

Apartment, Office Market Analysis

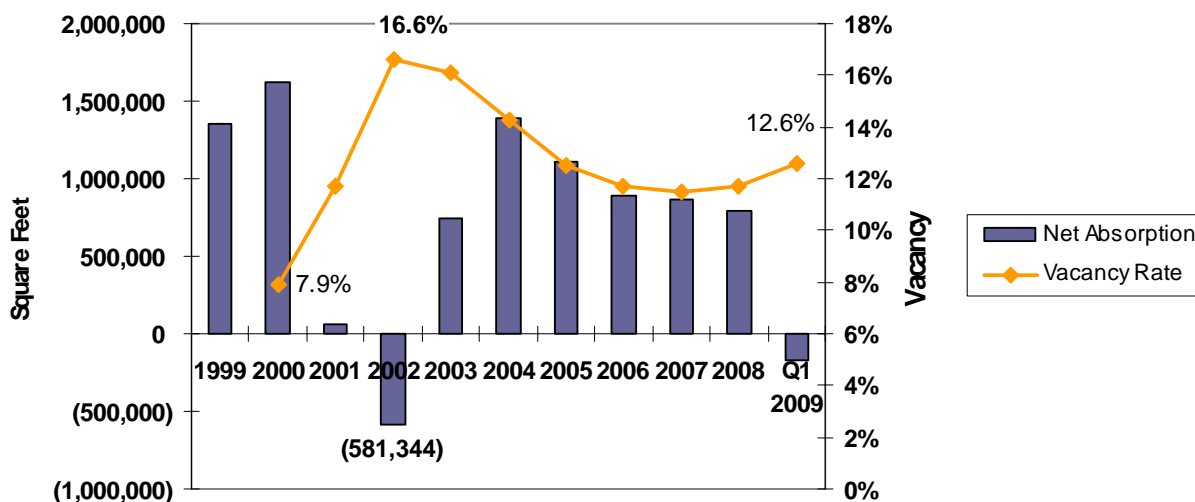
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Portland Office Market

Overall the office market has performed as anticipated this first quarter of 2009. Overall vacancy is up, absorption is negative, sublease space has increased and most submarkets have seen a decrease in rents. However, it seems that some companies are taking advantage of the downturn to move to more favorable locations. The CBD is faring better than other areas, and actually saw an increase in asking rents. Suburban vacancy rates are double those of the CBD. While the CBD has experienced an increase in vacancy, the median vacancy rate is now equal to what it was in the first quarter of 2008, which is still lower than the first quarter of 2009 by eight tenths of a percentage point. CBD class A vacancy rates remain low at a 6.3% median rate and asking rents have actually increased \$0.22 since last quarter, to \$27.02 per square foot. The suburban Class A median rent has decreased by \$1.01 since last quarter, and the median vacancy rate has increased 1.2 percentage points since last quarter to 17.5%.

Most are still positive about Portland's ability to hold its own during the downtown. CB Richard Ellis points to the Forbes ranking of Portland 26th out of 200 largest metro areas, as a good place to do business. They also mention that Element Power, a renewable energy company has decided to locate in Portland. CBRE states that nearly 933,966 SF of office space is under construction, but makes a note that TMT Development plans to halt construction on Park Avenue West. According to Norris, Beggs and Simpson, OHSU and Intel both laid off up to 1,000 people this quarter, but Intel is still planning to invest \$1.5 billion through 2010.

