

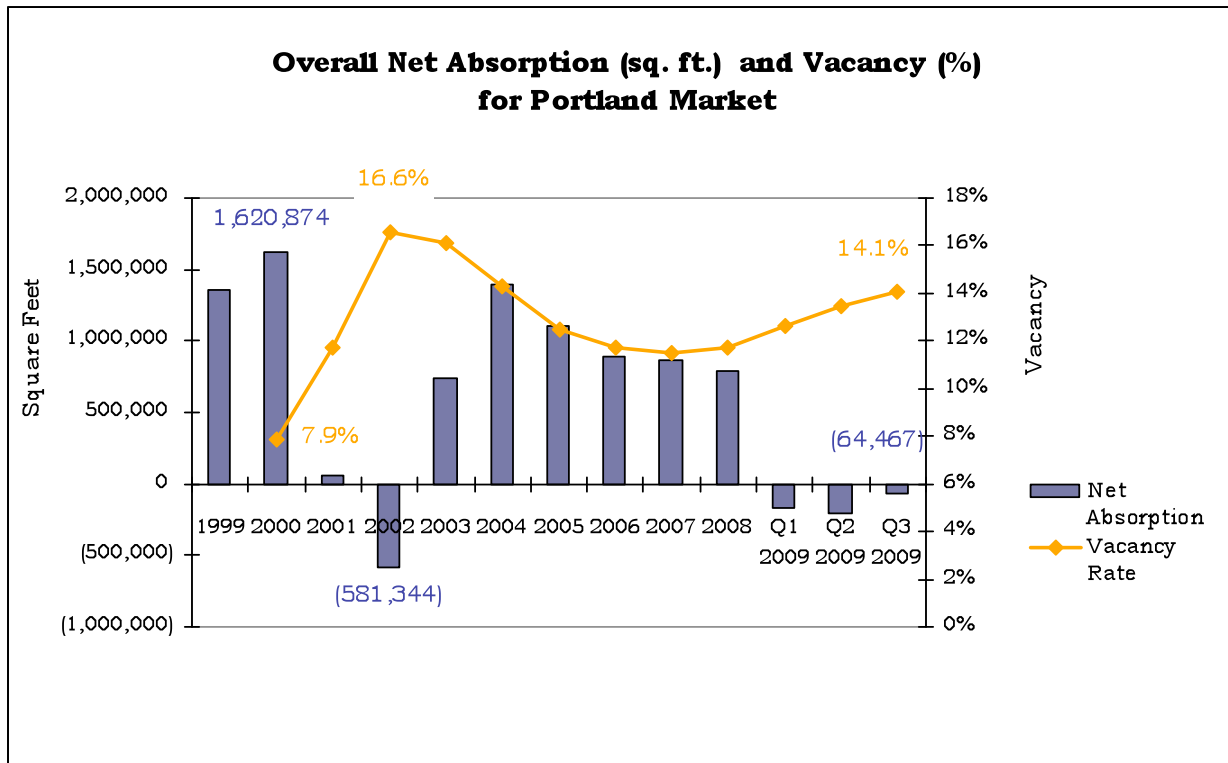
Office Market Analysis

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Portland Office Market

The office market has worsened this quarter over last. The CBD is feeling the impacts with Laika Animation studios leaving 83,676 SF in the Leland James building and Daimler trying to sublease 100,000 SF in Montgomery Park, as reported by Norris Beggs & Simpson. CB Richard Ellis [CBRE] believes that the commercial real estate market has not yet hit bottom and will not start to recuperate until the unemployment rate decreases. It notes that the Oregon's unemployment rate continues to fluctuate: 12.1% in the second quarter 11.1% in July, 11.6% in August. This time a year ago an estimated 67,900 people were unemployed compared to 139,900 currently unemployed. However, CBRE also states that the office market this quarter experienced only 290,562 SF of negative net absorption, which is a 44% improvement over last quarter's 522,785 SF of negative net absorption.

Analysis by Grubb & Ellis predicts that the office market is near the bottom with a slowing in the decline. It also notes that effective rental rates declined by more than 10 percent. Analysis by Colliers International predicts a "slow and prolonged recovery in the second half of next year and into 2011" for the commercial real estate market due to lack of job growth, although other economic indicators show signs of improvement.



