



Multi Family Market in Southern Maine

2008 MEREDA Real Estate Forecast Conference

Presented By Brit Vitalius

Principle, Designated Broker

Sullivan Multi Family Realty

That's All We Do!

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Overview

- Market Summary
- Local Variations
- 2 – 4 Units – Residential Financing
- 5+ Units – Commercial Financing
- Rental Market
- 2008 Multi Family Forecast



Summary: Multi Family Market

- Extreme localization of markets
- 2 – 4 Units: 30% - 50% decrease in transactions since 2005
- 5+ Units: strong market with high demand
- Rental Market: solid rents but increasing expenses



Overview: Market Forces

- Sub prime shake up = more restrictive residential financing
- Drop in condo conversions
- Drop in 'market enthusiasm' of first time buyers
- + Low interest rates for both residential and commercial loans
- + Solid rental market
- + Desirability of the Portland Penninsula



Localization of Markets

PORTLAND vs. OTHER CITIES

Portland

- Portland market remains active (transactions drop only 30%)
- Out of state buyers continue to be a factor
- Buyer belief that Portland property values will rise in the near future (3 – 5 years)

Other Cities: Westbrook, Saco/Biddeford, Lewiston/Auburn

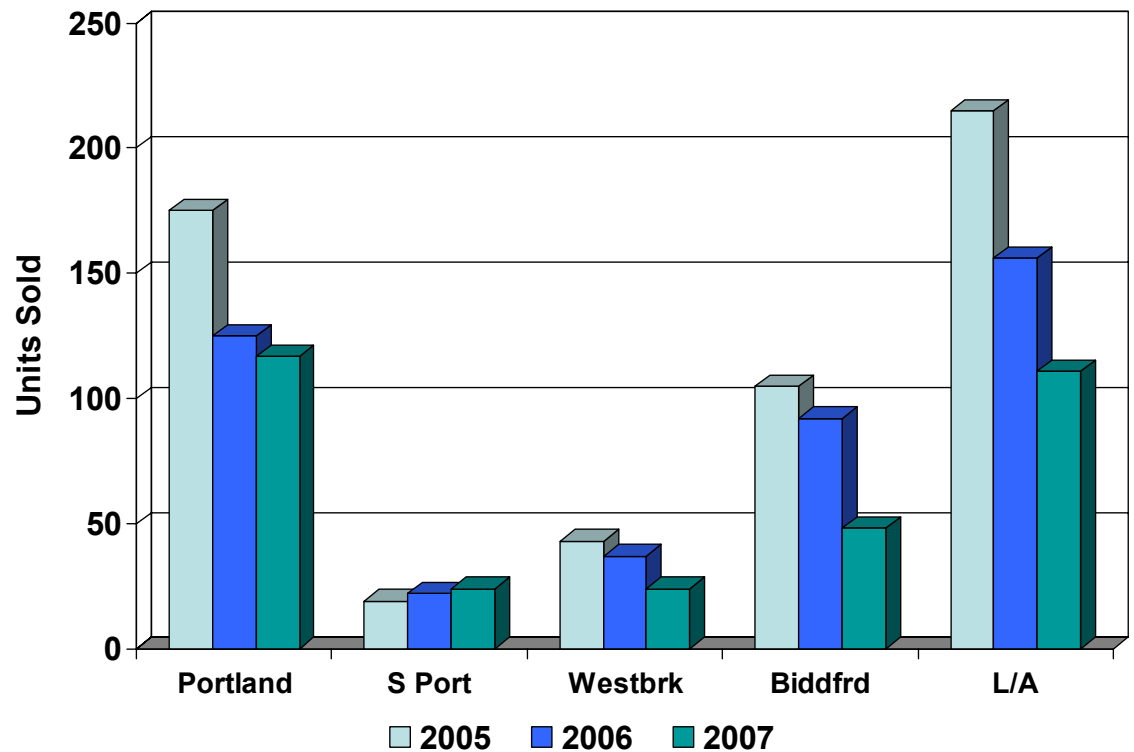
- Transactions down 50%
- Past Years: Non-Portland cities values were buoyed by belief that value was flowing out from Portland; general speculation
- Today: Must have SIGNIFICANT PRESENT VALUE to justify lower quality properties and tenants
- Commercial (5+ units) sales volume is higher than 2 – 4 units

