OFFICE MARKET ANALYSIS:

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Amid encouraging signs nationally, the Portland office market exceeded expectations in the fourth quarter of 2010. Local indices show evidence of a decline in vacancy and the strongest absorption seen since 2008, each outperforming national averages, which maintained relative stability after a steady stream of gloom since 2008. [1] Increasing pressure on the central city Class A market in particular stands out, with median reported vacancies dropping below 8 percent.

Positive local economic indicators include a drop in the unemployment rate from 10.5 in the third quarter of 2010 to 10.2 percent by the end of the fourth quarter, remaining above the national average but decreasing at a faster rate. This "too good to be true" drop may be misleading, however, as statistical quirks involving seasonal adjustment may have exaggerated the locally reported decrease.[2] Indications of a dearth of new construction and continued declines in asking rent across Portland categories and submarkets also bring a note of caution to optimistic news. Table 1 provides a summary for each submarket.

Grubb & Ellis reports a 90 basis point drop in market-wide vacancy to 14.6 percent in the fourth quarter, led by a drop in Central Business District (CBD) Class A vacancy of 160 points to 7.1 percent, outperforming their forecasted

[1] Troianovski, Anton. "Fresh Signs of Life in Office Market" Wall Street Journal, January 4, 2011.

[2] Reade, Richard. "Oregon's local unemployment rates fall, contradicting statewide number", The Oregonian, January 24, 2011

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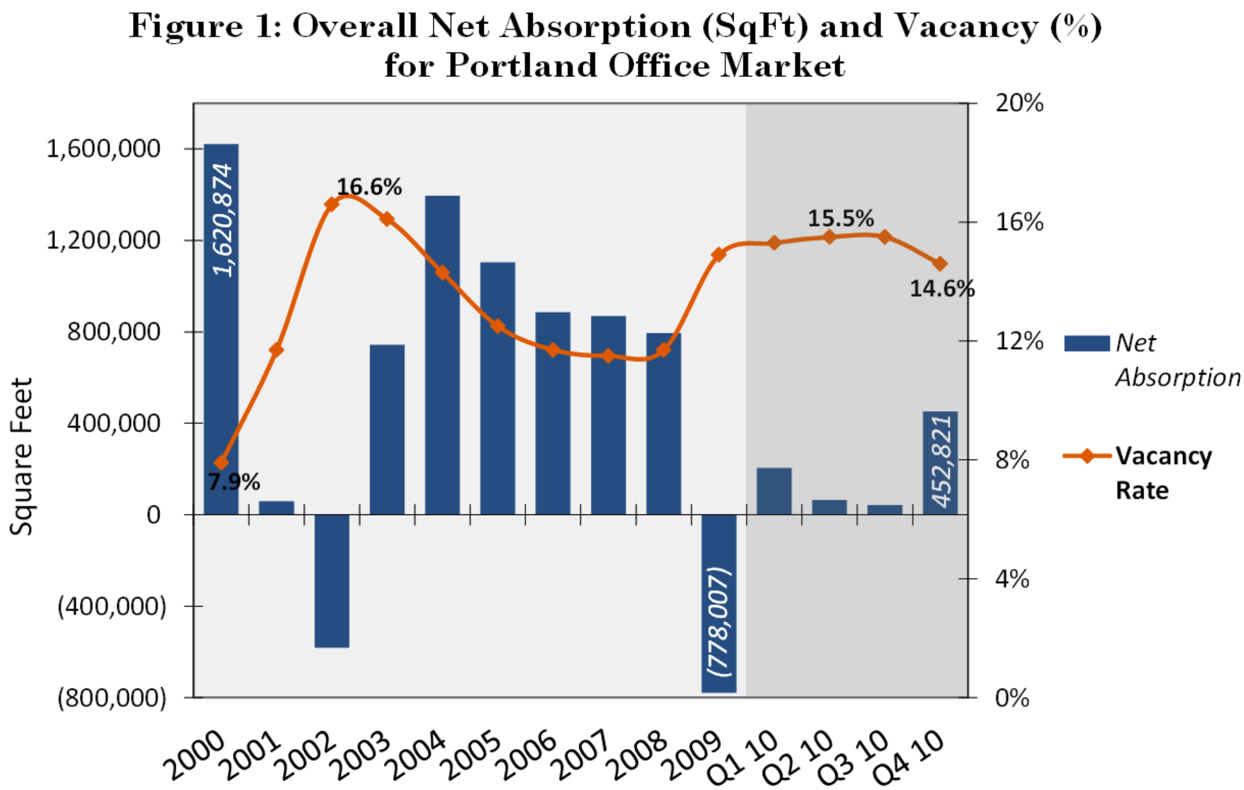
7.5 percent. Cushman & Wakefield and Norris, Beggs & Simpson also report tightening market-wide vacancies in the fourth quarter, though both report very different CBD Class A Vacancies from Grubb & Ellis, with Cushman & Wakefield's numbers suggesting a .3 percent rise in vacancy to 7.9 percent. Reports also differ significantly on market-wide net absorption numbers, with Grubb & Ellis reporting a notable uptick from 42,401 in Q3 to 452,821 square feet in Q4, while Norris, Beggs & Simpson reports a drop from 292,449 to 99,365.

