INDUSTRIAL MARKET ANALYSIS

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The industrial market in Portland has maintained its stability and steady positive trend seen throughout the year. Local indices show convincing evidence of a decline in vacancy over 2011, and strong absorption for the third and fourth quarters. Portland's economic recovery has slowly gained footing with unemployment starting to improve, and year-over-year employment increases in manufacturing, trade, utilities, and transportation sectors according the Bureau of Labor Statistics. Industrial real estate growth was driven by build to suit and renovation activity,

Oregon's unemployment rate has held steady over the last few quarters ending in December at 8.9%, but still above the national average of 8.3%. Having entered the recession late, job recovery has also been slow to get a toehold, leaving Oregon trailing other states with its resurgence. As could be expected, the Portland MSA has seen greater growth in employment relative to smaller cities and rural areas in Oregon.

Nationally, the manufacturing market has been a positive force in the United States economic recovery. And while the median vacancy rate hasn't declined quickly, it is ahead of the national average of 9.2 percent. The fourth quarter brought strong positive absorption numbers and drops in vacancy across brokerages, at a median value of 30 basis points. Grubb & Ellis reported over 890,000 square feet of net absorption; the strongest number seen since the second quarter of 2010. Multiple brokerages reported positive absorption around 1 million square feet, and represent a majority of gains seen this year based on a loss of 120,000 square feet in the first quarter. Most of this vacancy is in manufacturing and warehouse space.

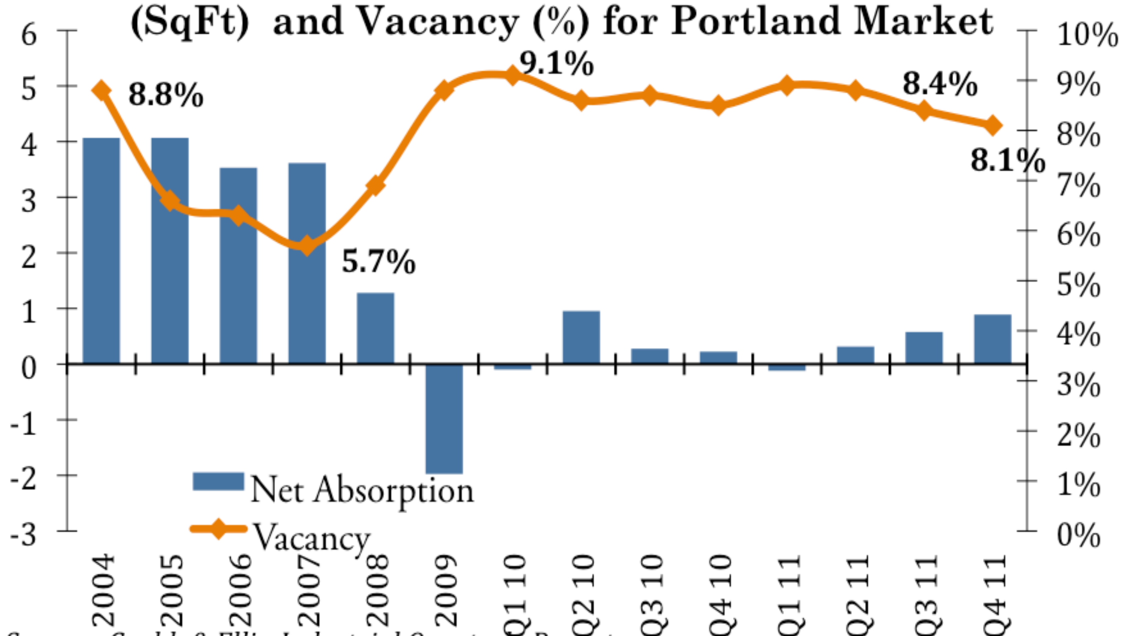
Table 1: Industrial Market Vacancies and Asking Rents, Q4, 2011

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	7.8%	6.7%	9.3%	14.2%	7.2%	7.8%
Previous Quarter	8.1%	6.6%	8.4%	15.0%	7.6%	8.1%
Fourth Quarter 2010	8.1%	7.0%	8.5%	15.0%	8.3%	8.1%
Fourth Quarter 2009	8.0%	8.7%	8.8%	14.9%	8.8%	8.0%
Warehouse/Distribution	-	-	8.1%	-	N/A	8.1%
Previous Quarter	-	-	9.8%	18.2%	N/A	14.0%
Fourth Quarter 2010	-	-	8.2%	N/A	8.2%	8.2%
Fourth Quarter 2009	8.7%	-	8.9%	N/A	8.8%	8.7%
R&D/Flex Vacancy	12.9%	-	9.3%	17.5%	N/A	12.9%
Previous Quarter	13.5%	-	10.9%	15.0%	N/A	13.5%
Fourth Quarter 2010	-	10.0%	8.8%	18.2%	N/A	10.0%
Fourth Quarter 2009	N/A	9.6%	7.9%	15.1%	N/A	9.6%
Asking Monthly Shell Rates	$0.37	$0.39	$0.41	-	N/A	$0.39
Previous Quarter	$0.37	N/A	$0.47	N/A	$0.43	$0.43
Fourth Quarter 2010	$0.38	N/A	$0.41	N/A	$0.45	$0.41
Fourth Quarter 2009	$0.40	N/A	$0.41	N/A	$0.47	$0.41
Asking Monthly Flex Rates	-	N/A	$0.66	-	N/A	$0.66
Previous Quarter	$0.79	N/A	$0.66	N/A	N/A	$0.73
Fourth Quarter 2010	$0.81	N/A	77.0%	N/A	N/A	$0.79
Fourth Quarter 2009	$0.93	N/A	$0.80	N/A	N/A	$0.87

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, and Kidder Matthews Quarterly Reports

The median vacancy between the five brokerages considered in this analysis dropped 30 basis points to 7.8 percent in the fourth quarter. Most brokerages differed slightly showing both slight increases and decreases. Norris, Beggs and Simpson's vacancy figure falling 80 basis points to 14.2 percent. It should be noted, however, that Norris, Beggs & Simpson's vacancy rates consistently vary significantly from the other reports considered due to the use of different source data.

