeing more apartment investors who are getting their children involved in making decisions about their real estate. For many of the offspring, it is a real world introduction into the economics of owning real estate, and the complexities of the buying, selling, renting and financing of apartment investments. When there is more than one heir, however, there may be some who are more adept at this than others. This can create an environment of envy. In addition, there is also an opportunity for conflict when there is not 100% agreement on the best way to move forward — whether it is to sell, hold, or buy more.

When trying to resolve these familial issues about real estate it is important to have the best information you can get on the property's value, its position in the market, and what the economic prospects of the property are going forward. To achieve this, you need to understand the sales and financing market for this specific building.

At Norris & Stevens we are proud to have helped many families with the difficult process of moving real estate from one generation to the next. Through exceptional management, brokerage, and understanding of the financing market, we have made the transition easier and more profitable for the next generation. If you and your family are contemplating the succession of your investment real estate, we can provide you with the market information you need, professional management, and brokerage services to assist you in acheiving your financial goals. **N&S**

Chase can be reached at 503-225-8491 or chaseb@norris-stevens.com

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Don't Miss the Forest for the Trees!

by Cameron Mercer • Multifamily Management & Investment

Currently, there are some deterrents to real estate investment, and many investors have a sense of treading water that discourages them from pursuing any kind of real estate investment this year. These investors may be "missing the forest for the trees." ***While some commercial investment property is on a downward cycle, multifamily investment property remains sound.*** Will 2011 be the best year to buy multifamily investment properties in the last twenty years—especially in Oregon?

Currently, a majority of commercial real estate is selling at a fraction of the price it commanded in previous years. On the other hand, multifamily pricing has remained comparatively stable. Capitalization rates for multifamily sales have shown an increase in value, but only a very few Class A properties have sold below replacement cost during the economic downturn. And, while closeout prices are not on offer as in other commercial investments, the risk to investors also appear to be far lower.

Now let me ask you another question. Can you predict the future of multifamily housing? No, no one can. But we sure can make an educated guess by analyzing economic and population trends. Here are the reasons we feel multifamily investments in Oregon represent the greatest opportunity of any commercial investment property.

Reason #1

Increasing Population+High Unemployment + High Household Debt = Decreasing Homeownership. As this equation from John Wilhoit Jr. of the Wilhoit Investment Network shows, fewer home owners means more apartment renters. This is a nationwide trend, and Oregon is no exception.

Reason #2

Oregon's demographics favor apartment over single-family housing. In addition, ***several regions show great potential for multifamily housing growth.***

Over 400,000 people have moved to the state of Oregon in the last ten years, making the state home to 3.8 million people. This is a 12% increase, which is well above the national population growth average at 9.7%.

The state of Oregon consists of six regions: Central, Eastern, Metro, Northwest, Southern, and Valley. According to Portland State University's Population Research Center, ***the three fastest growing regions from April 1, 2000 to April 1, 2010 were the Central, Metro, and Valley regions.*** Surprisingly, of these three regions, the Central region grew by 30.5%, which was the fastest population growth rate in the state.

By the year 2010, 5.2% of Oregon residents lived in the Central region, which is composed of the Crook, Deschutes, and Jefferson counties. The largest growing county out of the three was the Deschutes County. The profile of people moving into this county in the last ten years has been younger working-age and retirement-age people.

The second highest growth occurred in the Metro region at a 13.6% growth rate. The Metro region consists of the Washington, Multnomah, and Clackamas counties. This area grew from 1,444,219 people to 1,641,036 over this ten year span.

Last, but not least, the Valley region, consisting of Benton, Lane, Linn, Marion, Polk, and Yamhill Counties, came in third, with a population growth rate of 11.5%. Population growth of 20.9% in Polk County was attributed to the cities of Dallas, Independence, Monmouth, and West Salem. The most unexpected growth occurred in West Salem, which grew by 30%, of which 20% percent is attributed to new Hispanic residents. West Salem is growing with new jobs, new housing, and a larger enrollment at Western Oregon University.

This means that with some market shopping—and good information—a great investment opportunity can be located.

In conclusion, Oregon has been— and economic and demographic research indicates it will continue to be—a terrific place to invest in multifamily property. Forward-thinking investors won't let the "trees" prevent them from understanding the big picture. With selective shopping—and good information—a great investment opportunity can be located. Our brokers at Norris & Stevens can assist those investors who want to take advantage of current market conditions with the knowledge and information to help you find that solid apartment investment.

Cameron can be reached at 503-225-8456 or cameronm@norris-stevens.com

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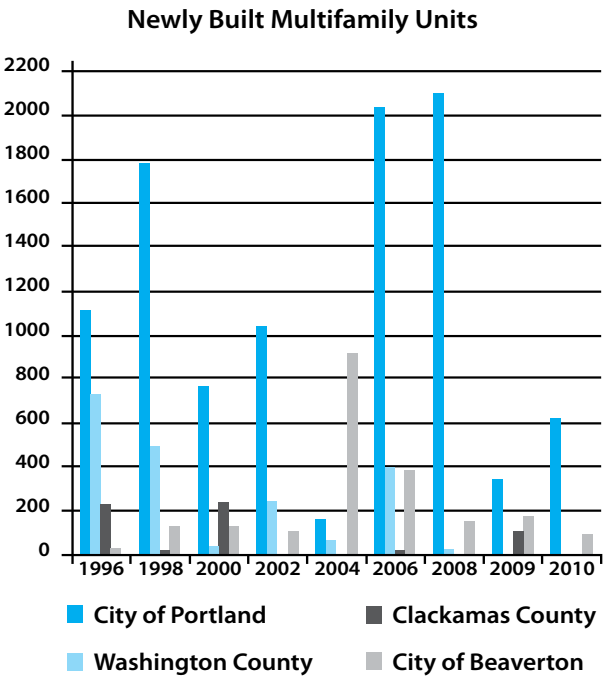
Factors Delaying New Apartment Development

by Frank Banton • Multifamily Investment Broker

The Portland apartment market—now at 97% occupancy—has one of the lowest apartment vacancy rates in the nation. The U.S. Census Bureau surveyed the top 75 cities in the U.S. to reach this conclusion in their latest report.