Overall Net Absorption (sq. ft.) and Vacancy (%) for Portland Market



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

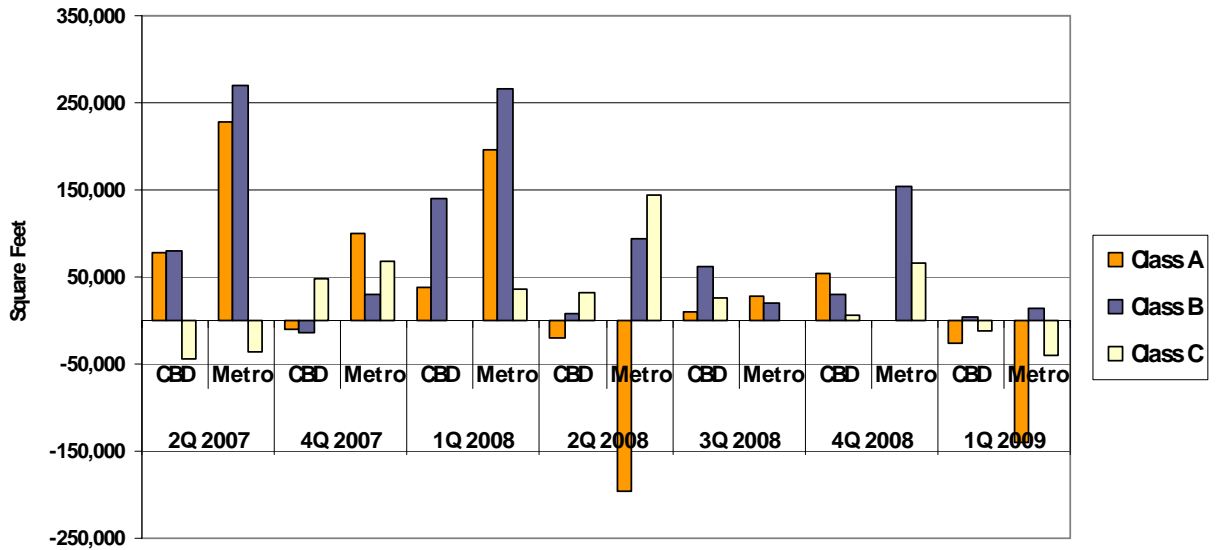
OFFICE Q1-09	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	13%	14%	13%	15%	13.2%
Previous Quarter	10.5%	12.6%	11.7%	12.9%	12.2%
First Quarter 2008	10.7%	11.3%	11.3%	12.5%	11.3%
First Quarter 2007	11.5%	11.9%	12.5%	N/A	11.9%
CBD and Downtown Vacancy	8.0	10.2	8.33	10.46	8.7%
Previous Quarter	6.6%	8.7%	5.1%	9.3%	7.6%
First Quarter 2008	8.4%	8.9%	7.9%	10.2%	8.7%
First Quarter 2007	8.9%	10.1%	9.5%	N/A	9.5%
CBD Class A Vacancy	5%	8%	7%	6%	6.3%
Previous Quarter	3.8%	6.4%	5.1%	5.4%	5.3%
First Quarter 2008	5.7%	6.1%	4.7%	6.2%	5.9%
First Quarter 2007	5.3%	7.1%	6.4%	N/A	6.4%
CBD Class A Asking Rents	26.89	27.62	27.02	N/A	\$27.02
Previous Quarter	\$26.63	\$27.07	\$26.80	N/A	\$26.80
First Quarter 2008	\$26.89	\$26.02	\$25.76	N/A	\$26.02
First Quarter 2007	\$23.38	\$24.68	\$24.31	N/A	\$24.31
Suburban Vacancy	17%	17%	16%	17%	16.9%
Previous Quarter	14.1%	16.3%	15.2%	16.2%	15.7%
First Quarter 2008	12.8%	13.6%	13.4%	15.3%	13.5%
First Quarter 2007	13.8%	13.7%	14.3%	N/A	13.8%
Suburban Class A Vacancy	N/A	18%	17%	18%	17.5%
Previous Quarter	N/A	16.3%	15.2%	17.0%	16.3%
First Quarter 2008	N/A	13.9%	12.7%	N/A	13.3%
First Quarter 2007	N/A	13.7%	10.5%	N/A	12.1%
Suburban Class A Asking Rents	N/A	\$ 22.95	\$ 23.20	N/A	\$23.08
Previous Quarter	N/A	\$24.48	\$23.69	N/A	\$24.09
First Quarter 2008	N/A	\$24.33	\$24.37	N/A	\$24.35
First Quarter 2007	N/A	\$23.36	\$25.50	N/A	\$24.43

