



Multi Family Market in Southern Maine 2009 MEREDA Real Estate Forecast Conference

Presented By Brit Vitalius

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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

- All sales down significantly; nearly stagnant in Biddeford and L/A
- Short sales and foreclosures up
- FHA is the only attractive financing option for owner occupants
- 5+ Units: inventory up
- Rental Market: Portland rents increase, low vacancy



Localization of Markets

PORTLAND vs. OTHER CITIES

Portland

- Portland and South Portland sales are down, but not as much as the other cities
- Out of state buyers still a factor, although less so than in the past
- Buyers view Portland as desirable place to own property
- Buyers now demand cash flow; speculation has ended

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

- Sales Volume down more than 70% since 2005
- Bottom Feeders Only
- Very few Portland area buyers are willing to buy in Biddeford or Lewiston/Auburn regardless of price
- Two years worth of inventory due to extremely slow sales

Units Sold

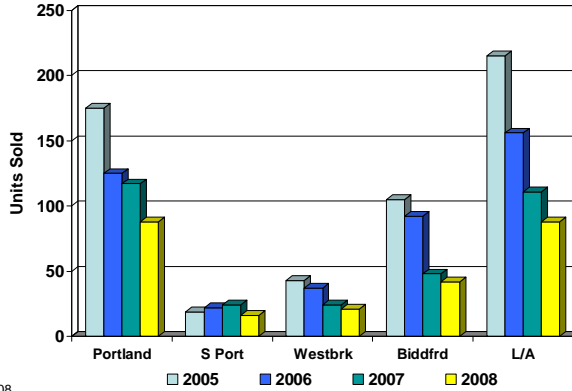
Four Year Comparison

Percentage change 2005 to 2008

Portland	- 50%
South Portland	-14%
Westbrook	-52%
Saco/Bidfrd	-60%
L/A	-62%

Localization of Markets

	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
2008	88	16	21	42	82



*Based on MLS Data from 1/1/05 – 11/30/08

Inter-City

Four Year Comparison

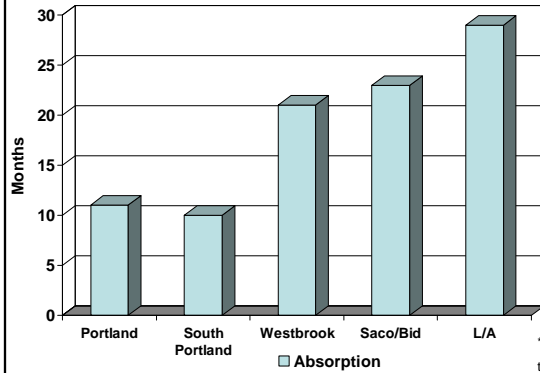
		Portland	South Portland	Westbrook	Saco/Biddeford	LA
Units Sold	2005	175	19	43	105	215
	2006	125	22	37	92	156
	2007	117	24	24	48	111
	2008	88	16	21	42	82
	Change	-50%	-14%	-52%	-60%	-62%
Sales Volume	2005	\$67,088,172	\$7,283,800	\$12,128,750	\$18,746,296	\$36,656,894
	2006	\$46,968,962	\$5,974,247	\$9,531,950	\$16,695,275	\$28,370,188
	2007	\$40,308,404	\$6,958,544	\$6,567,709	\$7,190,945	\$17,910,904
	2008	\$27,048,615	\$4,442,860	\$4,725,589	\$5,523,709	\$9,479,905
	Change	-60%	-39%	-61%	-71%	-74%
Median Price	2005	\$345,000	\$320,000	\$268,000	\$232,000	\$161,500
	2008	\$281,000	\$255,000	\$225,000	\$169,950	\$113,000
	Change	-19%	-20%	-16%	-27%	-30%

*Based on MLS Data from 1/1/05 – 11/30/08

Absorption Rate

Localization of Markets

	Portland	S Port	Westbrk	Saco/Bidfrd	L/A
On the Market	83	14	36	81	200
Monthly Sales	7.4	1.4	1.7	3.5	6.8
Absorption Rate (months)	11	10	21	23	29



*Based on MLS Data from 1/1/05 – 11/30/08 and the number of properties listed on the MLS as of 12/21/08

2 – 4 Unit Market Residential Financing

MARKET DYNAMICS

- FHA is the only game in town for owner occupants
- Rates are good in '08 and exceptional at the end of the year (~5%)
- Financing tightens
 - Investors required to put down 25% by Fannie and Freddie
 - Fannie and Freddie loans allowed drops from 4 to 10
 - Conservative underwriting
 - Appraisal challenges due to low sales and lack of sales
- Seller financing and installment sales are used