Recently, when David Crowe, chief economist for the National Association of Home Builders, visited Portland to present the Association's 2011 forecast, he brought little good news. Amid the predictions of sluggish residential growth, Crowe said, ***"One bright spot was currently emerging across the country and especially in Portland: the apartment construction market."***

Over the past 20 years the Portland market has averaged 2,000-3,000 new apartment units constructed per year. The Portland Metro area apartment construction has experienced a slowdown in new building projects similar to that in the rest of the nation. In each of the past two years, building permits were drawn for only about 750 units — the slowest since the early 1980s. Most permits were drawn by "non-profit group," who must meet different lending rquirements than "market" developers. In contrast to the construction slowdown, according to the Oregon Office of Economic Analysis, the annual net in-migration to Oregon between 2010 and 2020 is expected to remain in the range of 13,100 to 40,200, averaging 32,000 persons annually. We assume the flow of new residents will continue if we can begin creating more private sector jobs. ***Thus, with the slowdown in construction of new apartment units there is a current shortfall of some 10,000-12,000 units in Oregon, primarily in the Portland Metro area and the Willamette Valley.***



The high occupancy in Portland has a few contributing factors:

1. The availability of new construction financing is at its lowest levels due to the more stringent lending requirements;

2. There is currently higher renter demand due to high single-family housing costs in Portland Metro area. The Urban Growth Boundary and the rapid increase in land values have contributed to these high housing costs;

3. Land use laws restricting construction and the expense of infrastructure cost assessments for new construction increase the price of new development beyond the effective break-even value.

The lack of construction financing since 2008 is the largest factor for decreasing the number of new apartment construction.

Prior to 2008, developers were getting projects financed with relatively low equity ratios in contrast to the present. Developers wanting to continue to move forward with projects encountered road blocks, with banks either unwilling or unable to loan.

At the start of the second quarter of 2011, some banks are tip toeing back into underwriting some new developments that make sense, but developers now are required to have equity of 25-35%, not the previous 10%. The added upfront expense of equity into a project just hasn't made sense to developers, thus they have opted to "wait out" the economic downturn for more favorable terms.

As the economy slowly recovers, we have seen more members of "Generation Y" obtaining jobs and moving out of their parents homes. This increased demand has added to higher rent levels and reduced vacancy rates.

Another trend: Portland is seeing baby boomers moving from home

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Factors Delaying New Development

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ownership to renting. With the high cost of home ownership many boomers are choosing to live with more flexibility and choosing renting rather than ownership.

The continued adherence to strict land use laws, and the inflexibiliy of the urban growth boundary have helped to fuel the increase in the cost of development. Another factor is the System Development Charges (SDC) fee. Recently, many local municipalities have increased the SDC fee in order to raise more funds for their departments. These fees get passed onto the homeowners and tenants as higher home prices, and increased rent.

The land use laws and entitlements in the metro area have created such a convoluted system that it can increase timelines and expenses, depending upon the jurisdiction, compared to some Western states. These laws have enabled any person(s) or group opposed to a development the ability to slow or even block a potential development at little or no cost or vested interest in their opposition.

To some, these development restrictions helped stabilize the housing market by reducing the number of foreclosed homes, which could act as a drag on our market, and eliminating the massive urban sprawl experienced in cities like Las Vegas or Phoenix. Along with the positive effects, the numerous land use restrictions on development in Oregon have deterred companies that have desired to expand their operations in the Northwest. The limited and restricted supply of land contributes to the artificial inflation of new construction prices, which also directly increase apartment rent levels.

In talking with several Portland apartment development firms, the above three factors have played a significant role in their business development process. ***These development companies see the low vacancy rates, the increased demand, and rental rates continuing to increase. Developers now see the increased equity will be repaid much faster than in previous years, so they are motivated.***

If the developers commenced the process today to build the 10,000 units Portland is lacking, it would take another 2-3 years before they could be delivered. In the meanwhile, demand may continue to rise, pushing rents higher.

The consensus from the developers is that, unless the municipalities and their associated bureaucracies reduce — or even waive — some of the SDC fees and expedite the approval process, the prices of apartments will continue to rise.

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Frank can be reached at 503-225-8487 or frankb@norris-stevens.com

CAP Rate Ranges

Representative capitalization of net income [CAP] for larger apartments communities [20 or more units] sold 05/10 - 05/11

Due to lack of sales, historical data, appraiser reconstructed Cap rates and rates from appraisals for refinance have supplemented CoStar reported data.

MULTNOMAH COUNTY
BUILT 1990 - PRESENT **5.25% — 7.91%** BUILT PRIOR TO 1990 **5.75% — 7.80%**
WASHINGTON COUNTY
BUILT 1990 - PRESENT **5.40% — 6.50%** BUILT PRIOR TO 1990 **5.22% — 7.75%**
CLACKAMAS COUNTY
BUILT 1990 - PRESENT **7.00% — 7.80%** BUILT PRIOR TO 1990 **6.50% — 11.25%**
CLARK COUNTY
BUILT 1990 - PRESENT **6.00% — 6.75%** BUILT PRIOR TO 1990 **7.15% — 7.66%**
MARION COUNTY
BUILT 1990 - PRESENT **6.98% — 8.75%** BUILT PRIOR TO 1990 **6.53% — 9.01%**

Smaller-sized apartment communities may have values that vary from these findings. Please refer to a Licensed Appraiser or MAI for specific values.

Information courtesy of William Leavens of Multifamily Valuation Specialists and CoStar Comps

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Key Factors in 2011

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roll into a 6 month variable that provides the time margin they need to get new financing without the threat of the loss of the property.

Taken together, these factors make apartment property a very attractive investment! ***And the key to an effective investment, whether from a cash flow point-of-view or with an eye to hold and sell, is to have a detailed and market-tested management plan in operation.*** That positions your investment to move in any direction you determine benefits you the most.

Norris & Stevens has the knowledge, experience and skill to help you achieve the goals you have for your investment. We can provide you with a plan that integrates all aspects of purchasing, financing or refinancing, management operations, pricing and selling your apartment property. So your properties will be ready, no matter what the market throws at them!