Source: Grubb & Ellis, Co., Office Quarterly Report, Second Quarter 2009 Statistics

OFFICE Q3-09¹	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	15%	15.9%	14%	17%	15.7%
Previous Quarter	14%	14.9%	14%	16%	14.6%
Third Quarter 2008	10.7%	11.9%	11.6%	13.4%	11.8%
Third Quarter 2007	10.9%	11.5%	11.7%	13.0%	11.6%
CBD and Downtown Vacancy	10.0%	11.7%	9.8%	11.1%	10.6%
Previous Quarter	8.9%	10.9%	8.5%	10.3%	9.6%
Third Quarter 2008	7.6%	8.5%	7.6%	9.0%	8.1%
Third Quarter 2007	8.2%	9.2%	8.3%	10.3%	8.8%
CBD Class A Vacancy	6.3%	9.0%	6.2%	6.7%	6.5%
Previous Quarter	5.4%	8.6%	6.1%	6.3%	6.2%
Third Quarter 2008	4.6%	5.6%	4.8%	5.6%	5.2%
Third Quarter 2007	5.0%	5.9%	5.2%	5.9%	5.6%
CBD Class A Asking Rents	N/A	\$25.79	\$25.86	N/A	\$25.83
Previous Quarter	N/A	\$26.20	\$24.68	N/A	\$25.44
Third Quarter 2008	\$26.91	\$26.61	\$26.48	N/A	\$26.61
Third Quarter 2007	\$24.17	\$25.27	\$25.14	N/A	\$25.14
Suburban Vacancy	20.3%	19.9%	17.4%	20.2%	20.1%
Previous Quarter	19.3%	18.7%	18.1%	19.1%	18.9%
Third Quarter 2008	13.6%	15.3%	14.0%	15.6%	14.7%
Third Quarter 2007	13.4%	13.7%	13.8%	14.9%	13.8%
Suburban Class A Vacancy	N/A	22.6%	20.6%	22.6%	22.6%
Previous Quarter	N/A	20.3%	19.5%	N/A	19.9%
Third Quarter 2008	N/A	15.8%	15.6%	N/A	15.7%
Third Quarter 2007	N/A	13.7%	10.5%	N/A	12.1%
Suburban Class A Asking Rents	N/A	\$24.04	\$23.84	N/A	\$23.94
Previous Quarter	N/A	\$23.59	\$23.65	N/A	\$23.62
Third Quarter 2008	N/A	\$24.46	\$24.11	N/A	\$24.29
Third Quarter 2007	N/A	\$23.79	\$24.34	N/A	\$24.07

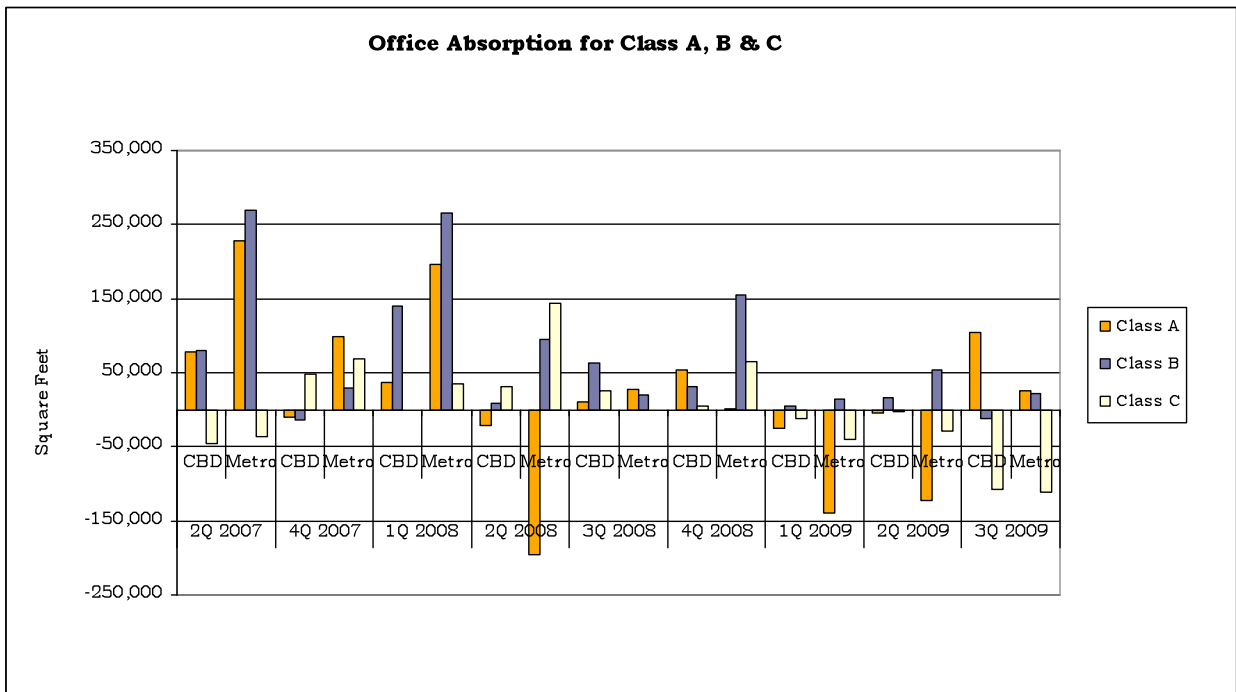
Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports, First Quarter 2009.

