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## OFFICE MARKET ANALYSIS

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KYLE SMITH

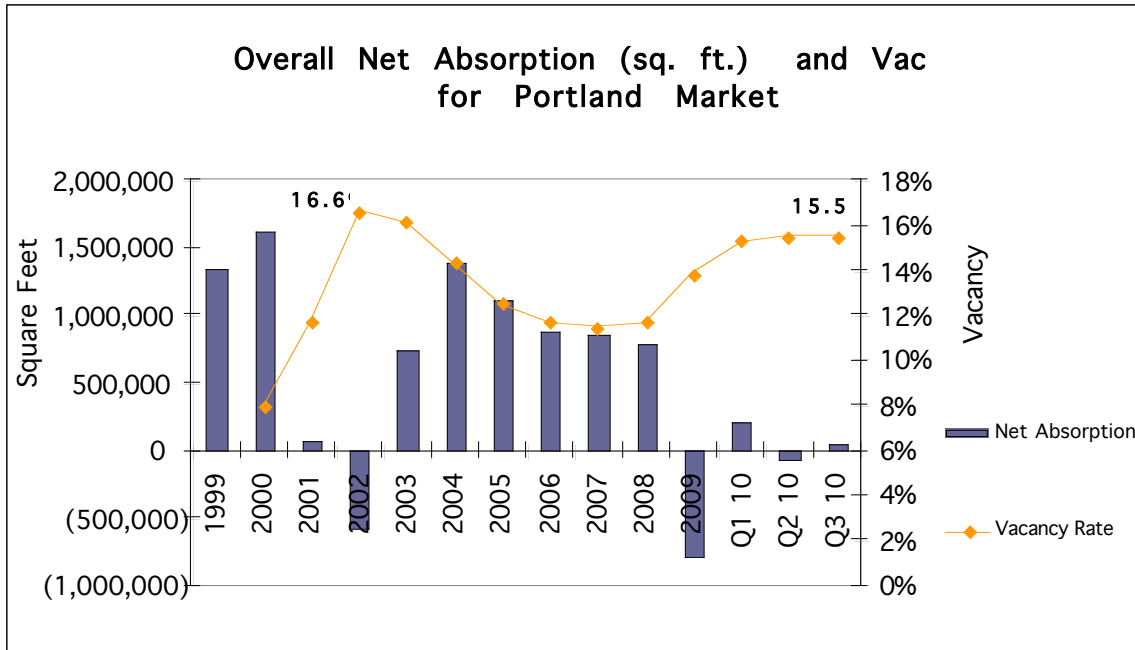
Regional Multiple List Service [RMLS] Fellow  
& Certificate of Real Estate Development Graduate Student

Grubb & Ellis reports that the market wide office vacancy rate remained stable during the third quarter at 15.5 percent, with positive net absorption of 42,000 square feet. The metropolitan area Class A market vacancy rate dropped 50 basis points to finish the quarter at 15.1 percent. Class A vacancy rates remained lower than Class B, which has a vacancy rate of 17.3 percent.

Norris, Beggs & Simpson (NBS) published very different net absorption numbers from Grubb & Ellis and reported a decline in vacancy rates. NBS has total market vacancy at 19.3 percent, with the Central City submarkets at 12.13 percent and the Suburban submarkets at 24.06 percent. NBS reports a positive net absorption of 292,449, lead by Vestas' 133,260 square foot lease of the Meier & Frank Building and PECE's 73,422 square foot lease of three floors in First & Main. With this lease the office portion of First & Main is fully occupied.

According to the summary chart above, the CBD Class A vacancy rate median of 8.6 percent continues to remain lower than the overall CBD vacancy rate which increased by 10 basis points to 11.6 percent. The suburban market has had the opposite relationship. Suburban Class A has and continues to have higher vacancy rates than the overall suburban market. Class A vacancy in suburban submarkets dropped by 130 basis points to 23.3 percent while market wide vacancy is 20.5 percent.

**Figure 1: Positive net absorption while overall vacancy rate remains stable**



The seasonally adjusted unemployment rate for September was 10.6 percent in Oregon, which is up from the 10.5 percent June 2010 rate. The Portland metropolitan area’s seasonally adjusted unemployment rate was 10.2 in August, down 20 basis points from the previous month, but up 20 basis points from June. An estimated 121,173 residents were unemployed in the metropolitan area, which is 9,139 less than August 2009 and about 10,300 less than the beginning of the year. Portland did experience job growth in the professional and business services sector during August with 1,000 new jobs added.