While market-wide vacancies remain similar to Class A vacancies (Grubb & Ellis show 14.6 percent market-wide to 14.1 percent Class A), the numbers tell a very different story across CBD and suburban submarkets. Within the CBD, Class A properties outperform market-wide vacancies by 2.3 percent (7.1 percent Class A to 9.4 percent for all properties) whereas in suburban submarkets, vacancy numbers across all properties outperform Class A by 5.1 percent (17.9 percent to 22.9 percent for Class A). While this trend has been discussed in previous reports, the respective gaps have shown a widening trend over time, with a 2.8 percent rise in suburban Class A vacancy between Q3 and Q4 driving the discrepancies.

Grubb & Ellis' vacancy and absorption numbers both indicate improvements across the Portland market. While net absorption was back in the positive range for 2010 at 764,698 square feet (following a net loss of 778,007 in 2009), Figure 7 shows continued declines in newly constructed square feet to 530,000. This lack of new supply through construction possibly explains a portion of the drops in vacancy, particularly for Class A properties.



Source: Grubb & Ellis, Office Quarterly Reports (dark grey indicates quarterly values)

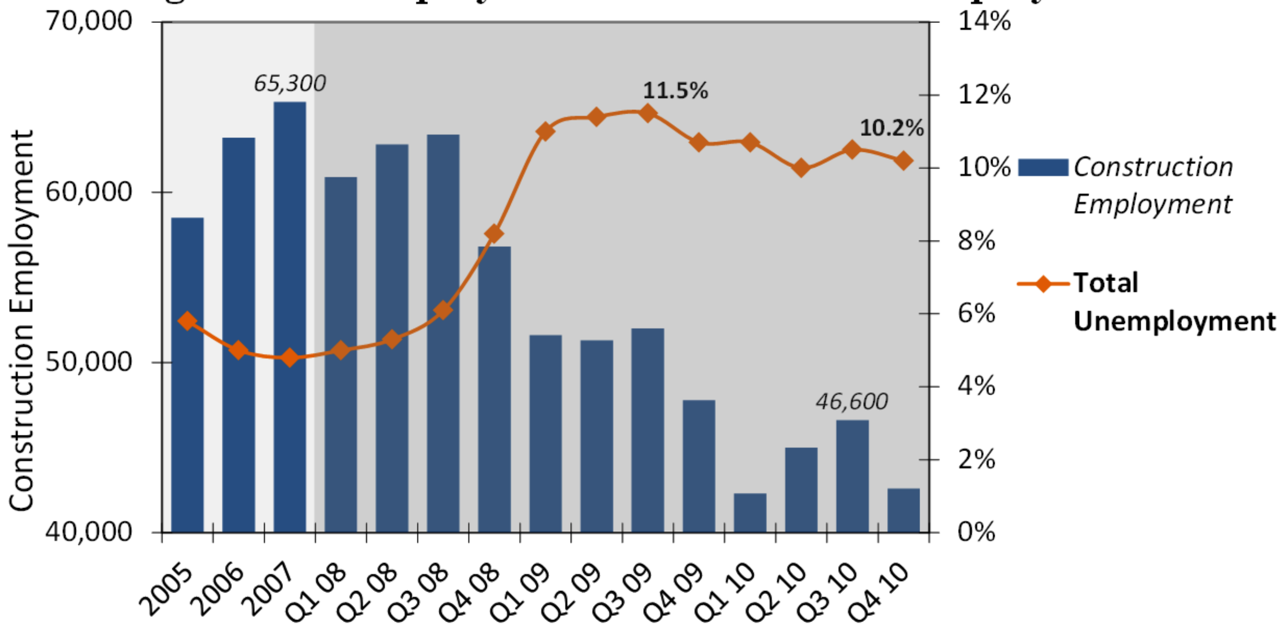
Table 1: Office Market Vacancies and Asking Rents, 4th Quarter, 2010

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	14.0%	15.4%	14.6%	17.5%	15.0%