According to this summary chart the CBD Class A vacancy rate remains fairly stable and is much lower than the overall CBD vacancy rate which has now crossed the 10% mark. The Suburban Class A market, on the other hand, has higher vacancy rates than the overall suburban market, probably due to the impacts of employment declines in the financial sector in the Kruse Way corridor and possibly a shift toward a more central location by stable companies that are taking advantage of the downturn to lock in leases in prime locations. Both the CBD and the suburban submarkets have seen declines in rent since the third quarter of 2008, but have increased over the previous quarter.

¹ Vacancy rates above include subleases except those reported by CBRE, and NBS, which report direct vacancies. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.



Source: Grubb & Ellis, Co., Office Quarterly Report, Third Quarter 2009 Statistics



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CBD Trends

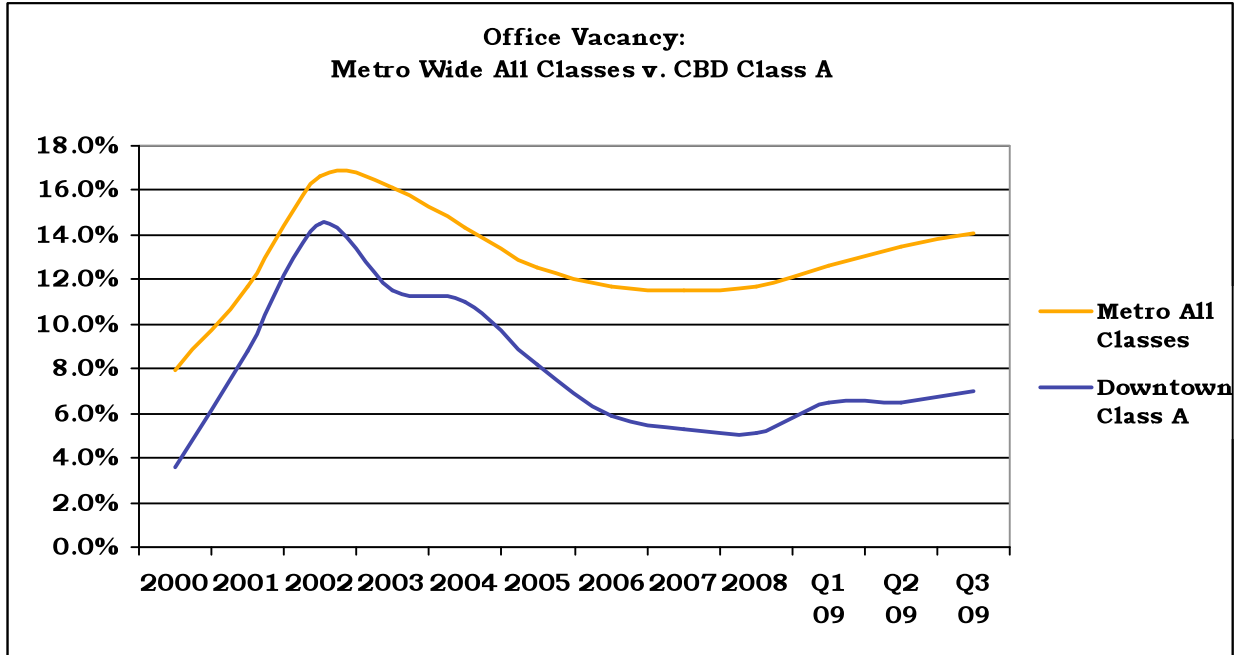
CBD Class A is only 6.68% vacant, according to Norris Beggs & Simpson, with the KOIN center gaining two new tenants, ECONorthwest and Willis of Oregon. An August article in the Wall Street Journal² explains the recent plight of the KOIN Center. Calpers and CommonWealth Partners LLC, joint owners of the office portion of the building, defaulted on the mortgage and were sued by the mortgage providers New York Life Insurance Co. Calpers has decided to walk away from its investment, which was purchased at the peak in 2007 for \$109 million, not including the upper 11 floors of condominiums. The troubles are due to insufficient cash flow caused by higher than expected vacancies. The last straw may have come when the law firm Ater Wynne LLP vacated 50,000 SF in the building relocating to the Pearl.