**Units Sold
Three Year
Comparison**

	Portland	S Port	Westbrk	Saco/Bid	L/A
2005	175	19	43	78	215
2006	125	22	37	65	156
2007	117	24	24	31	111

**Percentage change
2005 to 2007**

Portland	- 33%
South Portland	26%
Westbrook	-44%
Saco/Bidfrd	-55%
L/A	-48%

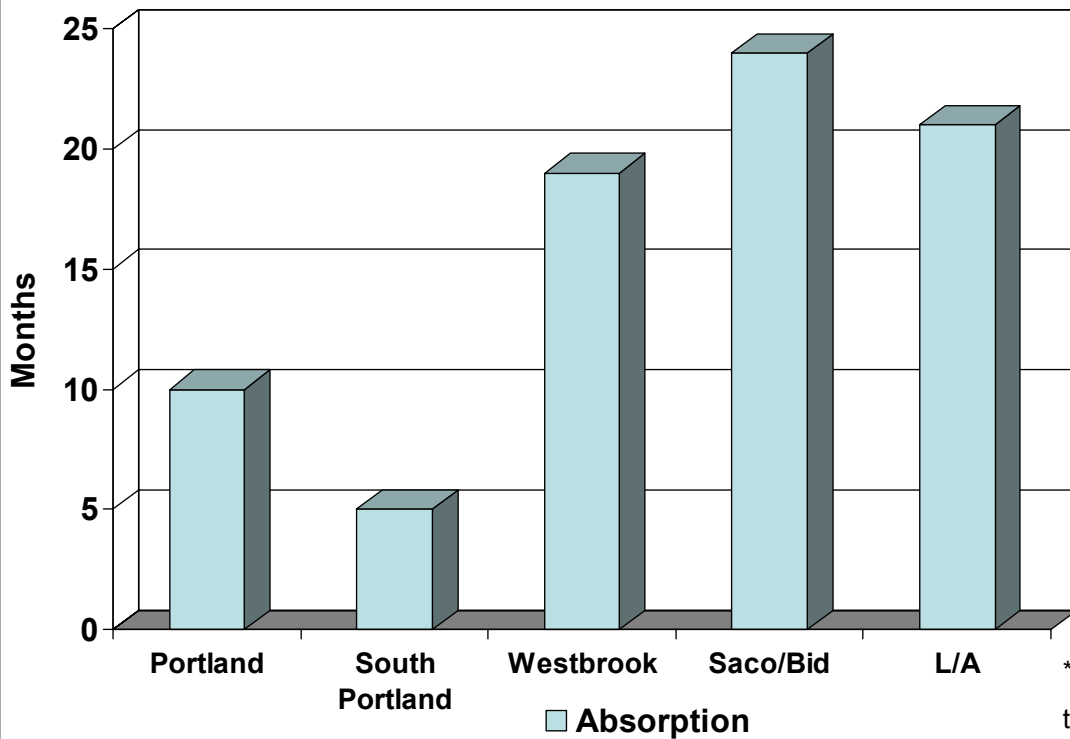


*Based on MLS Data from 1/1/05 – 11/30/07



Absorption Rate

	Portland	S Port	Westbrk	Saco/Bidfrd	L/A
On the Market	95	9	38	95	192
Monthly Sales	10	2	2	4	9
Absorption Rate (months)	10	5	19	24	21



*Based on MLS Data from 1/1/05 – 11/30/07 and the number of properties listed on the MLS as of 12/31/07

Localization of Markets

PORTLAND PENNINSULA vs. PORTLAND

- East End (Munjoy Hill) is still selling over asking price
- East and West End have a low inventory of quality properties relative to the rest of Portland
- Out of state buyers want to be on the Peninsula
- Buyers will still pay a premium for character, quality, and location
- Other areas of town must provide a very good value in order sell