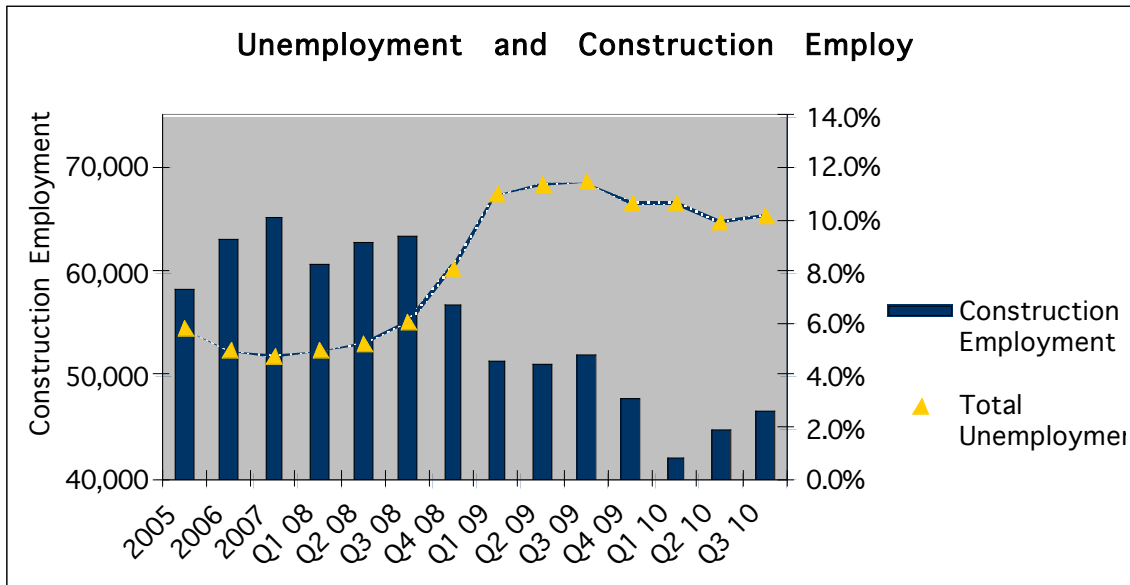
The Oregon Employment Department reported that construction employment in the metropolitan area is down 11.6 percent from September 2009 with 5,400 less people employed. Construction employment was 46,600 in September of 2010, which is down annually but has been increasing since the beginning of 2010.

New commercial construction permits issued in Portland decreased by \$9.2 million to \$36.1 million during the third quarter and the value of all construction permits declined about 12.3 percent from \$78.8 million during the second quarter to \$70.2 million during the third.

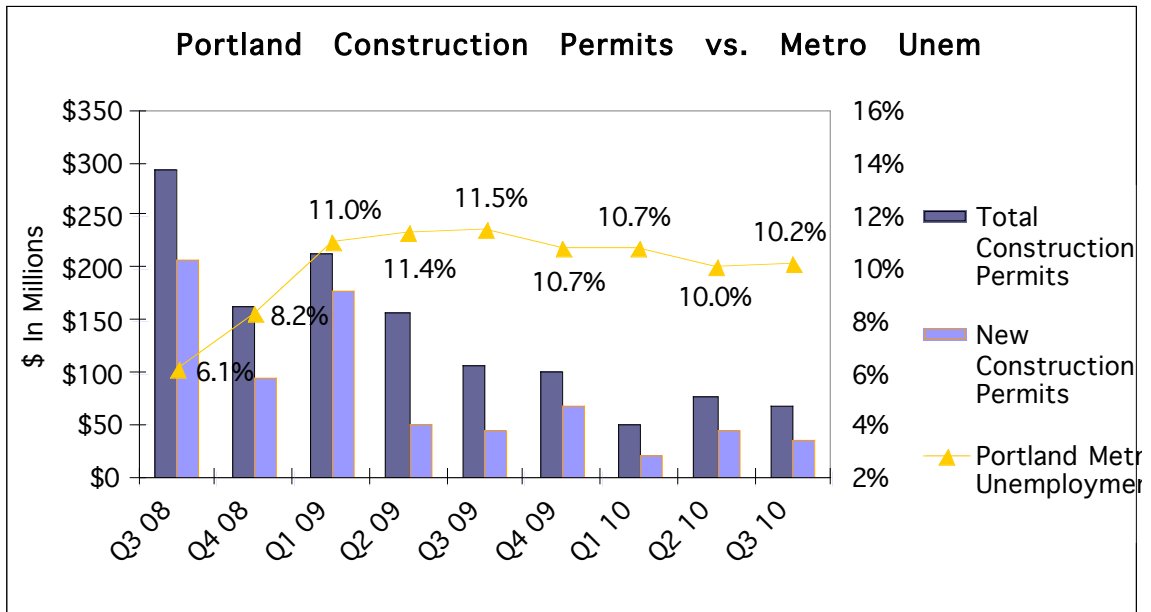
**Table 1: Office Market Vacancies and Asking Rents, 3rd Quarter, 2010**