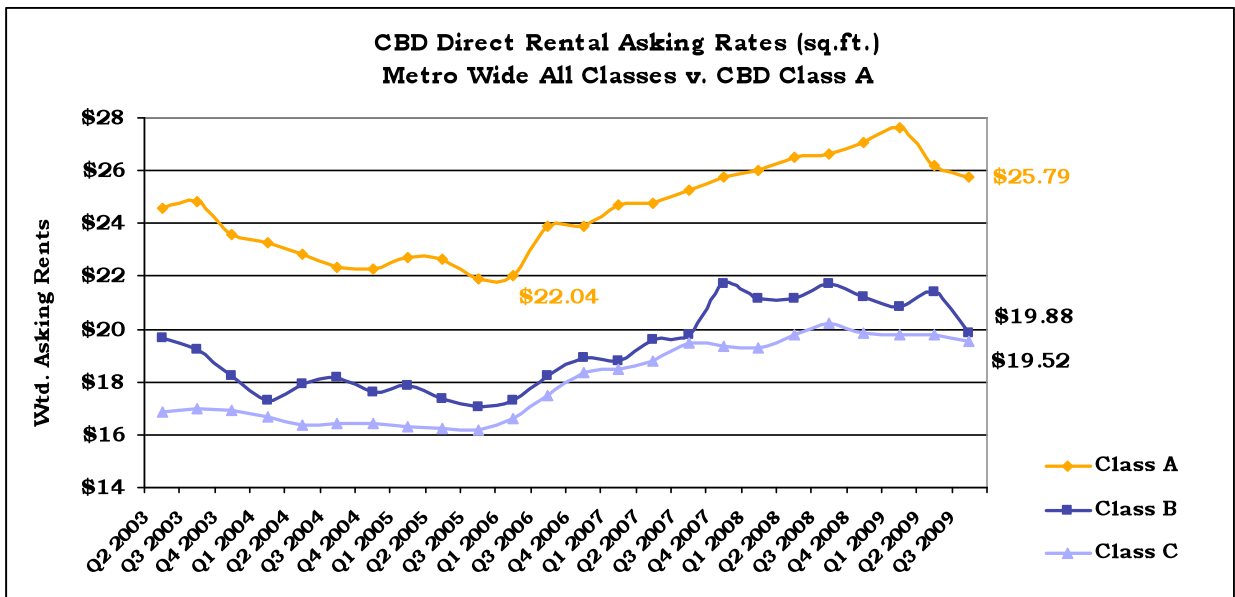
CB Richard Ellis notes that this is the first time since the third quarter of 2006 that the overall downtown submarkets have gone over a 10% vacancy rate. It also notes that overall asking rates in the CBD remain steady at \$22.40/SF. The summary chart above shows a median asking rental rate of \$25.83 for Class A in the CBD. Grubb & Ellis notes that 29,000 SF of sublease space was taken off the market this quarter bringing the year-to-date total to 277,996 SF of available sublease space in the CBD. It also reports that the CBD accounted for 97% of the region's office space currently under construction but is not likely to see new projects anytime soon.