2 – 4 Unit Market Residential Financing

MARKET DYNAMICS

- Sub prime shake up leads to more restrictive residential financing
 - Lack of 100% financing for 3 & 4 units
 - No more no-doc loans
 - More restrictive underwriting guidelines
 - FHA/MSHA is the best option: 3% down plus 3% loan cost
 - Decline in condo conversions and drop in general 'market enthusiasm' of first time buyers
 - Sellers have leveraged properties beyond current market value
- **Drop in first time buyers & owner occupants**

2 – 4 Unit Market Residential Financing

SALES

- High inventory levels for 2 – 4 unit multis in all cities
- Prices decline for ‘average and below average’ multi units as sanity returns to market in evaluating value
- Increase in short sales and foreclosures
- Bottom feeders emerge
- In some cases, appraisals start to come in under sales price due to lower comps and a lack of comps
- However, quality properties maintain value and sell, i.e. there is an active market for good properties at a fair price

2 – 4 Unit Market Residential Financing

Units Sold

Three Year Comparison

2005 - 2007

Portland

	2 Unit	3 Unit	4 Unit
2005	82	53	21
2006	70	36	8
2007	61	31	6

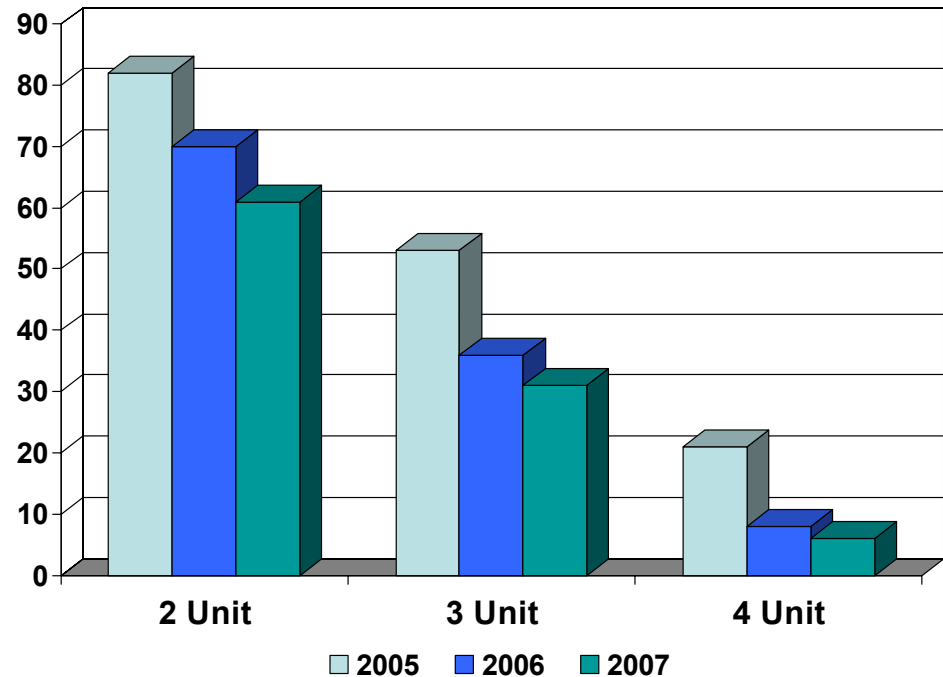
**Percentage change
2005 to 2007**

2 Unit - 25%

3 Unit - 42%

4 Unit - 71%**

**Small sample set – high number may be due to lack of inventory



*Based on MLS Data from 1/1/05 – 11/30/07



2 – 4 Unit Market Residential Financing

Average Sales Price Three Year Comparison