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

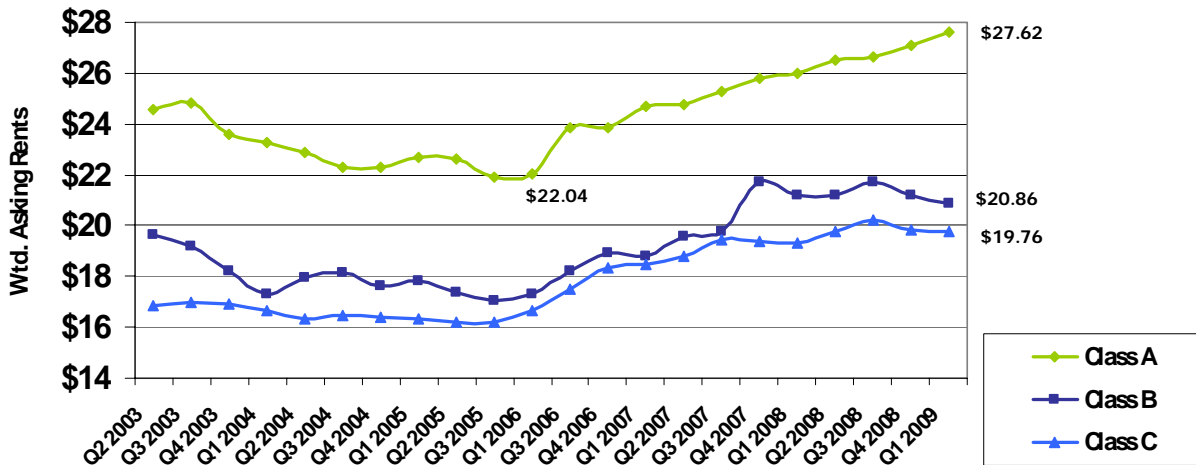
¹ Vacancy rates above include subleases except those reported by CBRE. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.

Office Absorption for Class A, B & C



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

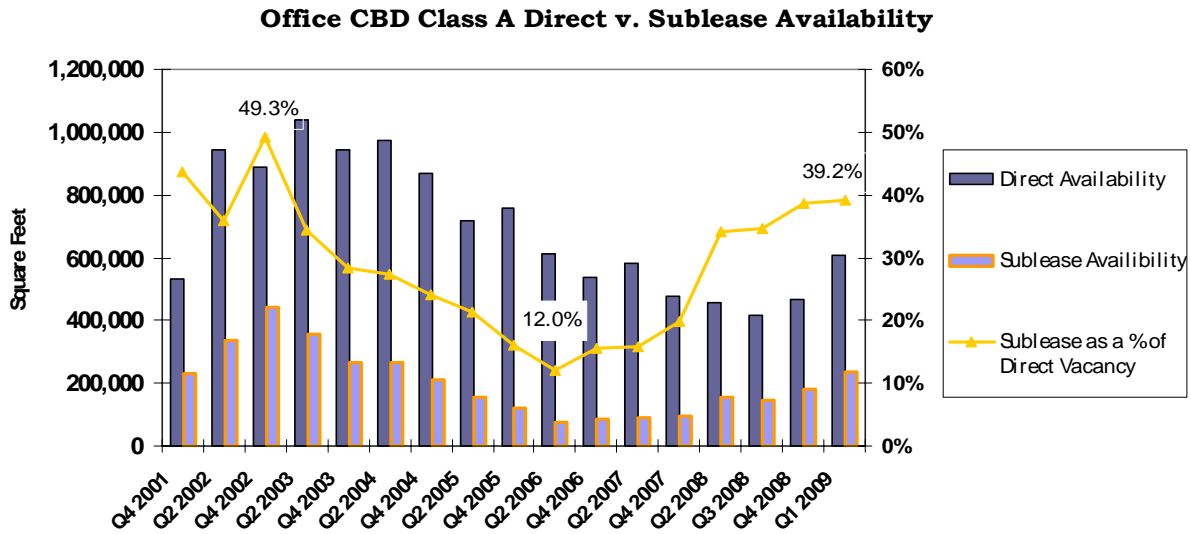
**CBD Direct Rental Asking Rates (sq.ft.)
Metro Wide All Classes v. CBD Class A**