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	-	16.10%	15.50%	19.30%	16.10%
Previous Quarter	16.10%	18.00%	15.50%	19.50%	17.10%
Third Quarter 2009	15.40%	15.90%	14.10%	17.10%	15.70%
Third Quarter 2008	10.70%	11.90%	11.60%	13.40%	11.80%
CBD and Downtown Vacancy	-	11.60%	10.70%	12.10%	11.60%
Previous Quarter	11.00%	11.90%	10.70%	12.70%	11.50%
Third Quarter 2009	10.00%	11.70%	9.80%	11.10%	10.60%
Third Quarter 2008	7.60%	8.50%	7.60%	9.00%	8.10%
CBD Class A Vacancy	-	-	8.70%	8.40%	8.60%
Previous Quarter	N/A	-	9.20%	8.70%	9.00%
Third Quarter 2009	6.30%	9.00%	6.20%	6.70%	6.50%
Third Quarter 2008	4.60%	5.60%	4.80%	5.60%	5.20%
CBD Class A Asking Rents	-	\$26.69	\$26.50	N/A	\$26.60
Previous Quarter	N/A	\$26.34	\$27.03	N/A	\$26.69
Third Quarter 2009	N/A	\$25.79	\$25.86	N/A	\$25.83
Third Quarter 2008	\$26.91	\$26.61	\$26.48	N/A	\$26.61
Suburban Vacancy	-	20.50%	18.40%	24.10%	20.50%
Previous Quarter	21.50%	21.10%	19.50%	23.90%	21.30%
Third Quarter 2009	20.30%	19.90%	17.40%	20.20%	20.10%
Third Quarter 2008	13.60%	15.30%	14.00%	15.60%	14.70%
Suburban Class A Vacancy	N/A	-	20.10%	26.50%	23.30%
Previous Quarter	N/A	-	22.10%	27.10%	24.60%
Third Quarter 2009	N/A	22.60%	20.60%	22.60%	22.60%
Third Quarter 2008	N/A	15.80%	15.60%	N/A	15.70%
Suburban Class A Asking Rents	N/A	\$23.15	\$22.94	N/A	\$23.05
Previous Quarter	N/A	\$23.09	\$23.65	N/A	\$23.37
Third Quarter 2009	N/A	\$24.04	\$23.84	N/A	\$23.94
Third Quarter 2008	N/A	\$24.46	\$24.11	N/A	\$24.29

