

Office Market Analysis

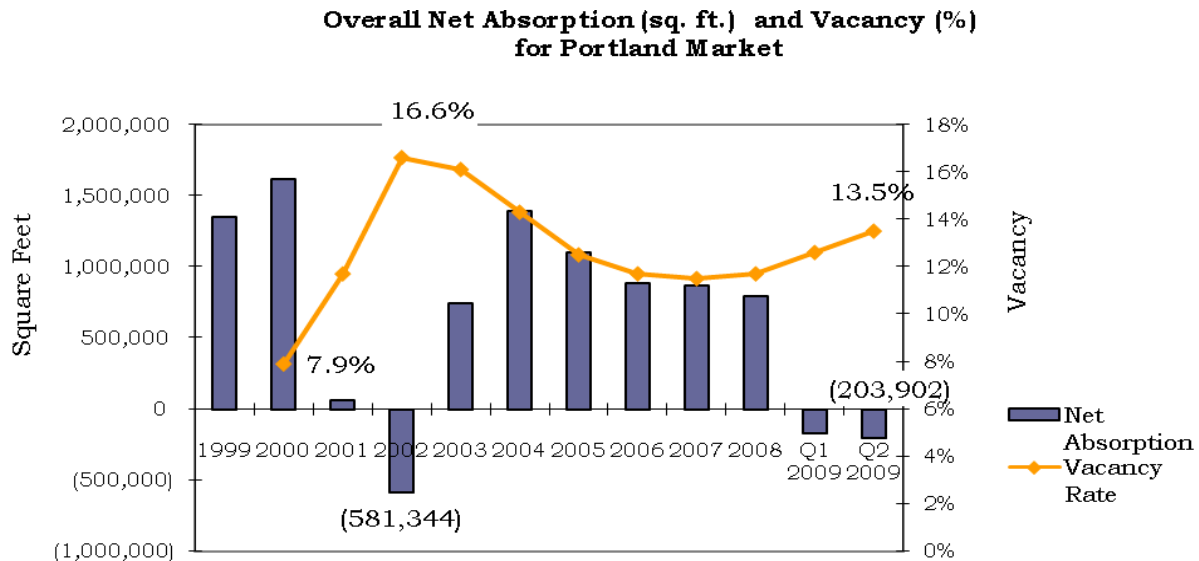
April Chastain, RMLS Fellow & Certificate of Real Estate Development Student

Portland Office Market

Most brokers agree that the office market has worsened this quarter over last, especially in the suburbs, with new projects delivering vacant space to areas that already have high vacancy rates. CB Richard Ellis reports that “Portland’s office market experienced 522,785 SF of negative net absorption, which is the worst on record, surpassing 4Q2001.”

The Portland Business Journal¹ recently reported that Daimler Trucks, formerly Freightliner LLC, wants to sublease 111,409 square feet of office space in Montgomery Park, which it plans to vacate in order to consolidate its remaining office employees at the Swan Island headquarters. The lease expires December 31, 2011. Nautilus Inc. also plans to vacate nearly 400,000 square feet at its headquarters in Vancouver. Both are large, unique spaces, making them hard to lease. However, their vacancy is not expected to decrease asking prices in the area for small office space, as these larger office spaces would attract different tenants.

Displaying some optimism, Grubb & Ellis notes a survey by Moody’s Economy.com² which forecasts that Oregon will be one of the top five states to lead the recovery with its high-tech industries and abundant, highly-educated, young creative class of available employees. Grubb & Ellis also notes the City of Portland’s goal, as spelled out in its recently released five-year economic development plan, of becoming the capital of the global green economy, adding 10,000 jobs over the next five years in specific industries; Clean Tech and Sustainable Industries, Activewear, Software and Advanced Manufacturing.



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

¹ [“Big spaces flood cities”, Portland Business Journal](#)