N&S

Brian can be reached at 503-225-8438 or brianb@norris-stevens.com

Global vs. Local Property Management

by David Keys • Executive Vice-President Property Management

A large multi-national investor (such as an insurance company) with properties and assets located throughout the United States and in foreign countries might want to choose a similarly large national, or even multi-national, property management firm. Their reasoning could well be that such firms provide continuity and uniformity across computer software accounting platforms and perhaps economy of scale purchase pricing. ***Usually, though, using a single, large national property management firm has just one primary advantage for the institutional investor: ease of negotiation for services.***

But the large firms carry many significant disadvantages. Almost by definition, they lack market focus and the inherent knowledge that comes with such emphasis. They are often impersonal and bureaucratic. If they also own their own properties (most of them do), when markets are adverse, their natural inclination is to neglect their fiduciary duty to their third-party clients and, instead, concentrate primarily on their own investments. ***And, perhaps most distressing of all, they often adopt a "take it or leave it" attitude, wherein the smaller investor is simply unimportant on their macro scale and to their bottom line.***

If you are a regional or local investor and appreciate a more personalized approach, a regional or local management company might be a better choice. ***The advantages include: in-depth knowledge of their local market, better interaction with their clients, rigorous attention to their fiduciary duty and flexibility.***

Knowledge of the local market means that your property manager knows what local renters are seeking. Your property manager will be able to make smart and cost-conscious recommendations to you that will increase overall return. Improving the property so that it becomes more desirable will help increase rental rates, lower turnover and decrease vacancy. A local property management firm will often nurture and enhance local vendor relationships, to not only ensure best possible pricing, but also, to secure superior service.

Better interaction with their clients can also be described as being "high touch." ***Just like the large institutional players, smaller investors also often have unique desires or requirements that the enormous property management firms are simply unwilling to accommodate. The local, boutique firm can meet these needs, and often with a better result.***

Your property management company should make sure that your property always stays competitive in the leasing market. In a down market or economy with rising vacancies, ***the truly third-party fee manager has no hidden agenda: they want your***

[continued on page sixteen]

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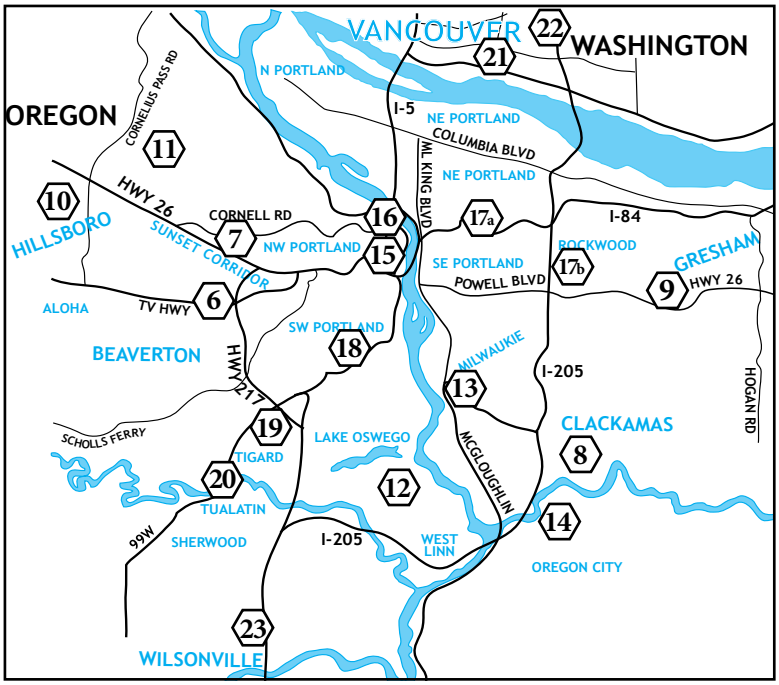
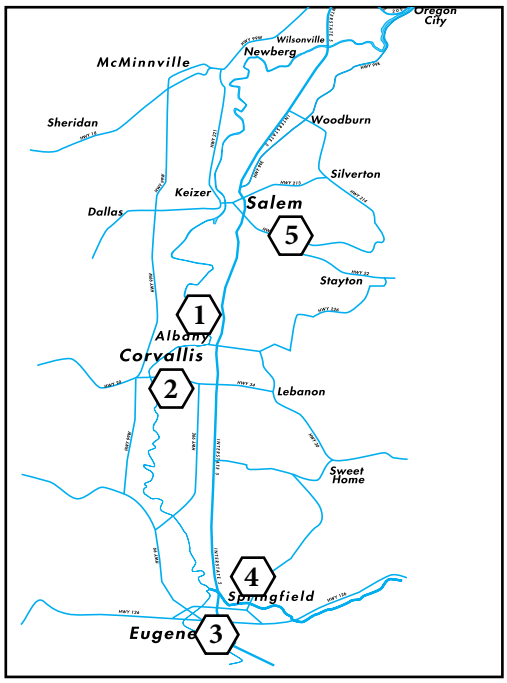
SPRING 2011 RENT SURVEY





Numerical Key to Summer Rent Survey Markets. Norris & Stevens also surveys additional markets not published in this newsletter.

Executive Summary

Norris & Stevens regularly surveys the market for each N&S managed property in order to determine the range and depth of the rental market in Portland Metro and the Willamette Valley. This survey covers 147,961 apartment units. ***The overall vacancy rate for the Portland Metro area is 4.44% at the time of this survey. This is a decrease of 1.31%. [Currently Norris & Stevens' management portfolio shows a vacancy rate of 3.7%.] Rents shown below are an average of the stated asking rents, and do not reflect the impact of specials and concessions on rental income. Specials and concessions are also not factored into the vacancy rates, therefore, financial occupancy may be significantly lower than physical occupancy.*** Under-reporting of vacancies may be concealing additional softness. Lease-ups, such as EcoFlats and Townhomes with a View, are not included in vacancy rates. Only complexes over 20 units are included. ***Market rate rent increases have occurred in the majority of markets since the last survey, and vacancy rates have dropped further.*** While some buildings are offering concessions, especially larger communities, these are in the minority. Norris & Stevens deems the results reliable. We do not guarantee their accuracy. All information should be verified prior to any real estate transaction use. As we add properties to or drop properties from our survey, any area may show minor data fluctuations. Call a Norris & Stevens broker regarding other submarkets surveyed in Oregon and Southwest Washington.