Previous Quarter	-	16.1%	15.5%	17.7%	16.1%
Fourth Quarter 2009	15.6%	16.6%	14.9%	17.5%	16.1%
Fourth Quarter 2008	10.5%	12.6%	11.7%	12.9%	12.2%
CBD & Downtown Vacancy	8.9%	10.5%	9.4%	11.8%	10.0%
Previous Quarter	-	11.6%	10.7%	12.1%	11.6%
Fourth Quarter 2009	10.3%	12.1%	10.4%	11.8%	11.1%
Fourth Quarter 2008	6.6%	8.7%	5.1%	9.3%	7.6%
CBD Class A Vacancy	-	7.9%	7.1%	8.4%	7.9%
Previous Quarter	-	7.6%	8.7%	8.4%	8.4%
Fourth Quarter 2009	7.7%	7.8%	7.3%	7.2%	7.5%
Fourth Quarter 2008	3.8%	6.4%	5.1%	5.4%	5.3%
CBD Class A Asking Rents	-	$24.86	$26.11	N/A	$25.49
Previous Quarter	-	$26.69	$26.50	N/A	$26.60
Fourth Quarter 2009	$27.47	$25.61	$25.54	N/A	$25.61
Fourth Quarter 2008	$26.63	$27.07	$26.80	N/A	$26.80
Suburban Vacancy	20.8%	20.2%	17.8%	23.9%	20.5%
Previous Quarter	-	20.5%	18.4%	24.1%	20.5%
Fourth Quarter 2009	20.3%	21.0%	18.5%	20.5%	20.4%
Fourth Quarter 2008	14.1%	16.3%	15.2%	16.2%	15.7%
Suburban Class A Vacancy	N/A	-	22.9%	-	22.9%
Previous Quarter	N/A	-	20.1%	26.5%	23.3%
Fourth Quarter 2009	N/A	22.8%	21.1%	23.1%	22.8%
Fourth Quarter 2008	N/A	16.3%	15.2%	17.0%	16.3%
Suburb Class A Asking Rent	N/A	$22.56	$22.40	N/A	$22.48
Previous Quarter	N/A	$23.15	$22.94	N/A	$23.05
Fourth Quarter 2009	N/A	$23.44	$23.40	N/A	$23.42
Fourth Quarter 2008	N/A	$24.48	$23.69	N/A	$24.09

Source: CB Richard Ellis, Cushman and Wakefield, Grubb & Ellis, & Norris Beggs & Simpson Q4 2010 Quarterly Reports