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

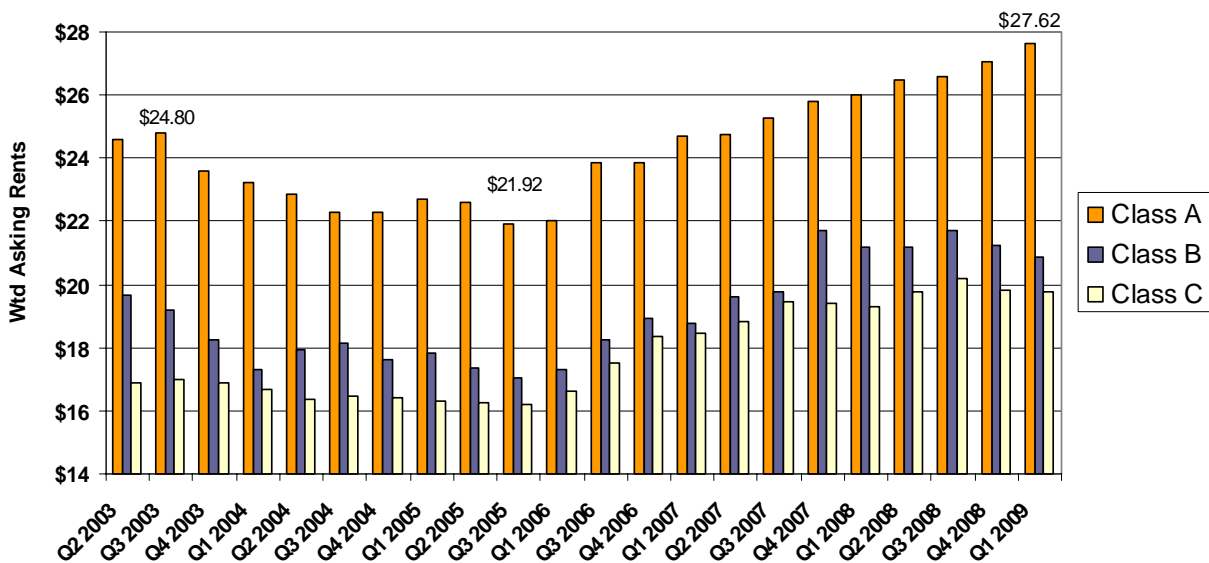
CBD Trends

Norris, Beggs and Simpson noted that, “sublease space is becoming more prevalent”, which can be seen in the following graph based on the report by Cushman and Wakefield. Sublease availability increased in the CBD, with 237,907 square feet available at quarter’s end. Not surprisingly, subleases as a percentage of the direct vacancy also increased, up to 39.2% in this first quarter of 2009. However, it is still well below the peak seen in the fourth quarter of 2002 when it reached 49.3%. The CBD saw an increase in asking rents, which may mean that landlords are offering more concessions to lure tenants. Absorption is negative with more office space coming on line than was absorbed by the market.



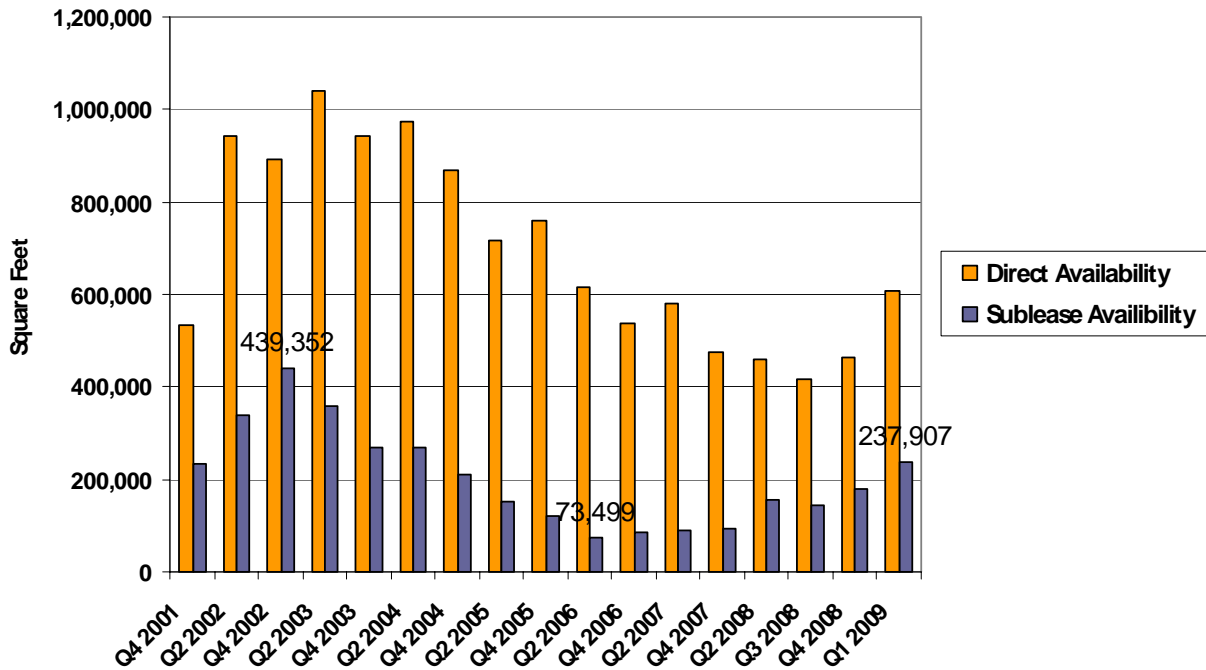
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Direct Rental Asking Rates/sq.ft.