Area		Studio	1BD/1BA	2BD/1BA	2BD/2BA	2BD/2BA+	3BD/1BA	3BD/2BA
Albany/Newer	Av. Rent/Unit	N/A	$566	$659	$768	N/A	N/A	$859
(Vacancy Rate 3.8%)	Av. Sq. Ft.	N/A	719	874	1032	N/A	N/A	1112
1	Rent/Sq. Ft.	N/A	.79	.75	.74	N/A	N/A	.77
Corvallis/Newer	Av. Rent/Unit	$525	$693	$785	$802	N/A	N/A	$998
(Vacancy Rate 2.5%)	Av. Sq. Ft.	451	668	877	968	N/A	N/A	1120
2	Rent/Sq. Ft.	1.16	1.04	.90	.83	N/A	N/A	.89

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Area		Studio	1BD/1BA	2BD/1BA	2BD/2BA	2BD/2BA+	3BD/1BA	3BD/2BA
Eugene/[Springfield]/Newer	Av. Rent/Unit	$694 [N/A]	$744 [N/A]	$811 [$707]	$887 [$862]	$1045 [N/A]	N/A [N/A]	$1108 [$913]
(Vacancy Rate 3.2% [3.9%])	Av. Sq. Ft.	510 [N/A]	714 [N/A]	856 [910]	1037 [1150]	1196 [N/A]	N/A [N/A]	1224 [1250]
3 4	Rent/Sq. Ft.	1.36 [N/A]	1.04 [N/A]	.95 [.77]	.86 [.75]	.87 [N/A]	N/A [N/A]	.91 [.73]
Eugene/[Springfield]/Pre-1995	Av. Rent/Unit	$558 [$531]	$676 [$536]	$714 [$630]	$865 [N/A]	$1121 [N/A]	N/A [N/A]	$1079 [N/A]
(Vacancy Rate 3.9% [2.7%])	Av. Sq. Ft.	454 [399]	672 [612]	857 [834]	1020 [N/A]	1238 [N/A]	N/A [N/A]	1211 [N/A]
3 4	Rent/Sq. Ft.	1.23 [1.33]	1.01 [.88]	.83 [.76]	.85 [N/A]	.91 [N/A]	N/A [N/A]	.89 [N/A]
Salem Vicinity/Newer	Av. Rent/Unit	$556	$629	$652	$762	$908	N/A	$894
(Vacancy Rate 5.3%)	Av. Sq. Ft.	493	734	892	988	1094	N/A	1163
5	Rent/Sq. Ft.	1.13	.86	.73	.77	.83	N/A	.77
Salem Vicinity/Pre-1995	Av. Rent/Unit	$482	$538	$605	$690	$987	$766	$779
(Vacancy Rate 4.4%)	Av. Sq. Ft.	402	691	867	971	1165	1129	1143
5	Rent/Sq. Ft.	1.20	.78	.70	.71	.85	.768	.68
Beaverton/[Sunset Corr]/Newer	Av. Rent/Unit	N/A [N/A]	$734 [$718]	$837 [N/A]	$856 [$867]	$1100 [$1153]	N/A [N/A]	$1018 [$1263]
(Vacancy Rate 4.2%/[3.4%])	Av. Sq. Ft.	N/A [N/A]	698 [644]	919 [N/A]	950 [934]	1200 [1074]	N/A [N/A]	1163 [1342]
6 7	Rent/Sq. Ft.	N/A [N/A]	1.05 [1.12]	.91 [N/A]	.90 [.93]	.92 [1.07]	N/A [N/A]	.88 [.94]
Beaverton/[Sunset Corr]/Pre-1995	Av. Rent/Unit	$542 [$723]	$643 [$760]	$733 [$816]	$826 [$916]	$1080 [$1212]	$817 [$817]	$946 [$1129]
(Vacancy Rate 4.0%/[4.3%])	Av. Sq. Ft.	395 [494]	672 [683]	883 [888]	965 [960]	1141 [1103]	1001 [952]	1152 [1151]
6 7	Rent/Sq. Ft.	1.37 [1.46]	.96 [1.11]	.83 [.92]	.86 [.95]	.95 [1.10]	.82 [.86]	.82 [.98]
Clackamas/Newer	Av. Rent/Unit	N/A	$787	$773	$913	N/A	N/A	$1046
(Vacancy Rate 3.9%)	Av. Sq. Ft.	N/A	731	876	991	N/A	N/A	1190
8	Rent/Sq. Ft.	N/A	1.08	.88	.92	N/A	N/A	.87
Clackamas/Pre-1995	Av. Rent/Unit	$554	$670	$791	$826	$1066	N/A	$990
(Vacancy Rate 4.7%)	Av. Sq. Ft.	426	678	884	981	1146	N/A	1118
8	Rent/Sq. Ft.	1.30	.99	.89	.84	.93	N/A	.89
Gresham/Newer	Av. Rent/Unit	$595	$688	$756	$807	$1079	N/A	$1010
(Vacancy Rate 4.3%)	Av. Sq. Ft.	489	688	904	979	1215	N/A	1180
9	Rent/Sq. Ft.	1.22	1.00	.84	.82	.89	N/A	.86
Gresham/Pre-1995	Av. Rent/Unit	$589	$623	$706	$741	N/A	$802	$907
(Vacancy Rate 5.2%)	Av. Sq. Ft.	482	682	876	972	N/A	1060	1155
9	Rent/Sq. Ft.	1.25	.91	.81	.76	N/A	.76	.79
Hillsboro/[Tanasbourne]/Newer	Av. Rent/Unit	N/A [N/A]	$806 [$839]	$927 [$919]	$916 [$994]	$1247 [$1263]	N/A [$1341]	$1139 [$1294]
(Vacancy Rate 5.2%/[4.3%])	Av. Sq. Ft.	N/A [N/A]	737 [757]	977 [978]	1018 [1045]	1167 [1282]	N/A [1300]	1259 [1398]
10 11	Rent/Sq. Ft.	N/A [N/A]	1.09 [1.11]	.95 [.94]	.90 [.95]	1.07 [.99]	N/A [1.03]	.90 [.93]
Hillsboro/[Tanasbourne]/Older	Av. Rent/Unit	N/A [$562]	$678 [$766]	$735 [$810]	$810 [$927]	N/A [$1157]	$757 [N/A]	$1049 [$1075]
(Vacancy Rate 5.1%/[5.3%])	Av. Sq. Ft.	N/A [439]	657 [679]	850 [913]	990 [1049]	N/A [1245]	915 [N/A]	1143 [1211]
10	Rent/Sq. Ft.	N/A [1.28]	1.03 [1.13]	.86 [.89]	.82 [.88]	N/A [.93]	.83 [N/A]	.92 [.89]
Lake Oswego & W Linn/Newer	Av. Rent/Unit	N/A	$877	$963	$1067	$1361	N/A	$1305
(Vacancy Rate 3.0%)	Av. Sq. Ft.	N/A	742	898	1040	1321	N/A	1299
12	Rent/Sq. Ft.	N/A	1.18	1.07	1.03	1.03	N/A	1.00
Lake Oswego & W Linn/Pre-1995	Av. Rent/Unit	$654	$830	$869	$1094	$1496	N/A	$1227
(Vacancy Rate 3.8%)	Av. Sq. Ft.	396	726	915	1076	1248	N/A	1294
12	Rent/Sq. Ft.	1.65	1.14	1.07	1.02	1.20	N/A	.95