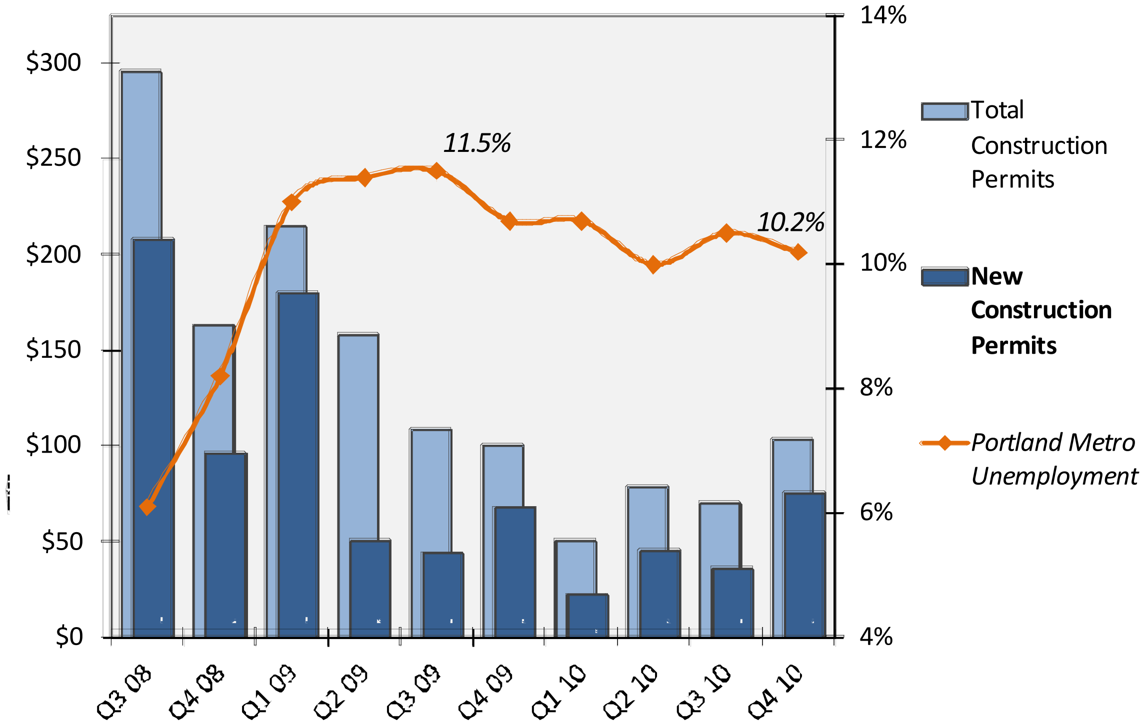
In line with the relatively small "Completed Construction" numbers seen in Figure 7, construction employment remains at low levels in the metropolitan area, as shown in Figure 2. A moderate uptick in City of Portland new construction permits in Figure 3 shows a level of investment ($75 million) in new development that has not been seen since the first quarter of 2009. While not specific to office properties, nearly $10 million of this total is represented by one 64,000 square foot office and laboratory building at 4400 NE Halsey Street in Portland.

Figure 2: Unemployment & Construction Employment



Source: U.S. Bureau of Labor Statistics and Oregon Employment Department (dark grey indicates quarterly values)