2 – 4 Unit Market Residential Financing

SALES

- High inventory levels in 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
- Almost everyone is a bottom feeder
- 4 units sell near commercial prices; reflects investor's need for cash flow
- Quality properties maintain comparatively high prices; Example: some two units sold between \$350k - \$400k



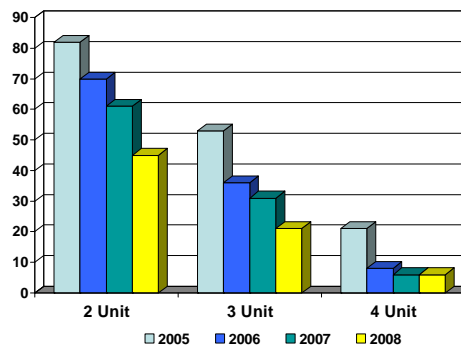
Units Sold Four Year Comparison Portland

2 – 4 Unit Market Residential Financing

	2 Unit	3 Unit	4 Unit
2005	82	53	21
2006	70	36	8
2007	61	31	6
2008	45	21	6

Percentage change 2005 to 2008

2 Unit	- 45%
3 Unit	- 60%
4 Unit	- 71%**



*Based on MLS Data from 1/1/05 – 11/30/08



Average Sales Price Four Year Comparison Portland

Percentage change
2005 to 2008

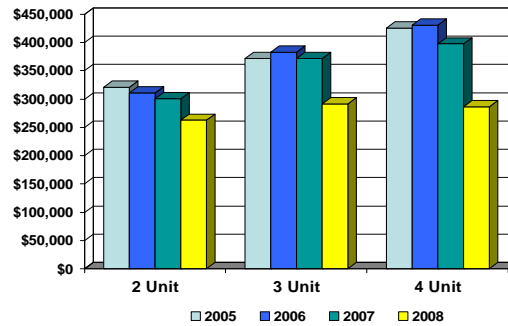
2 Unit - 18%
3 Unit - 22%
4 Unit - 33%

Average Price/Unit - 2008

2 Unit \$131,256
3 Unit \$97,237
4 Unit \$71,692

2 - 4 Unit Market Residential Financing

	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
2008	\$262,512	\$291,711	\$286,767



*Based on MLS Data from 1/1/05 - 11/30/08



5+ Unit Market Commercial Financing

MARKET DYNAMICS

- Lending is normal – 75% LTV
- During summer, some owners nervous about \$4+ oil looked to sell
- Increase in inventory
- Rents remain strong and vacancy low
- Some Buyers consider taking money out of the stock market and into Real Estate
- Many owners change heating systems from heat to gas and/or from a single system (owner paid) to separate systems (tenant paid)



5+ Unit Market Commercial Financing

SALES

- Inventory increased from 2007 to 2008
- The average price/unit dropped significantly from previous years

2005 = \$77k/unit 2007 = \$76k/unit
2006 = \$80k/unit **2008 = \$60k/unit**

- Investors demand a return on their investment, "a good value"

"These are income properties, its a hassle to manage residential property and in my opinion one should expect a real return on investment including management time. There is little upside in most buildings since rents are usually maxed and capital repairs and maintenance vastly understated unless bought for the right price.

The speculators are essentially gone. They drove up the market. Now its real investors and we're looking at present income and expenses.

If you listen or read the financial news its just not good and its getting worse, deflation, layoffs, etc. It will get better but not for a long while. In the meantime we are looking for good value."

--Portland Multi Unit Owner



Price Per Unit 2008 Portland

5+ Unit Market Commercial Financing

Units	Sales Price	Price/Unit
5	\$375,000	\$75,000
6	\$330,000	\$55,000
6	\$520,000	\$86,667
7	\$385,000	\$55,000
7	\$425,000	\$60,714
9	\$500,000	\$55,556
10	\$450,000	\$45,000
14	\$625,000	\$44,643
25	\$1,525,000	\$61,000
13	\$980,000	\$75,385
6	\$585,000	\$97,500
37	\$1,800,000	\$48,649
6	\$475,000	\$79,167
6	\$475,000	\$79,167
157	\$9,450,000	\$60,191

Average Price/Unit
\$60,000

Statistical Outliers

10	\$2,850,000	\$285,000
44	\$1,217,988	\$27,682

Notable Sale

Yarmouth: 363 Units sold for ~\$31 million
Buyer: Taymil Partners LLC
of Framingham , MA

*Based on MLS Data from 1/1/08 – 11/30/08 and Portland Assessors Data



Rental Market - Portland

Sullivan Multi Landlord Survey

- The rental market continued to be strong through 2008
- Vacancy estimate: 5% or less (44% of respondents said their vacancy was 0 - 1%)
- Market tenants complain “there’s a lot of junk out there” and they are willing to pay for quality
- Rental amounts maintain or increase

On average, did your rentals increase, decrease or stay the same from 2007 to 2008?