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Area		Studio	1BD/1BA	2BD/1BA	2BD/2BA	2BD/2BA+	3BD/1BA	3BD/2BA
Milwaukie & Gladstone/Newer	Av. Rent/Unit	N/A	$722	$747	$807	$1417	N/A	$1144
(Vacancy Rate 4.9%)	Av. Sq. Ft.	N/A	711	844	975	1282	N/A	1219
13	Rent/Sq. Ft.	N/A	1.02	.89	.83	1.11	N/A	.94
Milwaukie & Gladstone/Pre-1995	Av. Rent/Unit	$546	$641	$708	$824	N/A	$813	$1004
(Vacancy Rate 3.1%)	Av. Sq. Ft.	470	691	878	1028	N/A	1085	1222
13	Rent/Sq. Ft.	1.16	.93	.81	.80	N/A	.75	.82
Oregon City/Newer	Av. Rent/Unit	N/A	$661	$729	$761	N/A	N/A	$866
(Vacancy Rate 5.0%)	Av. Sq. Ft.	N/A	672	867	918	N/A	N/A	1062
14	Rent/Sq. Ft.	N/A	.98	.84	.83	N/A	N/A	.82
Oregon City/Pre-1995	Av. Rent/Unit	N/A	$677	$741	$827	N/A	$853	$1003
(Vacancy Rate 4.2%)	Av. Sq. Ft.	N/A	699	879	987	N/A	959	1180
14	Rent/Sq. Ft.	N/A	.97	.84	.84	N/A	.89	.85
PDX Downtown/Newer	Av. Rent/Unit	$886	$1357	$1319	$2213	$2747	N/A	$4084
(Vacancy Rate 5.5%*)	Av. Sq. Ft.	473	717	936	1140	1279	N/A	2277
*not including lease-ups	Rent/Sq. Ft.	1.87	1.89	1.41	1.94	2.15	N/A	1.79
15								
PDX Downtown/[Vintage DT] Pre-1995	Av. Rent/Unit	$727 [$662]	$998 [$861]	$1332 [$1122]	$1620 [N/A]	$1996 [N/A]	[N/A] [N/A]	$2842 [N/A]
(Vacancy Rate 3.2%/[2.5%])	Av. Sq. Ft.	405 [388]	597 [634]	846 [855]	1020 [N/A]	1358 [N/A]	[N/A] [N/A]	1634 [N/A]
15	Rent/Sq. Ft.	1.80 [1.71]	1.67 [1.36]	1.57 [1.31]	1.59 [N/A]	1.50 [N/A]	[N/A] [N/A]	1.74 [N/A]
PDX Inner Eastside/Newer	Av. Rent/Unit	$777	$923	$893	$1468	$1552	$1050	$1217
(Vacancy Rate 4.3%*)	Av. Sq. Ft.	503	675	845	1084	1079	1054	1307
*not including lease-ups	Rent/Sq. Ft.	1.54	1.37	1.06	1.35	1.44	1.00	.93
17a								
PDX Inner Eastside/Pre-1995	Av. Rent/Unit	$614	$729	$836	$1018	$1114	$1006	$1033
(Vacancy Rate 3.2%)	Av. Sq. Ft.	405	615	852	1003	1024	1088	1082
	Rent/Sq. Ft.	1.52	1.19	.98	1.01	1.09	.92	.95
17a								
PDX Outer Eastside/Newer	Av. Rent/Unit	$537	$614	$735	$776	N/A	$813	$873
(Vacancy Rate 4.0%)	Av. Sq. Ft.	428	651	862	984	N/A	1076	1103
	Rent/Sq. Ft.	1.25	.94	.85	.79	N/A	.76	.79
17b								
PDX Outer Eastside/Pre-1995	Av. Rent/Unit	$502	$601	$706	$731	N/A	$837	$910
(Vacancy Rate 4.3%)	Av. Sq. Ft.	464	646	871	975	N/A	1024	1171
	Rent/Sq. Ft.	1.08	.93	.81	.75	N/A	.82	.78
PDX Westside/Newer	Av. Rent/Unit	N/A	$886	$1094	$1091	$1354	N/A	$1256
(Vacancy Rate 3.9%)	Av. Sq. Ft.	N/A	759	1011	1064	1317	N/A	1305
	Rent/Sq. Ft.	N/A	1.17	1.08	1.03	1.03	N/A	.96
17b 18								
PDX Westside/Pre-1995	Av. Rent/Unit	$575	$654	$749	$801	$1337	$943	$1002
(Vacancy Rate 5.2%)	Av. Sq. Ft.	431	665	905	987	1106	1086	1263
	Rent/Sq. Ft.	1.33	.98	.83	.81	1.20	.87	.79
Tigard/Newer	Av. Rent/Unit	N/A	$722	$851	$880	$1038	N/A	$1044
(Vacancy Rate 4.9%)	Av. Sq. Ft.	N/A	690	842	963	1130	N/A	1117
	Rent/Sq. Ft.	N/A	1.04	1.01	.91	.92	N/A	.93
18								
Tigard/Pre-1995	Av. Rent/Unit	$550	$619	$688	$804	$1075	$766	$1006
(Vacancy Rate 5.1%)	Av. Sq. Ft.	459	689	856	1004	1250	982	1088
	Rent/Sq. Ft.	1.20	.90	.80	.80	.86	.78	.93
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Area		Studio	1BD/1BA	2BD/1BA	2BD/2BA	2BD/2BA+	3BD/1BA	3BD/2BA
Tualatin Vicinity/Newer	Av. Rent/Unit	$825	$882	$1050	$853	$1061	N/A	$1182
(Vacancy Rate 4.9%)	Av. Sq. Ft.	452	648	875	976	1142	N/A	1177
20	Rent/Sq. Ft.	1.83	1.36	1.20	.87	.93	N/A	1.00
Tualatin Vicinity/Pre-1995	Av. Rent/Unit	$551	$670	$747	$821	N/A	$878	$993
(Vacancy Rate 4.8%)	Av. Sq. Ft.	414	615	807	905	N/A	987	1059
20	Rent/Sq. Ft.	1.33	1.09	.93	.91	N/A	.89	.94
Vancouver/ [Westfield] /Newer	Av. Rent/Unit	$605 [N/A]	$714 [$795]	$782 [$697]	$870 [$919]	$1145 [$957]	N/A [N/A]	$1138 [$1179]
(Vacancy Rate 4.6%/[5.1%])	Av. Sq. Ft.	526 [N/A]	733 [786]	920 [850]	1063 [1108]	1325 [1158]	N/A [N/A]	1275 [1507]
21 22	Rent/Sq. Ft.	1.15 [N/A]	.97 [1.01]	.85 [.82]	.82 [.83]	.86 [.83]	N/A [N/A]	.89 [.78]
Vancouver/ [Westfieldl] /Pre-1995	Av. Rent/Unit	$585 [N/A]	$624 [$746]	$691 [$729]	$784 [$872]	$1022 [$1084]	$726 [N/A]	$953 [$1054]
(Vacancy Rate 5.2%/[4.2%])	Av. Sq. Ft.	434 [N/A]	667 [776]	873 [914]	1009 [1003]	1251 [1175]	979 [N/A]	1232 [1259]
21 22	Rent/Sq. Ft.	1.35 [N/A]	.94 [.96]	.79 [.80]	.78 [.87]	.82 [.92]	.74 [N/A]	.77 [.84]
Wilsonville/Newer	Av. Rent/Unit	$775	$782	$845	$908	$1287	N/A	$1113
(Vacancy Rate 4.7%)	Av. Sq. Ft.	527	733	928	968	1201	N/A	1207
23	Rent/Sq. Ft.	1.47	1.07	.91	.94	1.07	N/A	.92
Wilsonville/Pre-1995	Av. Rent/Unit	N/A	$686	$686	$799	N/A	N/A	$983
(Vacancy Rate 5.5%)	Av. Sq. Ft.	N/A	770	807	933	N/A	N/A	1136
23	Rent/Sq. Ft.	N/A	.89	.85	.86	N/A	N/A	.87