Figure 3: Portland Construction Permits & Metro Unemployment



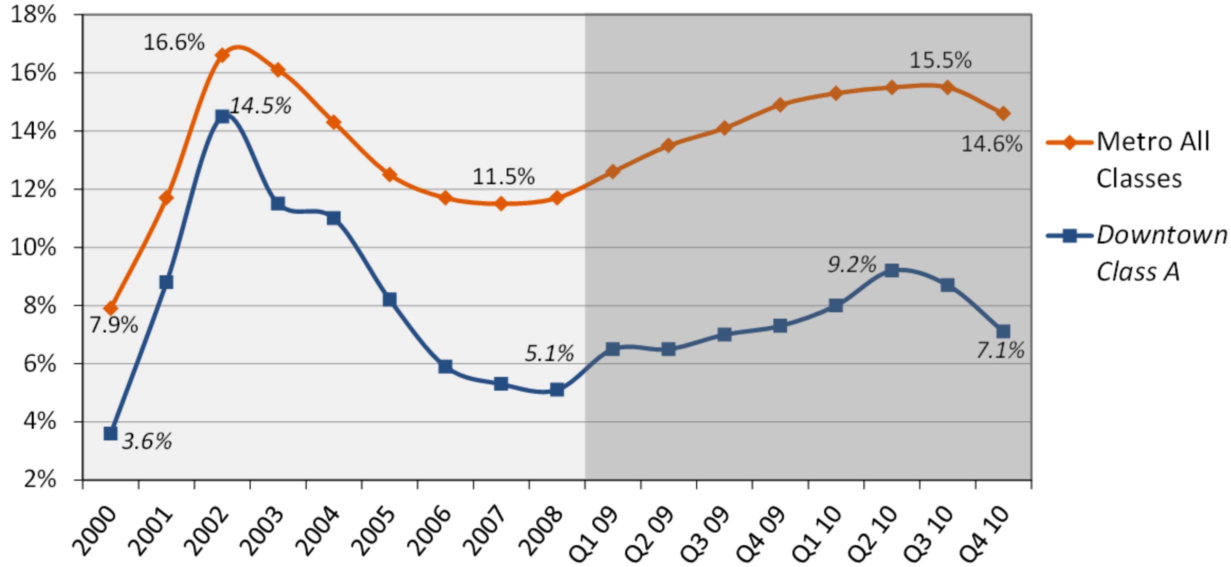
Source: City of Portland Bureau of Development Services and Oregon Employment Department

CBD TRENDS

Strong demand for downtown Class A properties continues to drive relatively low vacancy averages. At 7.1 percent vacancy to 14.6 percent market-wide, the gap between these two numbers (7.5 percent) is the greatest seen in 10 years, as seen in Figure 4. In their Q3 report, Grubb & Ellis projected a decrease in downtown Class A vacancy to 7.5 percent due in part to NWEA's occupancy of 121 NW Everett St, and the reported 7.1 percent vacancy number outperforms expectations. For this reason, Grubb & Ellis dubbed Portland downtown a "national standout" which will continue to be competitive for the foreseeable future due to a lack of sizable projects under construction, pointing in particular to the stalled Park Avenue West Towers. Grubb & Ellis predicts strong pressure on the CBD Class B market for 2011 as Class A options dwindle, with rents rising and vacancy dropping across both classes.