Grubb & Ellis report an opportunity for the CBD to absorb some of this new construction by the General Services Administration (GSA), which is actively looking for space, generally needs larger spaces, and tends to locate downtown in LEED-certified buildings. Colliers International confirms this trend reporting that the GSA signed a lease for 37,000 SF of the 62,000 SF currently under construction in the Overton Building in the Pearl, which should be delivered next summer. Collier's also reports that Shorenstein is actively negotiating with the federal government for lease of its new First & Main office building, which will soon add 348,000 SF to the market.

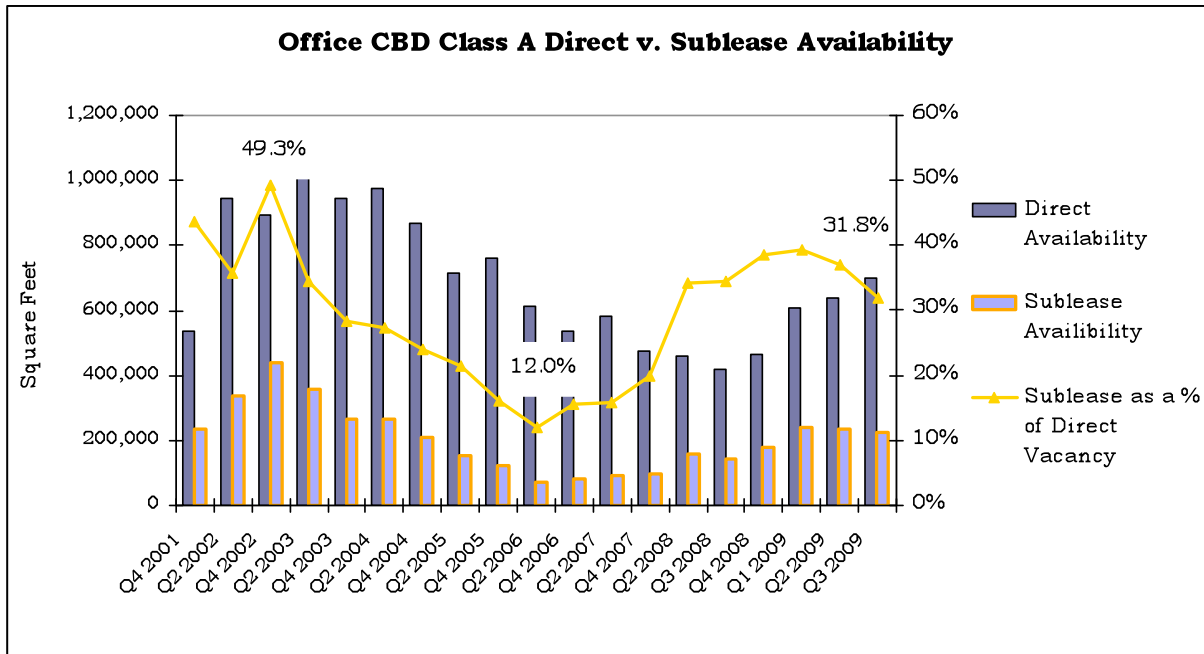
² "Calpers Takes Another Property Hit", Wall Street Journal, August 19, 2009.