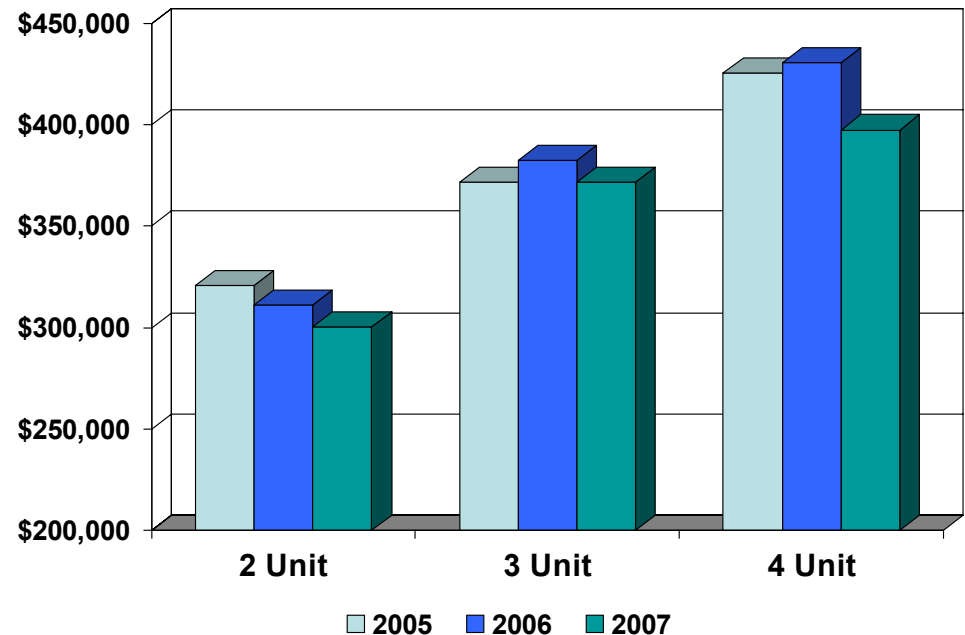
2005 - 2007

Portland

	2 Unit	3 Unit	4 Unit
2005	\$320,759	\$371,851	\$425,637
2006	\$311,064	\$382,653	\$430,456
2007	\$300,267	\$371,933	\$397,512

Percentage change 2005 to 2007

2 Unit	- 6%
3 Unit	0%
4 Unit	-7%



*Based on MLS Data from 1/1/05 – 11/30/07

5+ Unit Market Commercial Financing

MARKET DYNAMICS

- Sub prime issues factor very little in commercial lending
 - End of 2007 brought more conservative underwriting, but good money still exists; 30 year amortization still exists (as of 1/8/08)
 - Stock market had no obvious effect on real estate market activity
 - Rents remain generally solid
 - Appraisals are beginning to come in lower than the price buyers are willing to pay due to increasing expenses = lower NOI
 - Out of state 1031 Exchanges into Portland not a significant factor in the market
- **Strong sector – good buyers and few sellers**

5+ Unit Market Commercial Financing

SALES

- Low inventory – high demand (opposite of the 2-4 unit market)
- The average price/unit has not changed significantly since 2005
 - 2005 = \$77k/unit
 - 2006 = \$80k/unit
 - 2007 = \$76k/unit
- Most larger multi units (8+) sell before they hit the market, i.e. they do not need to be marketed publicly
- Strong pool of buyers with capital, both veteran owners and new buyers
- Many Class C units transferred in 2007 with bond for deed sales
- Note: two landlords owning 100+ units sold off their portfolio in 2007