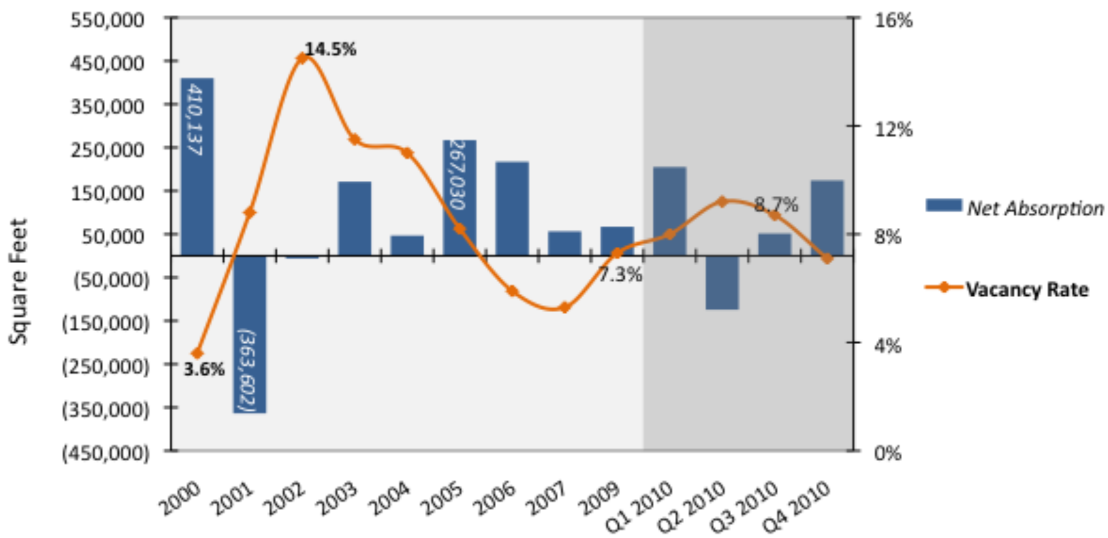
Cushman and Wakefield's Q4 "Marketbeat" report tells a similar story with Portland CBD at the third lowest vacancy rate in the nation (10.5 percent), contrasted with their suburban market vacancy (19.2 percent) which ranks 24^{th} in the nation. Despite the pressure on the CBD office market, Cushman & Wakefield track asking rents that continue to decline across all submarkets and classes, with Class A dropping from $26.69/SF in Q3 to $24.86 in Q4. CB Richard Ellis data tells a similar story overall of declining vacancies and rents for the CBD.

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



Source: Grubb & Ellis, Office Quarterly Reports (dark grey indicates quarterly values)

Figure 5: Class A Net Absorption (SqFt) & Vacancy (%) for the Central Business District



Source: Grubb & Ellis, Office Quarterly Reports (dark grey indicates quarterly values)

SUBURBAN TRENDS

Market performance in the suburban submarkets showed similar trends as CBD toward lower vacancies and lower rents, but neither as conclusively. Median suburban vacancy values across brokerages dropped 40 basis points to 20.5 percent, and median Class A asking rents dropped from $23.05 to $22.48. Norris, Beggs &

Simpson reports that 11 of 15 suburban submarkets saw declines in vacancy in the fourth quarter.

Table 2: Total Vacancy for Select Suburban Submarkets

Submarket	Current Market Size (SqFt)	4Q 09 Vacancy	1Q 10 Vacancy	2Q 10 Vacancy	3Q 10 Vacancy	4Q 10 Vacancy
Washington Square/Kruse Way	6,147,968	21.1%	21.9%	21.7%	21.2%	19.7%
Sunset Corridor	4,213,984	28.0%	28.1%	27.6%	29.3%	25.5%
SW/Beaverton/Slyvan	3,530,939	16.5%	16.6%	17.3%	17.0%	17.0%
Eastside	2,735,967	8.6%	7.8%	7.6%	8.2%	8.6%
Johns Landing/ Barber Blvd.	1,758,613	15.1%	14.3%	14.4%	16.8%	17.7%
Tualatin/Wilsonville	1,665,195	28.3%	29.2%	36.1%	34.0%	32.0%