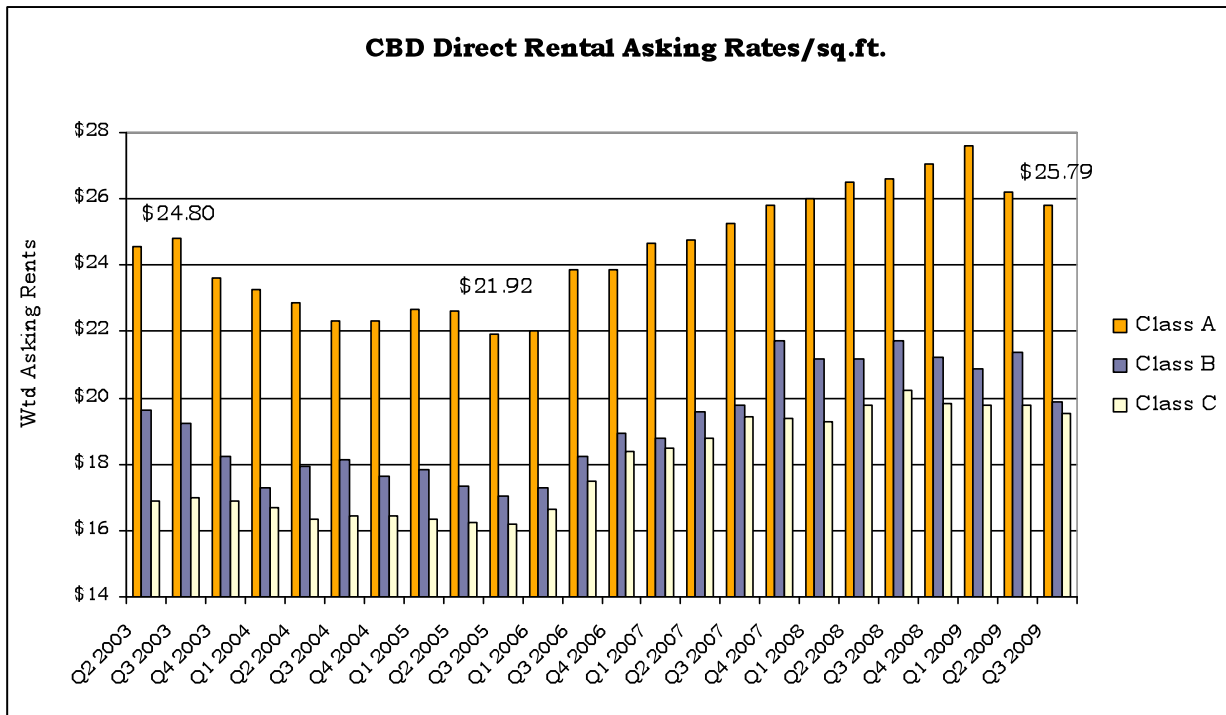
*Source: Grubb & Ellis, Co., Office Quarterly Report, Third Quarter 2009 Statistics



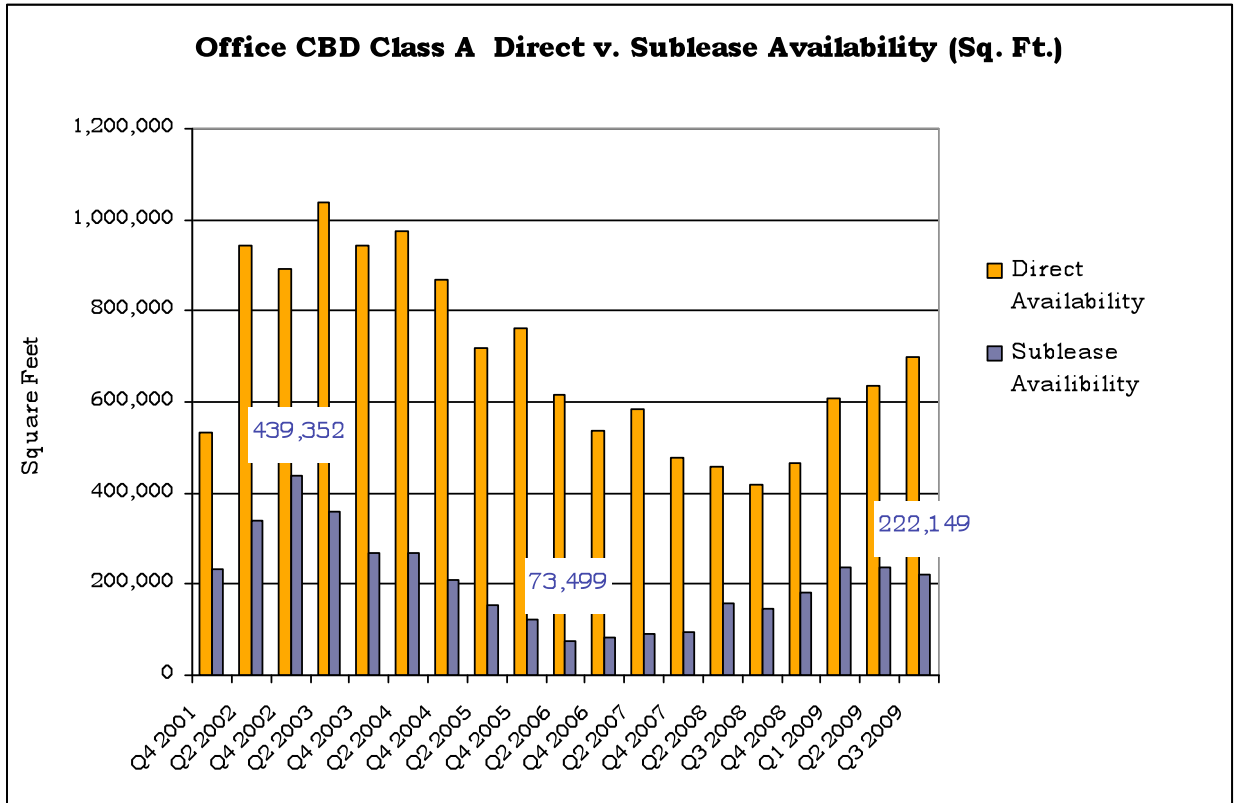
Source: Cushman & Wakefield, Portland Third Quarter 2009, Overall Office Summary.