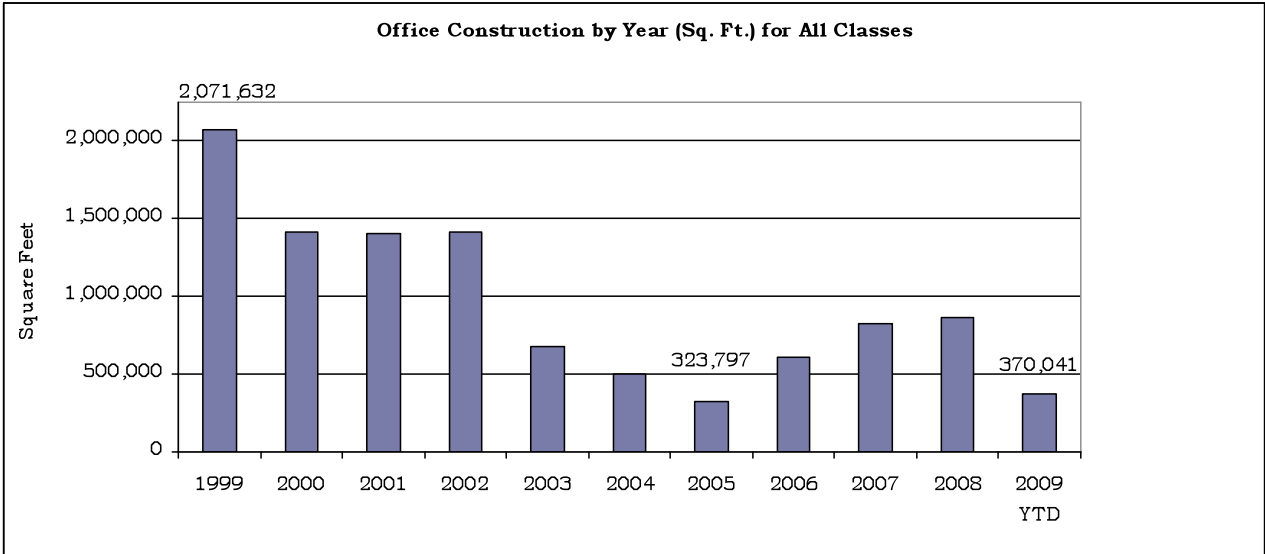
² [Oregon could lead nation out of recession, Moody's says](#)

OFFICE Q2-09³	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	14%	14.9%	14%	16%	14.6%
Previous Quarter	13.0%	14.0%	13.0%	15.0%	13.5%
Second Quarter 2008	10.5%	11.4%	11.3%	13.2%	11.4%
Second Quarter 2007	11.6%	11.3%	12.3%	14.1%	12.0%
CBD and Downtown Vacancy	8.9%	10.9%	8.5%	10.3%	9.6%
Previous Quarter	8.0%	10.2%	8.3%	10.5%	9.3%
Second Quarter 2008	7.8%	9.1%	7.8%	9.8%	8.5%
Second Quarter 2007	8.5%	9.5%	9.1%	12.2%	9.3%
CBD Class A Vacancy		8.6%	6.1%	6.3%	6.3%
Previous Quarter	5.5%	8.3%	6.5%	6.2%	6.4%
Second Quarter 2008	5.3%	6.2%	4.9%	6.5%	5.8%
Second Quarter 2007	4.7%	6.8%	6.8%	5.9%	6.4%
CBD Class A Asking Rents		\$26.20	\$24.68	N/A	\$25.44
Previous Quarter	\$26.89	\$27.62	\$27.02	N/A	\$27.02
Second Quarter 2008	\$27.04	\$26.49	\$25.94	N/A	\$26.49
Second Quarter 2007	\$23.42	\$24.75	\$24.75	N/A	\$24.75
Suburban Vacancy	19.3%	18.7%	18.1%	19.1%	18.9%
Previous Quarter	17.2%	16.7%	15.7%	17.1%	16.9%
Second Quarter 2008	13.0%	13.5%	13.4%	15.0%	13.5%
Second Quarter 2007	14.4%	13.2%	14.2%	16.0%	14.3%
Suburban Class A Vacancy	N/A	20.3%	19.5%	N/A	19.9%
Previous Quarter	N/A	18.3%	17.3%	17.5%	17.5%
Second Quarter 2008	N/A	14.0%	14.9%	N/A	14.5%
Second Quarter 2007	N/A	12.6%	14.1%	N/A	13.4%
Suburban Class A Asking Rents	N/A	\$23.59	\$23.65	N/A	\$23.62
Previous Quarter	N/A	\$22.95	\$23.20	N/A	\$23.08
Second Quarter 2008	N/A	\$24.47	\$24.35	N/A	\$24.41
Second Quarter 2007	N/A	\$23.38	\$23.33	N/A	\$23.36