Current Long Term Rates Available by Institution

Portfolio Lenders & Savings Banks:
[5-7 years] 4.60% - 5.30%

Life Insurance Companies
10 year fixed = 5.10% - 5.60%

Conduits:
10 year fixed = 5.25% - 5.75%

Fannie Mae & Freddie Mac:
10 year fixed = 5.25 - 5.70%

HUD 223-F: approximately 4.50%

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Global vs. Local

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property to succeed over all others so that they in turn succeed. They are not going to be looking over their shoulder to ensure that their own investment succeeds at the expense of other properties managed in their portfolio.

Times change. An investor's requirements change. The local or regional property management firm is usually better at being flexible to the myriad changes that day-to-day life brings to an investment.

The key decision factor may be the level of trust you have in the management team of the company that will be taking care of your property. ***That company is the face your residents see, from the time they first view the property to the inevitable moment they call with a request or complaint.*** As such, choose a management firm that is highly professional. Be sure to meet with the staff who will be handling your account. If you don't feel they have good people skills, or if you feel they don't project the image you're looking for, choose someone else.

If the property management company chosen is a good one, they will set up a meeting with the new property owner to strategize a game plan. Getting to know the property manager will help improve the interaction, and can give both the owner and the property manager a good idea of how they will work to improve the return for that property. Each property plan is different and is based on the goals, plans and budget of the owner. ***Designing a property plan that is right for each client's needs is the key to successful property management.***

Regardless of which is chosen, the large national firm with hundreds of thousands of units or the smaller, localized firm with just a few thousand apartments, make certain it is an ***Accredited Management Organization*** (AMO.) Contact ***www.irem.org*** for a firm in your area. Once the property management company is selected, be confident in the selection. If you have done your homework, you will have a team of qualified professionals caring for your property. They will follow the law and abide by a code of ethics.

Our company has many clients that have been with us for over 30 years. We work together as a team to take care of their investments as if they were our own. We would be happy to work with you.

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David can be reached at 503-225-8451 or davidk@norris-stevens.com

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Norris & Stevens
621 SW Morrison, Suite 800
Portland, OR 97205
TEL (503) 223-3171 • FAX (503) 228-2136
www.norris-stevens.com