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Suburbs:

Vacancy in the suburbs continues to increase, rising to 20.1% median rate as shown in the brokerage report summary. CBRE notes that the suburban submarkets have not seen 20% vacancy since the end of 2001, with average asking rates continuing to decline. Norris Beggs & Simpson notes that the delivery of 92,754 SF of Class A office space at Cascade Station I, which remains entirely vacant, increased the vacancy of the North/Northeast submarket by nearly nine percentage points. The west side continues to show the greatest vacancy with Hillsboro at nearly 30%, according to CBRE.

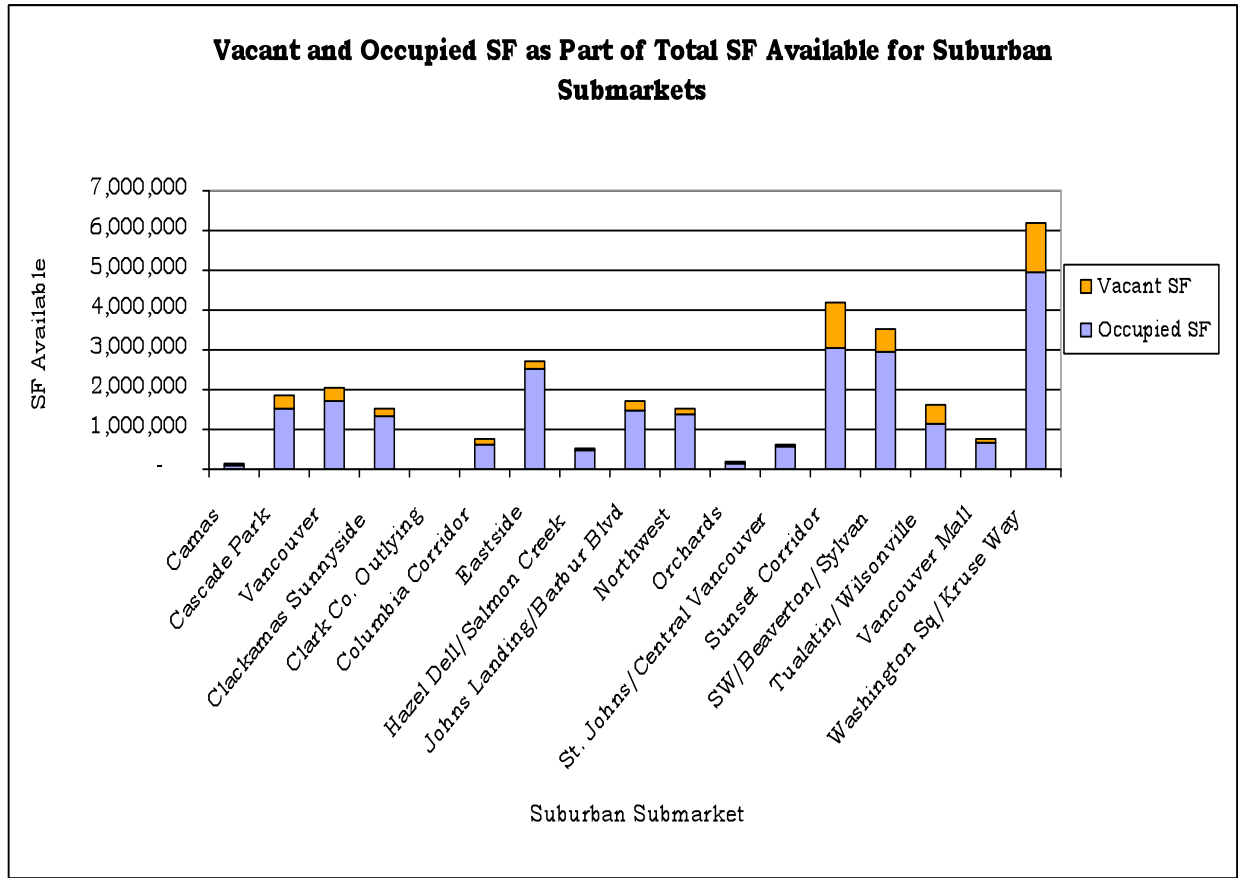
Grubb & Ellis reports high vacancy in the Sunset Corridor and expects that the Kruse Way corridor will continue to see vacancy increase as tenants who have signed leases move to other areas. According to Grubb & Ellis, the Tualatin/Wilsonville submarket still ranks the highest in percentage of vacancy, but the amount of vacant space is only a third of the amount of vacant space found in the fifth ranked Washington Square/Kruse Way submarket. Beaverton saw a 6% decline in vacancy since last quarter.