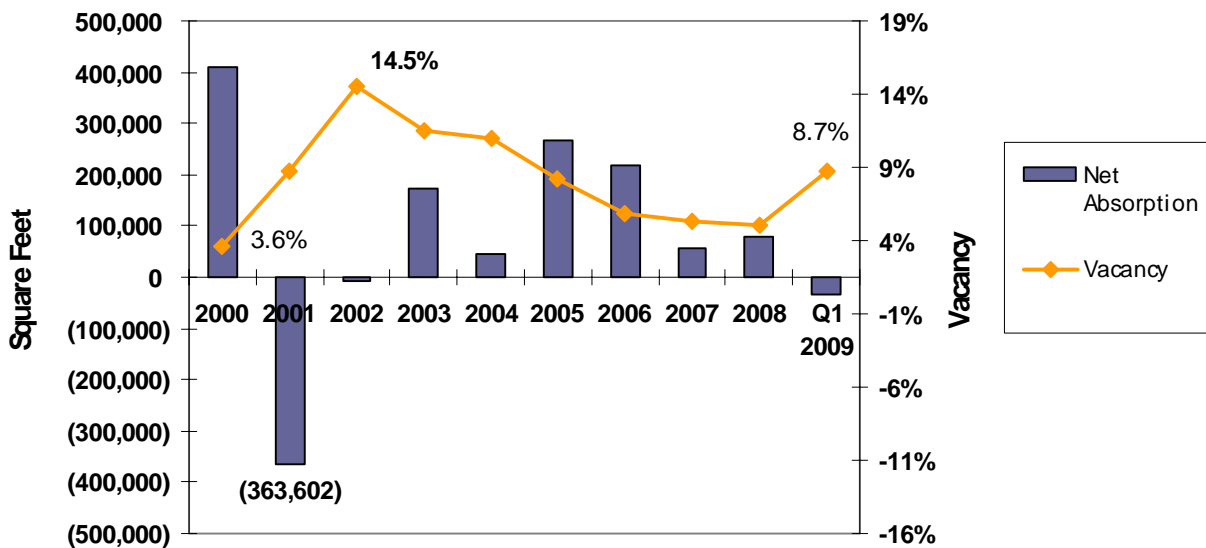
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

Office CBD Class A Direct v. Sublease Availability (Sq. Ft.)



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

CBD Net Absorption (sq. ft.) and Vacancy (%)