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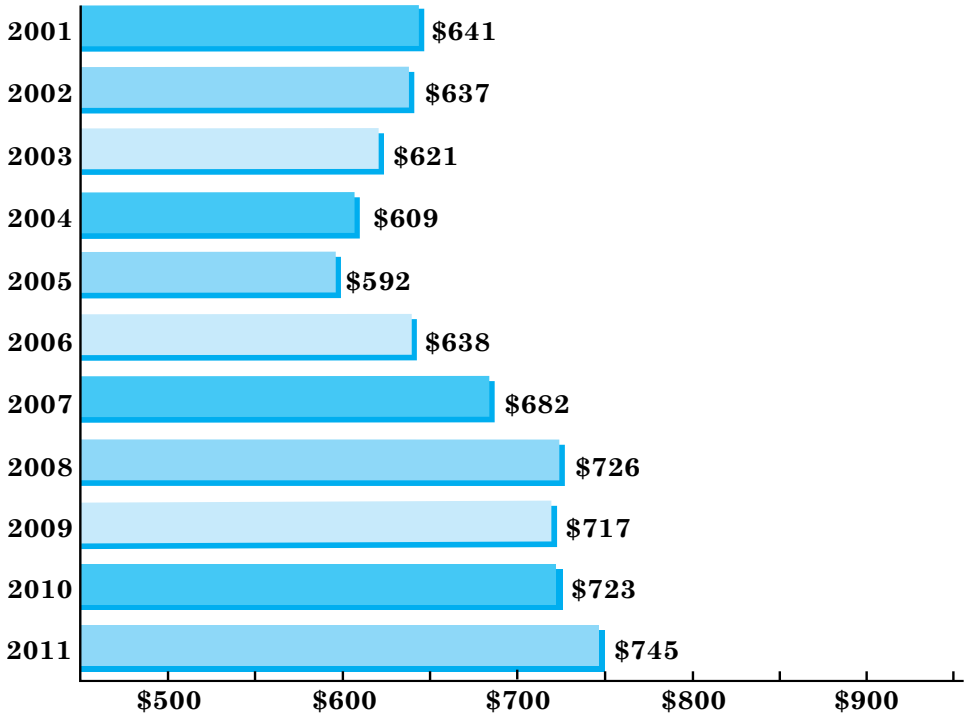
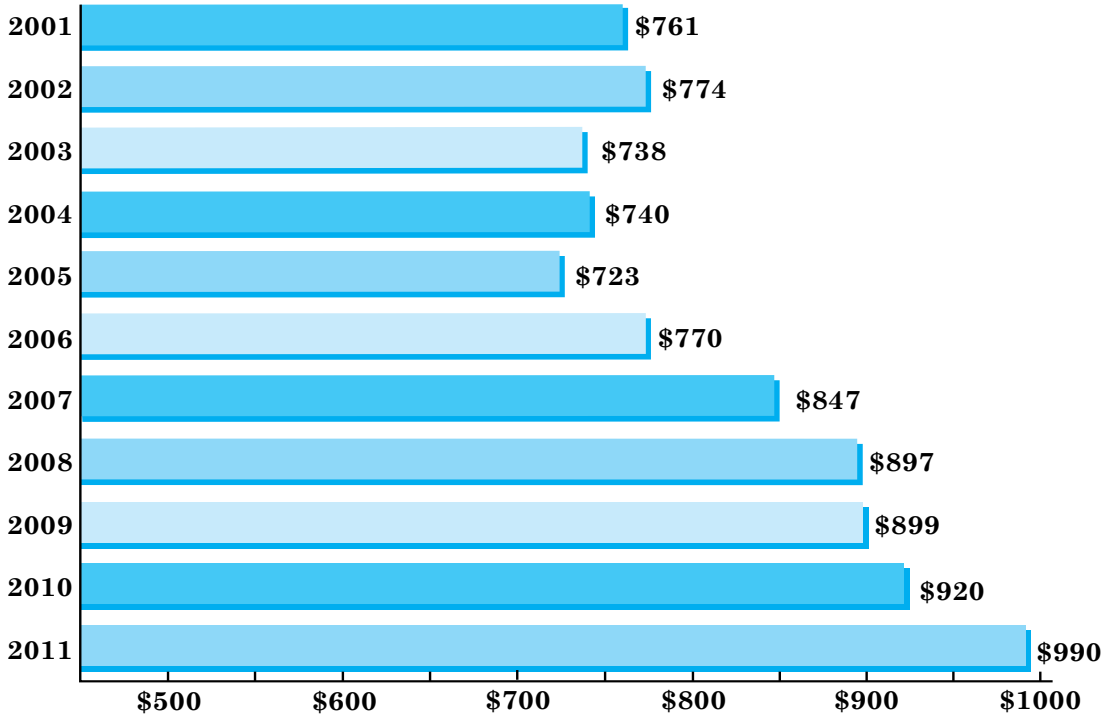
AVERAGE RENTS PRE 1990 CONSTRUCTION



A HISTORY OF AVERAGE RENTS FOR SEASONED TWO BEDROOM/ONE BATH APARTMENTS IN THE PORTLAND METRO AREA.

AVERAGE RENTS 1990 AND NEWER CONSTRUCTION



A HISTORY OF AVERAGE RENTS FOR NEWER TWO BEDROOM/TWO BATH APARTMENTS IN THE PORTLAND METRO AREA.

Recent Apartment Sales in Oregon & SW Washington

Property	City	Price	Units	CAP	Price /Unit	Built	Sale Date
Twin Creeks	Clackamas	$17,000,000	220	7.80%	$77,273	1998	08/03/2010
Marquan Village/West Terrace	Portland	$5,130,000	87	6.19%	$58,966	1950/66	09/29/2010
Wheatland Village	Keizer	$2,600,000	34	6.70%	$76,471	1977	10/05/2010
Sunnyside Village	Clackamas	$10,625,000	132	7.40%	$80,492	1997	10/06/2010
Cascade Woods	Vancouver	$7,175,000	114	6.75%	$62,939	1992	10/26/2010
Park 19	Portland	$28,800,000	101	N/A	$285,149	2008	11/12/2010
The Plymouth	Portland	$2,200,000	30	5.33%	$73,333	1912	11/18/2010
Ladd Tower	Portland	$79,350,000	332	N/A	$239,006	2009	11/22/2010
Palladia	Hillsboro	$70,250,000	497	5.40%	$141,348	1999	11/30/2010
Willow Creek	Albany	$5,353,300	88	7.30%	$60,833	2000	12/10/2010
2121 Belmont	Portland	$28,000,000	123	4.40%	$227,642	2008	12/14/2010
Orchard Pointe	Vancouver	$31,250,000	388	N/A	$80,541	1990/94	12/22/2010
Collins Circle	Portland	$12,500,000	124	N/A	$100,806	2000	12/30/2010
Meridian Village	Portland	$4,646,000	78	N/A	$59,564	1988	01/12/2011
Uptown Tower	Portland	$9,500,000	72	N/A	$131,944	1983	02/21/2011
Woodland Park	Portland	$4,390,000	74	6.90%	$59,324	1969	01/31/2011
Cedar Hills Manor	Portland	$10,000,000	100	6.25%	$100,000	1949	02/16/2011
Thunderbird Village	Vancouver	$9,075,000	182	7.66%	$49,863	1974	02/28/2011
Russellville Commons	Portland	$31,625,000	283	6.00%	$111,749	1999	03/01/2011
Gardenbrook	Beaverton	$5,500,000	120	6.00%	$45,833	1972	03/03/2011
Village at Gresham	Gresham	$6,200,000	152	7.80%	$50,000	1972	03/11/2011
Burnside Station	Portland	$2,121,000	43	7.91%	$49,326	1996	03/22/2011
Villa West	McMinnville	$2,700,000	48	10.00%	$56,250	1976	03/31/2011
Parkside	Lebanon	$7,500,000	96	6.00%	$78,125	2009	04/05/2011
Tanasbourne Terrace	Hillsboro	$69,400,000	725	5.22%	$95,724	1985/89	04/12/2011
Kempton Downs	Gresham	$22,550,000	278	6.86%	$81,115	1989/90	04/26/2011
Lancaster Court	Salem	$1,235,000	32	6.75%	$38,594	1977	04/26/2011

NOTE: CAP rates reported by CoStar may not represent actual operation of the property, since the assumptions made by the information source to calculate CAP rate may differ from the actual operating data.