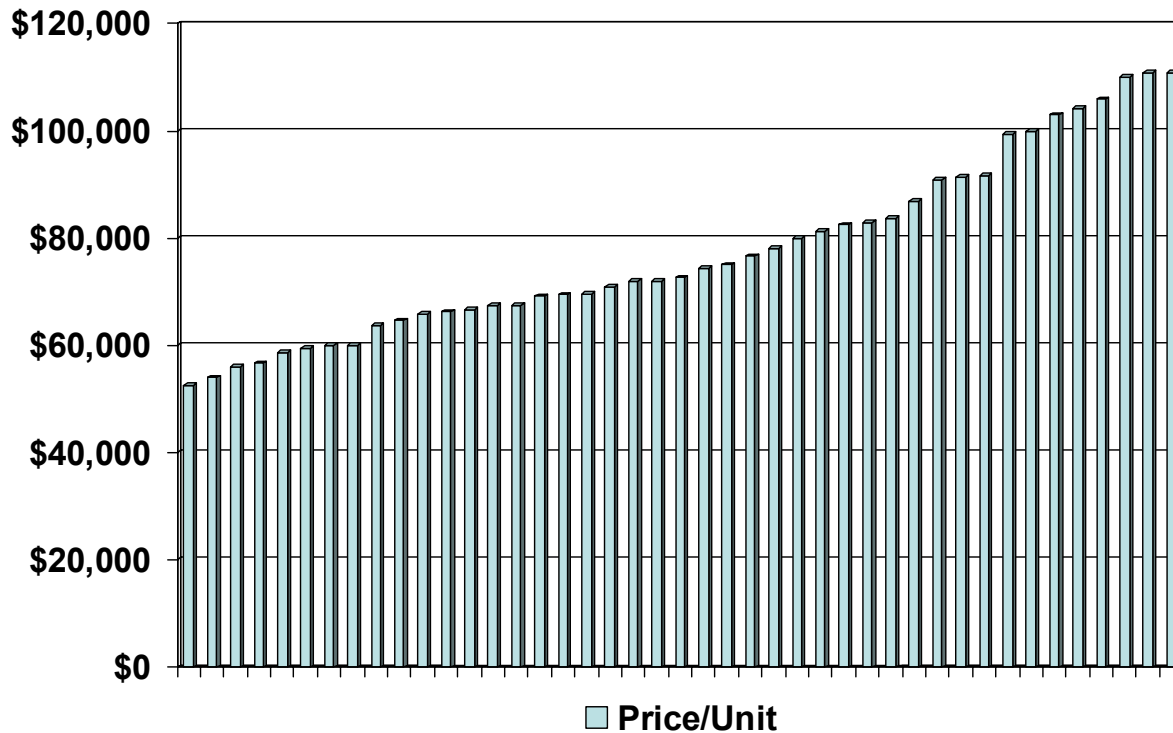
Price Per Unit

2005 - 2007

Portland

A note on per unit pricing...

Price/Unit is not a reliable measure in Portland



**Range:
\$50k - \$110k/unit
(evenly distributed)**

Average: \$77,500

*Based on MLS Data from 1/1/05 – 11/30/07

Rental Market - Portland

- Vacancy estimate: 5 – 10%, maybe 7-8%*
- The rental market has been strong through 2007
- There are two distinct rental markets in Portland: “market units” and high end units/condo rentals Ex: 1 bedroom range: \$550 - \$2,000/mo
- Sub prime disintegration is keeping would-be buyers in the rental pool - this is the top crust of the ‘market’ renters

Market Rents (includes utilities)*

1 bdrm \$750-\$800

2 bdrm \$850-\$900

3 bdrm \$1100-\$1500

*Based on the results of a Sullivan Multi Landlord Survey and Portland Housing Data