**Figure 2: Oregon Employment and Construction Employment**



**Figure 3: Portland Construction Permits and Metropolitan Unemployment**



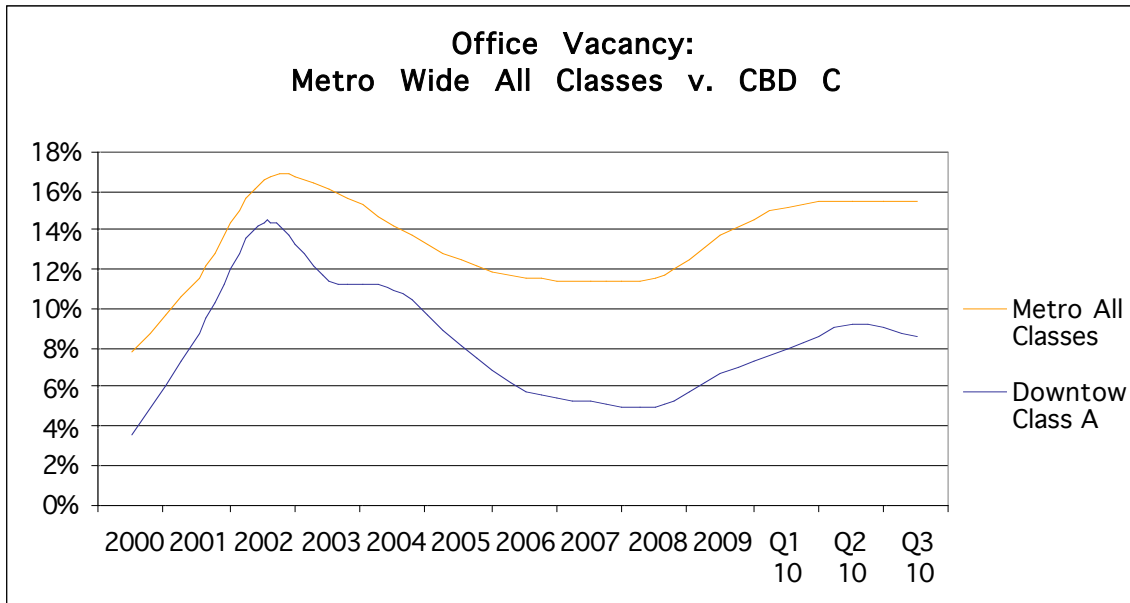
**CBD TRENDS**

Grubb & Ellis reports that CBD Class A vacancy ended the third quarter of 2010 with an 8.7 percent vacancy rate which is a decrease from the 9.2 percent vacancy rate posted during the second quarter. CBD Class A vacancy rates are expected to decline during the fourth quarter also due to NWEA moving into its new

headquarters on Everett Street. Grubb & Ellis is forecasting that the CBD Class A office market will have a vacancy rate of 7.5 percent at the end of the fourth quarter. There is currently 62,200 square feet of space under construction in the CBD.

The Daily Journal of Commerce reported that there is a shortage of large Class A space in the CBD that may force some companies to look at splitting up operations into multiple buildings or relocate to the suburbs over the next 36 months. The CBD has only one Class A space which is larger than 40,000 square feet, while six comparably sized spaces exist in the suburbs. The article goes on to report that there are more than ten companies in the CBD that need 50,000 square feet or more which have leases expiring in the next 36 months.

**Figure 4: Office Vacancy, Metropolitan All Classes and CBD Class A**



**Table 2: Suburban Office Submarkets,  
Ranked by Vacancy Rate**

Submarket	Vacancy Rate
Camas	41%
Tualatin/Wilsonville	34%
Sunset Corridor	29%
Cascade Park	26%
Columbia Corridor	24%
Washington Sq/Kruse Way	21%
Orchards	20%
SW/Beaverton/Sylvan	17%
Johns Landing/Barbur Blvd	17%
Vancouver	16%
Clackamas Sunnyside	15%
Northwest	12%
St. Johns/Central Vancouver	12%
Vancouver Mall	9%
Eastside	8%
Hazel Dell/Salmon Creek	7%

## SUBURBAN TRENDS

Suburban office vacancy dropped by 80 basis points during the quarter to a median rate of 20.5 percent as shown in the brokerage report summary. Suburban Class A asking rents continued to decline and dropped \$0.69 during the quarter according to Grubb & Ellis. Washington Square/Kruse Way Class A asking rents remained stable, while they continued to decline in the Sunset Corridor.

The Camas submarket continues to have the highest vacancy rate in the metropolitan area, ahead of Tualatin/Wilsonville (34.0%), Sunset Corridor (29.3%) and Cascade Park (26.2%). Hazel Dell/Salmon Creek (7.1%), Eastside (8.2%) and the Vancouver Mall (9.1%) continue to post the lowest submarket vacancy rates.