Source: Grubb & Ellis, Fourth Quarter 2010 Statistics

Figure 6: Vacant and Occupied SqFt, by Submarket

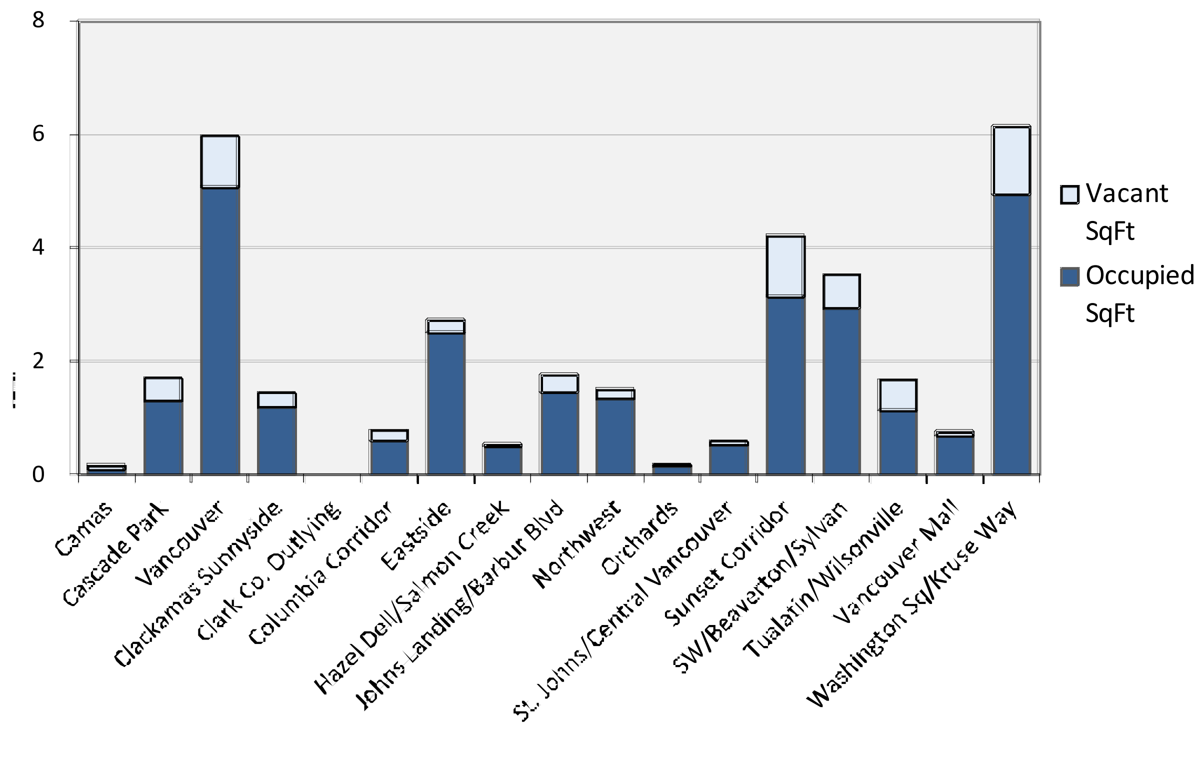


Table 3: Suburban Office Submarkets, Ranked by Vacancy Rate

Submarket	Vacancy Rate
Camas	40.6%
Tualatin/Wilsonville	32.0%
Sunset Corridor	25.5%
Cascade Park	24.3%
Columbia Corridor	24.1%
Washington Sq/Kruse Way	19.7%
Orchards	18.2%
Clackamas Sunnyside	18.0%
Johns Landing/Barbur Blvd	17.7%
SW/Beaverton/Sylvan	17.0%
Vancouver	15.3%
St. Johns/Central Vancouver	12.1%
Northwest	10.7%
Eastside	8.6%
Vancouver Mall	8.3%
Hazel Dell/Salmon Creek	7.7%

Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter, 2010

Rankings of vacancy by submarket from Grubb and Ellis show few changes from the third quarter with Camas at the top at a 40.6 percent vacancy (only 161,000 total leasable square feet), followed by Tualatin/Wilsonville at 32.0 percent and Sunset Corridor at 25.5 percent. With the lowest suburban vacancy rate, Hazel Dell stands out at 7.7 percent, followed closely by Vancouver Mall at 8.3 percent and Eastside at 8.6 percent. Norris, Beggs & Simpson posts a positive net absorption 121,056 square feet for suburban submarkets, up from 45,000 square feet in the third quarter, and only the second period with positive absorption since the third quarter of 2008.