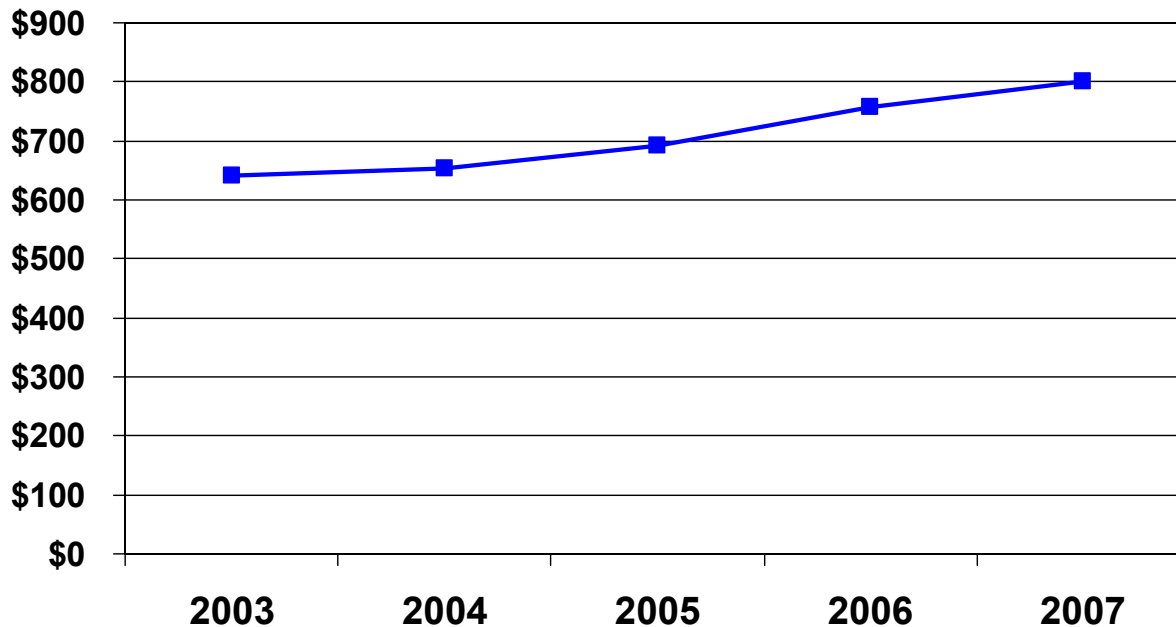
Portland Housing

2003 - 2007

Rental Increase Trend

Nearly 6% annual rent increase since 2003 in Portland for Portland Subsidized Housing

1 Bedroom Rent - PHA



1 Bedroom Rent (Utilities Included)

2003	- \$642
2004	- \$653
2005	- \$691
2006	- \$757
2007	- \$800

*Based on information provided by Portland Housing Authority

Rental Market

OTHER ISSUES

To Heat or Not to Heat...

Many landlords prefer to rent units heated

Tenants will pay a premium

Increase tenant stability – not going to leave for a heated apartment

Expenses

Increased expenses in heating costs, taxes, maintenance, and insurance have cut into profits of multi family owners

Concerns

Slip and fall, lead paint, finding quality tenants, affordable housing initiatives*

*Based on the results of a Sullivan Multi Landlord Survey

2008 Multi Family Forecast

Localization

- Non-Portland cities will continue to struggle and prices will drop in an attempt to attract buyers
- Portland will remain generally healthy and values on the Peninsula will rise

2-4 Units

- More foreclosures and short sales for under water sellers - bottom feeders continue to feed
- Middle market struggles to find buyers; motivated sellers will drop prices to sell; sellers who purchased since 2005 will hold or take a beating
- Quality properties values will remain stable or possibly increase

5+ Units

- Increased expenses and conservative appraisals/underwriting will put downward pressure on prices
- Inventory will increase – not all listings will sell off-market



Rentals Market

2008 Multi Family

Forecast

- Rents will go up, down, or stay the same
- Landlords will attempt to raise rents to compensate for increased expenses
- Defaulting owners return to the rental pool, would-be buyers stay in pool

Notes: All MLS data which was taken through 11/30/07 was adjusted to reflect a 12 months period.

The Landlord Survey was given to a number of landlords in December of 2007 and January 2008. The owners polled have between 3 units and 200+.

Sullivan Multi Family Realty is a real estate brokerage firm exclusively committed to the multi family market in Greater Portland, representing both Buyers and Sellers. Our clients benefit from our value analysis, focused marketing, and knowledge of risks and opportunities to achieve their investment goals. We specialize in the following multi family investment types: income properties, owner occupied properties, condo conversions, and commercial multi unit properties.

Brit Vitalius is a principle and the Designated Broker of Sullivan Multi Family Realty LLC and leads the investor's division. He began investing in multi family properties in 2002, completed a condo conversion in 2005 and currently manages a number of units in Portland.

Brit grew up in Yarmouth, Maine before he graduated from Harvard University in 1995. He worked in technology as a programmer and team manager at BBN, the company that developed the forerunner of the internet. Brit currently lives in Yarmouth with his wife.