Sources: CoStar Comps.com, Black & Associates, and Norris & Stevens Sales

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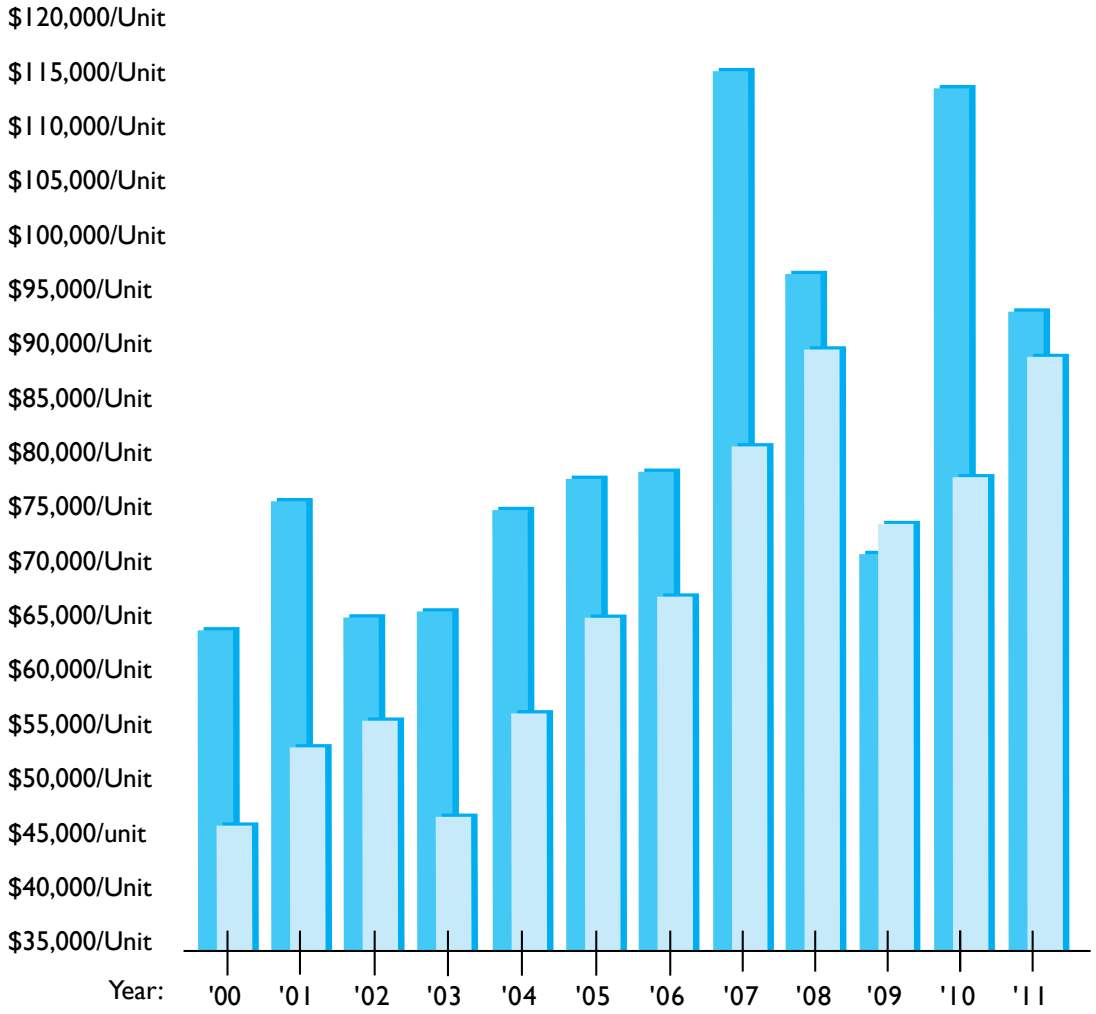
AVERAGE PRICE/UNIT FOR APARTMENT SALES
2000-2011
PORTLAND METROPOLITAN AREA



1990-2011 Construction

Pre 1990 Construction

* not including The Ardea
** not including Cyan
*** not including Ladd Tower, Park 19, 2121 Belmont
**** Insufficient sales to establish a trend

Source: CoStar Comps.com

Pre 1990 Construction

Year	Price/Unit
2000	$47,642
2001	$54,689
2002	$56,628
2003	$47,709
2004	$55,293
2005	$66,931
2006	$67,164
2007	$80,544
2008	$90,281
2009	$73,949
2010	$77,572
2011	$89,461

1990-2010 Construction

Year	Price/Unit
2000	$65,103
2001	$77,574
2002	$65,826
2003	$66,899
2004	$76,286
2005	$78,518
2006	$79,112
2007	$115,867
2008	$96,177*
2009	$70,567**
2010	$114,055***
2011	$92,940****

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(503) 223-3171.

The N&S Multifamily Investment Team

Brian Bjornson
Over 30 years of experience including all aspects of sales, financing, property management, new project development and planning, receiverships, and community redevelopment of apartments. BS in Economics from Portland State University. Licensed broker in Oregon.

brianb@norris-stevens.com

Kirk Ward
Over 30 years' experience in apartment brokerage, developmental assistance and feasibility for new construction. 25 years with Norris & Stevens. BS in Economics from the University of Oregon. Has taught classes in investment real estate. Licensed broker in Oregon.

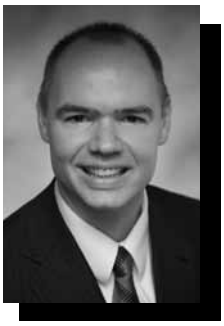
kirkw@norris-stevens.com

Charles Conrow, CPM®
Over 30 years of real estate experience including commercial and multifamily sales, leasing and property management. Attended University of Colorado in Business Administration. Licensed broker in Oregon and Washington.

charlesc@norris-stevens.com

Tom Davies, CPM®, CCIM®
26 years' experience specializing in apartment brokerage and management. Portland State University Masters in Public Administration. Certified Commercial Investment Member®. Licensed broker in Oregon and Washington.

tomd@norris-stevens.com



Todd VanDomelen
22 years of commercial real estate experience. BS in Business Administration (specializing in finance/real estate) from Portland State University. Licensed broker in Oregon and Washington.

toddv@norris-stevens.com

Chase Brand
13 years' experience in apartment brokerage. 18 years of experience in development and construction of residential and multifamily properties. BA in Geology from Colorado College. Licensed broker in Oregon.

chaseb@norris-stevens.com

Frank Banton
21 years' experience in residential construction and land development including; land acquisition, development, and new home construction. BA in Portuguese from Brigham Young University. Licensed broker in Oregon.

frankb@norris-stevens.com

Cameron Mercer
2 years experience in the real estate field. Worked closely with several large banks on residential foreclosures, and works currently at Norris & Stevens as both a broker assistant and an asset manager. Graduate of University of Arizona with a major in Regional Development and a minor in Business Administration. Licensed broker in Oregon.

cameronm@norris-stevens.com