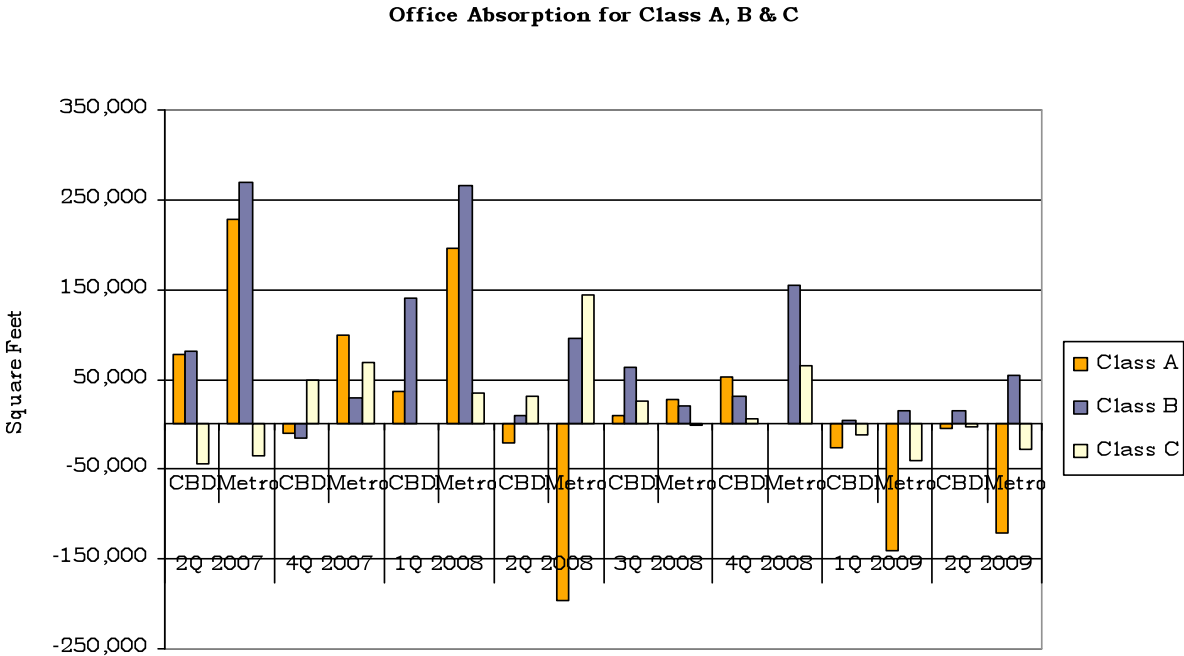
Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports, First Quarter 2009.

³ 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.

According to Grubb & Ellis, over 370,000 SF of newly constructed office space has been delivered to the market so far this year, falling just above the ten-year low point of 323,797 square feet seen in 2005 versus the peak of over two million square feet in 1999. Besides the 766,919 square feet currently under construction in the second quarter, Grubb & Ellis reports a little over 2.4 million square feet of planned or proposed office space.

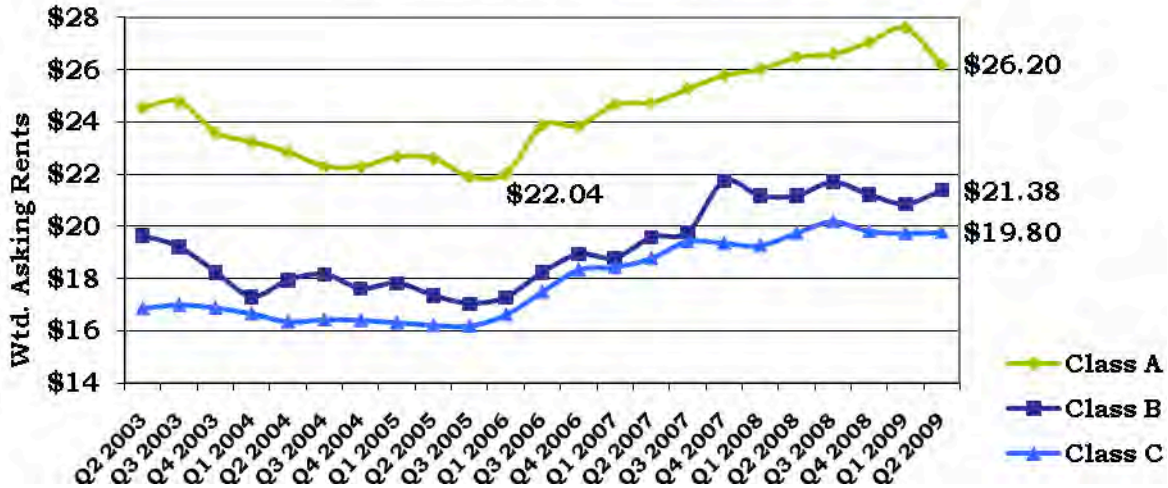


Source: Grubb & Ellis, Co., Office Quarterly Report, Second Quarter 2009 Statistics