Figure 1: Overall Industrial Net Absorption (SqFt) and Vacancy (%) for Portland Market



Source: Grubb & Ellis, Industrial Quarterly Reports

Manufacturing is the main driver within the industrial real estate landscape, and it has been a bright spot in the current recovery. U.S. factory activity has been lifted by a surge in exports but economists are worried that the growth in exports could falter if overseas markets such as Europe show signs of slowing. Europe accounts for about one-fifth of U.S. exports.

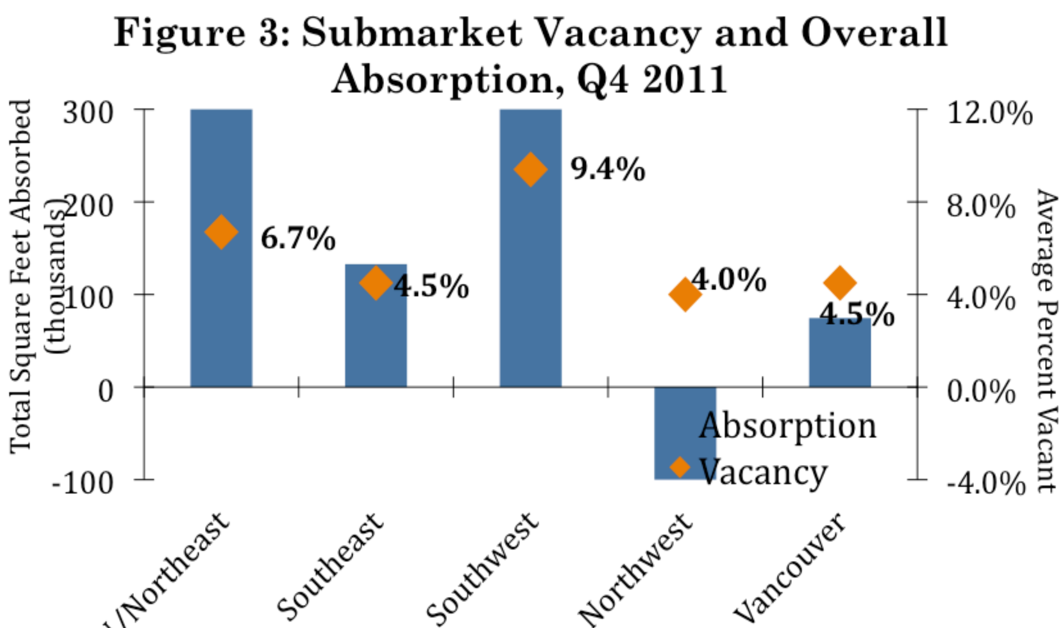
Table 2: Major Industrial Transactions, 4th Quarter, 2011

Tenant	Property	SqFt	Submarket
Central Garden & Pet	Rivergate Corporate Center	278,125	Portland
Northwest Paper Box	Swan Island Corporate Center	95,000	Portland
Nike	Cornell Oaks	93,938	Beaverton
Nike	Woodside*	92,680	Beaverton
Nike	Evergreen Center	91,084	Hillsboro
Subaru Distribution	Rivergate Corporate Center	417,000	Portland

*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Kidder Matthews Industrial Quarterly Reports *renewal*

Nike boosted the Southwest submarket with two new leases totaling over 185,000 square feet, and renewed another for 92,680 feet.

CBRE reports that overall net absorption was over 1.5 million s.f in 2011. While this seems like very strong positive growth, it is worth noting that Portland still added fewer square feet of space in 2011 than in any previous year. Portland's Northeast and Southwest submarkets combined for nearly 70 percent of the total postive absorption in the fourth quarter. The new construction of Subaru's build-to-suit in Rivergate added 413,000 s.f. to the industrial inventory in the fourth quarter, and bolstered the positve absorption numbers in the Northeast. This facility replaced Subaru's 175,000 square foot facility at 158th Commerce Park and was called "the largest build-to-suit transaction in Portland in a decade" by the Portland Business Journal. Multi-Employer Property Trust (MEPT) holds a 55-year master lease on the land from the Port of Portland, and has contracted with Trammel Crow for development.



Source: Cushman and Wakefield, Q4 2011 Industrial Quarterly Report

The Portland industrial market continues to stabilize and is expected to get stronger over the next year. Net absorption will remain steady with market activity improving. While nationwide concerns over the industrial economy begin to dissipate, the main perceived risk continues to be global economic news, particularly from Europe. Industrial users will continue to use space efficiently as a majority of exports head to the continent. Companies that have the capability to purchase are sensing the bottom of the market, and owner/user transactions such as Subaru's will continue. Locally, leaders are anticipating continued demand for large parcels of industrial land; both the Portland Development Commission and Portland Business

Alliance have commissioned studies to explore shovel ready sites on large parcels. Overall Portland can remain cautiously optimistic about the Portland Metro industrial real estate market over the next 12 months. ■