Suburban Office Submarkets Ranked by Highest Percent of Vacancy		
Submarket	Rank	Vacancy Rate
Camas	3	25%
Cascade Park	7	16.9%
Vancouver	10	14.7%
Clackamas Sunnyside	13	10.40%
Clark Co. Outlying	11	14.1%
Columbia Corridor	4	23.1%
Eastside	16	7.4%
Hazel Dell/Salmon Creek	17	6.2%
Johns Landing/Barbur Blvd	9	14.8%
Northwest	15	7.5%
Orchards	6	20.3%
St. Johns/Central Vancouver	12	10.8%
Sunset Corridor	2	27.4%
SW/Beaverton/Sylvan	8	15.8%
Tualatin/Wilsonville	1	27.9%
Vancouver Mall	14	9.90%
Washington Sq/Kruse Way	5	20.6%

Source: Grubb & Ellis, Co., Office Quarterly Report, Third Quarter 2009 Statistics

Total Vacancy for Select Suburban Submarkets									
Submarket	Current Market Size (Sq. Ft.)	2Q 08 Vacancy	3Q 08 Vacancy	4Q 08 Vacancy	1Q 09 Vacancy	2Q 09 Vacancy	3Q 09 Vacancy	% change from last quarter	Current Vacancy (sqft)
Washington Square/ Kruse Way	6,205,488	13.8%	13.5%	14.7%	16.3%	19.6%	20.6%	5.1%	1,275,337
Sunset Corridor	4,195,633	21.2%	22.3%	22.3%	25.3%	25.6%	27.4%	7.0%	1,149,184
Beaverton	3,509,988	17.2%	16.9%	15.4%	16.5%	16.8%	15.8%	-6.0%	555,926
Eastside	2,736,015	6.7%	8.2%	8.2%	7.6%	7.4%	7.4%	0.0%	213,621
Johns Landing/Barber Blvd.	1,704,248	13.3%	14.2%	13.1%	13.9%	14.5%	14.8%	2.1%	251,537
Tualatin/Wilsonville	1,600,875	21.9%	28.7%	27.3%	26.1%	26.9%	27.9%	3.7%	446,483

*Source: Grubb & Ellis, Co., Office Quarterly Report, Third Quarter 2009 Statistics



*Source: Grubb & Ellis, Co., Office Quarterly Report, Third Quarter 2009 Statistics

Major Lease Transactions Q3 2009

Lessee	Property	Submarket	Size (SF)
Wells Fargo (renewal)	Montgomery Park	Portland	128,032
Cascade Education LLC (renewal)	8909 Building	Portland	47,033
Genesis Financial Solutions	Creekside Corporate Park	Central 217	27,862
Nationwide Mutual Insurance	847 NE 19th Ave	Lloyd District	24,405
Hampton Management (renewal)	9600 Building	Portland	24,056
InFocus	Triangle Corporate Park	Tigard	17,267
Elynx Ltd.	Creekside Corporate Park	Central 217	12,705

Source: CB Richard Ellis, MarketView Third Quarter 2009 Office Report, Norris, Beggs and Simpson, "Market Summaries 3Q09", Cushman and Wakefield, "MarketBeat 3Q09", Grubb & Ellis, "Office Trends Report 3Q09"