Answer Options	Response Frequency	Response Count
Increase	47.4%	46
Decrease	9.3%	9
Stayed the Same	43.3%	42
<i>answered question</i>		97

47% of landlords say rents have increased

43% say rents stayed the same

*Some results based on the Sullivan Multi Landlord Survey



Rental Market

Sullivan Multi Landlord Survey

Portland Average Rents (heated)*

1 bdrm \$800
 2 bdrm \$1,000
 3 bdrm \$1,185

Portland Average Rents (unheated)*

1 bdrm \$740
 2 bdrm \$865
 3 bdrm \$1,105

Non-Portland (heated)*

1 bdrm \$700
 2 bdrm \$850
 3 bdrm \$950

Non-Portland (unheated)*

1 bdrm \$650
 2 bdrm \$800
 3 bdrm \$900

*Based on the results of a Sullivan Multi Landlord Survey



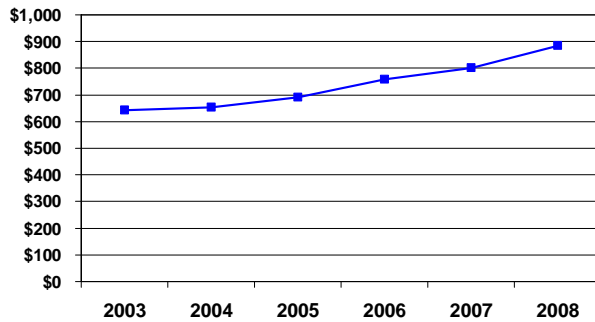
Section 8/Maine Housing 2003 - 2008

Nearly 7% annual rent increase
since 2003 in Portland for
Portland Subsidized Housing

Rental Market

Rental Increase Trend

1 Bedroom Rent - PHA



1 Bedroom Rent
Payment Standard
Schedule
(Utilities Included)

2003	- \$642
2004	- \$653
2005	- \$691
2006	- \$757
2007	- \$800
2008	- \$884

*Based on information provided by Portland Housing Authority



Rental Market

Other Feedback from the Sullivan Multi Landlord Survey

General Issues

57% of landlords prefer to rent units unheated; 30% prefer heated

Many landlords locked in their '08-'09 oil between \$4.25 – 4.50/gallon

The drop in the cost of oil saved some landlords who would not have made it through the winter (as long as they had not locked in their oil pricing)

Concerns for 2009

Cost of Oil and Increasing Taxes - Covering Expenses

Finding and keeping quality tenants

Tenants employment

Vacancies

*Based on the results of a Sullivan Multi Landlord Survey



2008 Multi Family Forecast

Localization

- Non-Portland cities will continue to see prices fall until buyers finally get excited. Sales volume may rise by the end of '09.
- Portland sales activity slightly increases in '09; prices drop a little further.

2-4 Units

- Foreclosures/short sales will continue. The bottom is discovered as buyers outbid each other on low-priced foreclosures.
- Super low interest rates increase buyer excitement and activity.
- High quality properties and the Portland peninsula will maintain value.

5+ Units

- Buyers push for 9+ cap rates in Portland, much higher outside Portland.
- A few buyers will emerge to take over low income inventory.



Rentals Market

2008 Multi Family

Forecast

- Rents will flatten (how can they keep going up!?).
- Job losses will leave some tenants unable to pay rent.
- Landlords will lock oil below \$2.50/gal.

Notes: All MLS data which was taken through 11/30/08 was adjusted to reflect a 12 months period.

The Sullivan Multi Landlord Survey was emailed to over 350 landlords in December, 2008 and 99 responses were received. Several points cited in the Survey section were also based on Brit's personal experience with landlords and tenants in 2008 and their anecdotal input.

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, which he co-founded with Bill Sullivan in 2004. He specializes in the analysis of multi family investments for the purpose of assisting clients in purchases and sales. Brit is the current president of the Greater Portland Housing Association. He personally owns and manages multi family properties in Portland and has completed a condo conversion.



Brit grew up in Yarmouth, Maine before he graduated from Harvard University in 1995. He currently lives in Yarmouth with his wife and new son (born 1/3/09!).