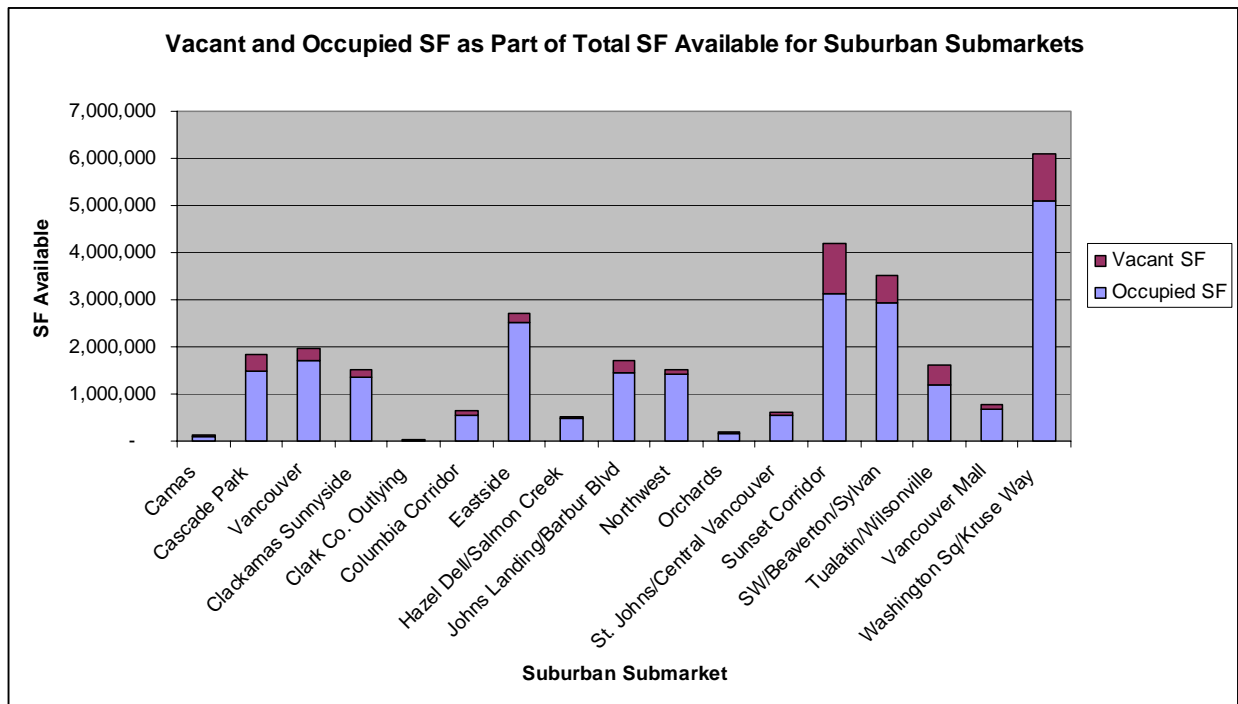
Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

Suburbs:

Most vacancies have been felt in the suburbs, especially southwest. Kruse Way was hit hard, but has seen some leasing activity. According to Norris, Beggs and Simpson, Kruse Way vacancy fell as EthicsPoint leased 22,654 SF at 6000 Meadows. It may be offset by the completion of Kruse Oaks III which will soon add 110,000 SF in the second quarter of 2009. The Tualatin/Wilsonville submarket shows the greatest vacancy rate of 26.1%, although its current vacant square footage of 417,523 SF equals less than half the vacant square footage found in The Sunset Corridor, which had the highest total vacant square footage with 1,062,048 SF currently vacant.

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

Suburban Office Submarkets Ranked by Highest Percent of Vacancy		
Submarket	Rank	Vacancy Rate
Camas	2	25%
Cascade Park	4	18.8%
Vancouver	9	13.2%
Clackamas Sunnyside	12	9.30%
Clark Co. Outlying	7	14.1%
Columbia Corridor	10	12.8%
Eastside	15	7.6%
Hazel Dell/Salmon Creek	17	5.1%
Johns Landing/Barbur Blvd	8	13.9%
Northwest	16	6.7%
Orchards	14	8.4%
St. Johns/Central Vancouver	11	11.6%
Sunset Corridor	2	25.3%
SW/Beaverton/Sylvan	5	16.5%
Tualatin/Wilsonville	1	26.1%
Vancouver Mall	13	8.80%
Washington Sq/Kruse Way	6	16.3%



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

**Major Lease Transactions Q1
2009**

Lessee	Property	Submarket	Size (SF)
Comcast of Tualatin Valley Northwest Evaluation Association	Tektronix Building 48, Bvrtn	Sunset Corridor	118,612
Allstate Corp	121 SW Everett St.	Northwest	104,000
EthicsPoint	Southwest Center	I-5 South	36,912
Tonkon Torp LLP	6000 Meadows	Kruse Way	22,654
Markowitz, Herbold, Glade & Mehlhaf	Pioneer Tower	CBD	62,813
Vestas America	Pacwest Center	CBD	21,024
	Harrison Square	CBD	18,748

Source: Grubb & Ellis, MarketView First Quarter 2009, Norris, Beggs & Simpson, "Market Summaries, Office Report 1Q09",