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Source: Grubb & Ellis, Fourth Quarter 2010 Statistics

Notable lease transactions (see Table 5) include no new leases greater than 100,000 square feet. Beaverton and Tigard hold on to some significant lessees while Beaverton will benefit from its largest new tenant in Serena Software at 33,352 square feet.

Table 5: Major Lease Transactions, 4th Quarter, 2010

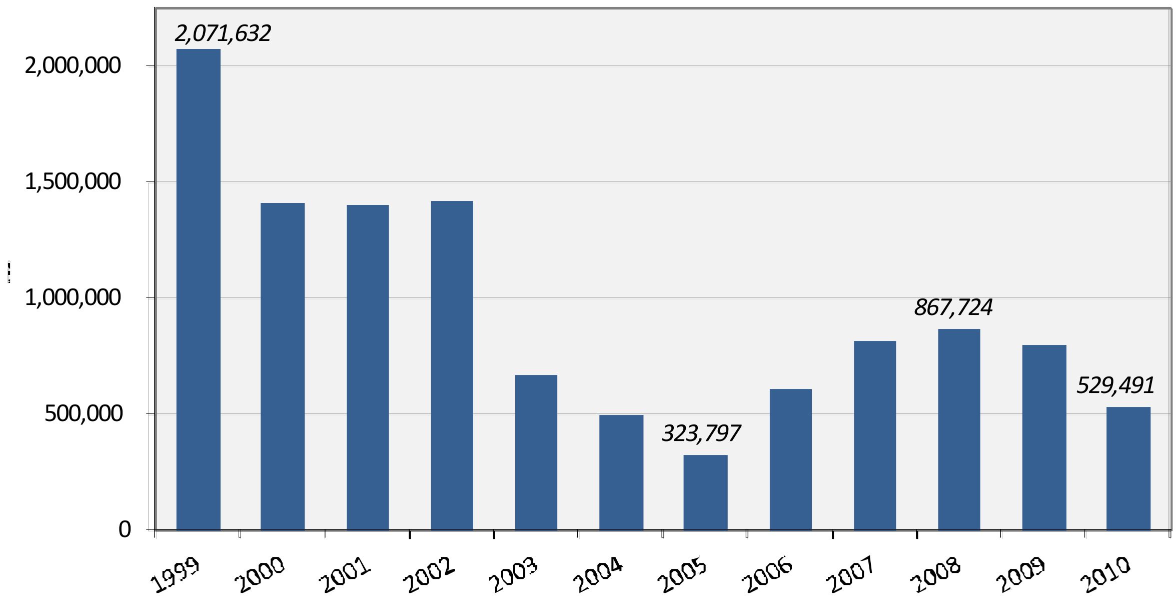
Lessee	Property	Submarket	Size (SqFt)
HSBC (extension)	Tigard Corporate Center	Tigard	123,210
Career Education Co. (renewal)	Cornell Oaks	Beaverton	74,677
Mercer USA (renewal)	Columbia Square	Portland	36,382
Serena Software	Amberglen	Beaverton	33,352
ACS	Triangle Pointe	Tigard	30,656
University Medical (renewal)	Lloyd Center Mall	Portland	25,452
Microsoft	Machine Works	Northwest	12,838

Source: CB Richard Ellis, Cushman and Wakefield, Grubb & Ellis, & Norris Beggs & Simpson Q4 2010 Quarterly Reports

WRAPUP

While indicators paint a mixed picture moving forward, 4th Quarter 2010 represents the most promising stretch in many respects that the Portland metro Office Market has seen since the recession hit locally. Strong performance in the CBD Class A market highlight the report with the suburban market lagging behind, but showing signs of forward movement. Asking rents, which continue to decline across all categories, will be important to watch in the coming reports for signs that low CBD vacancies are driving market advantage away from tenants and towards lessors.

Figure 7: Office Construction Completed by Year for All Classes



Source: Grubb & Ellis, Office Quarterly and Annual Reports