**Table 3: Total Vacancy for Select Suburban Submarkets**

Submarket	Current Market Size (Sq. Ft.)	3Q 09 Vacancy	4Q 09 Vacancy	1Q 10 Vacancy	2Q 10 Vacancy
Washington Square/Kruse Way	6,147,968	20.60%	21.10%	21.90%	21.70%
Sunset Corridor	4,213,199	27.40%	28.00%	28.10%	27.60%
SW/Beaverton/Slyvan	3,530,939	15.80%	16.50%	16.60%	17.30%
Eastside	2,735,967	7.40%	8.60%	7.80%	7.60%
Johns Landing/ Barber Blvd.	1,758,613	14.80%	15.10%	14.30%	14.40%
Tualatin/Wilsonville	1,665,195	27.90%	28.30%	29.20%	36.10%

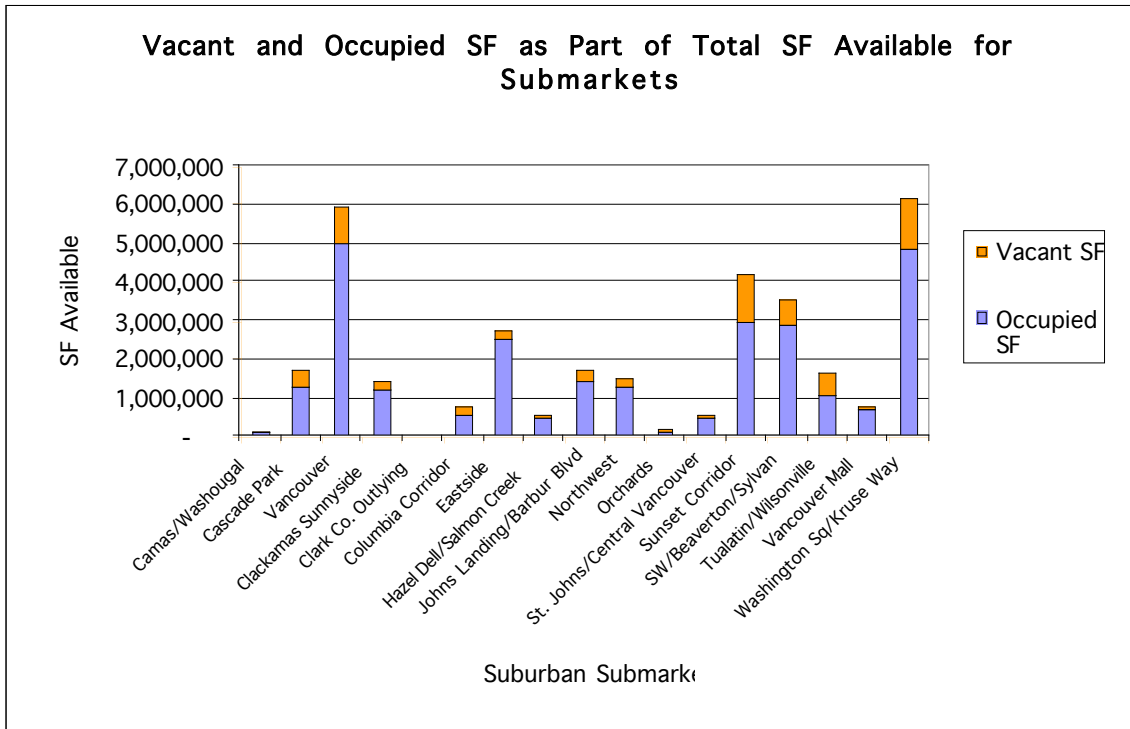
According to NBS the suburban submarket posted positive 4,006 square feet of absorption. It is the first time there has been positive net absorption since the third quarter of 2008. The Sunset Corridor submarket will benefit from Nike's lease of 200,000 square feet and the vacancy rate in Central 217 decreased by 400 basis points because of the 45,000 square feet leased at Lincoln Center by Axium Software, Bridgewell Resources and others.

**Table 4: Major Lease Transactions, 3rd Quarter, 2010**

Lessee	Property	Submarket	Size (SF)
Nike	Tektronix Campus	Sunset Corridor	191,573
Vestas	Meier & Frank Depot Building	Northwest	133,260
PECI	First & Main	CBD	73,489
Bridgewell Resources	5 Lincoln Center	Tigard	32,088

Stoel Rives extended its lease at the Standard Building because of the stalled construction of Park Avenue West. The law firm previously planned to move to the new building, and by extending its current lease has increased the uncertainty on when construction may resume on Park Avenue West.

**Table 5: Vacant and Occupied SF, by Submarket**



**Table 6: Office Vacancy, by Submarket**

**Office Vacancy: CBD vs. Select Suburban Submarkets**