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**

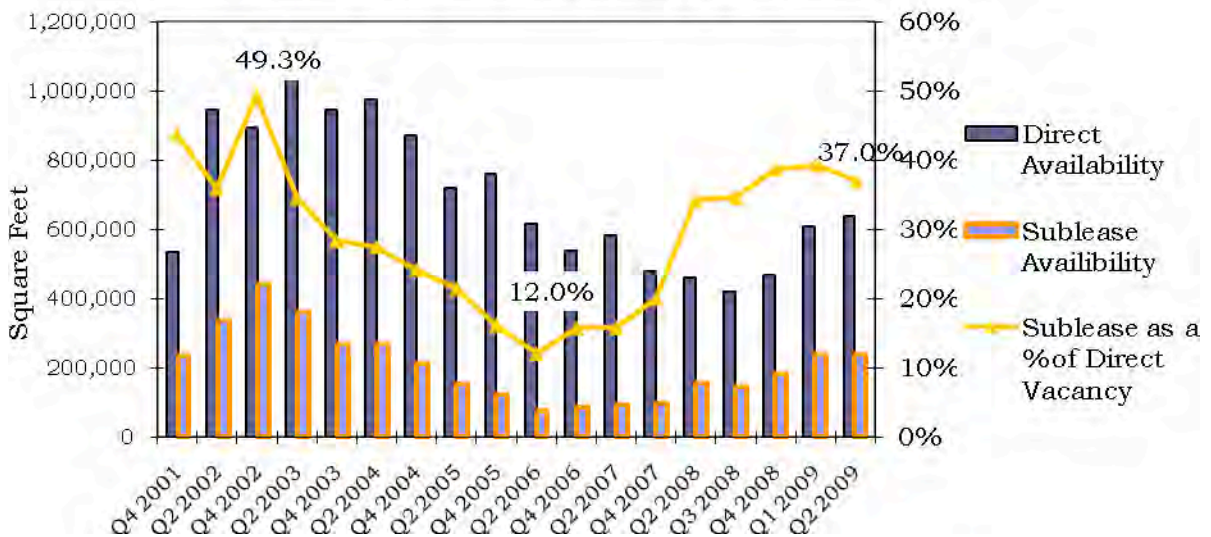


Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Trends

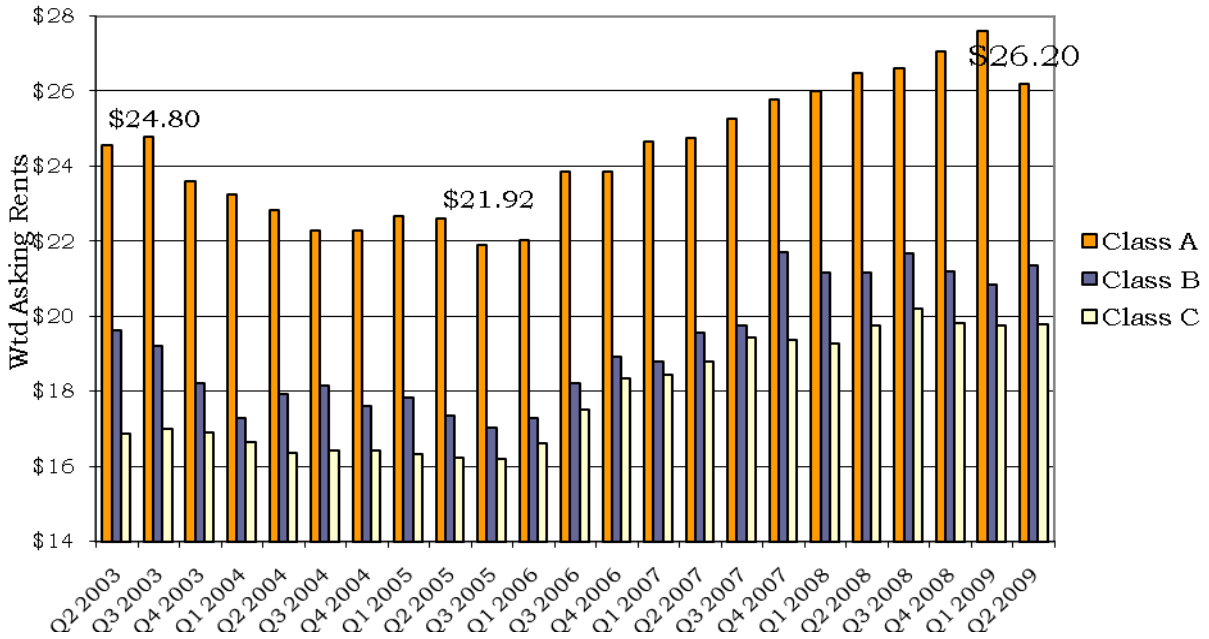
The median Class A vacancy in the CBD actually dropped 0.1 percentage points over last quarter from 6.4% to 6.3%, although asking rents dropped \$1.58 since last quarter. Stable companies are taking advantage of current conditions to take over more space in desirable areas. Sublease availability has leveled off this quarter according to Cushman and Wakefield.

Office CBD Class A Direct v. Sublease Availability



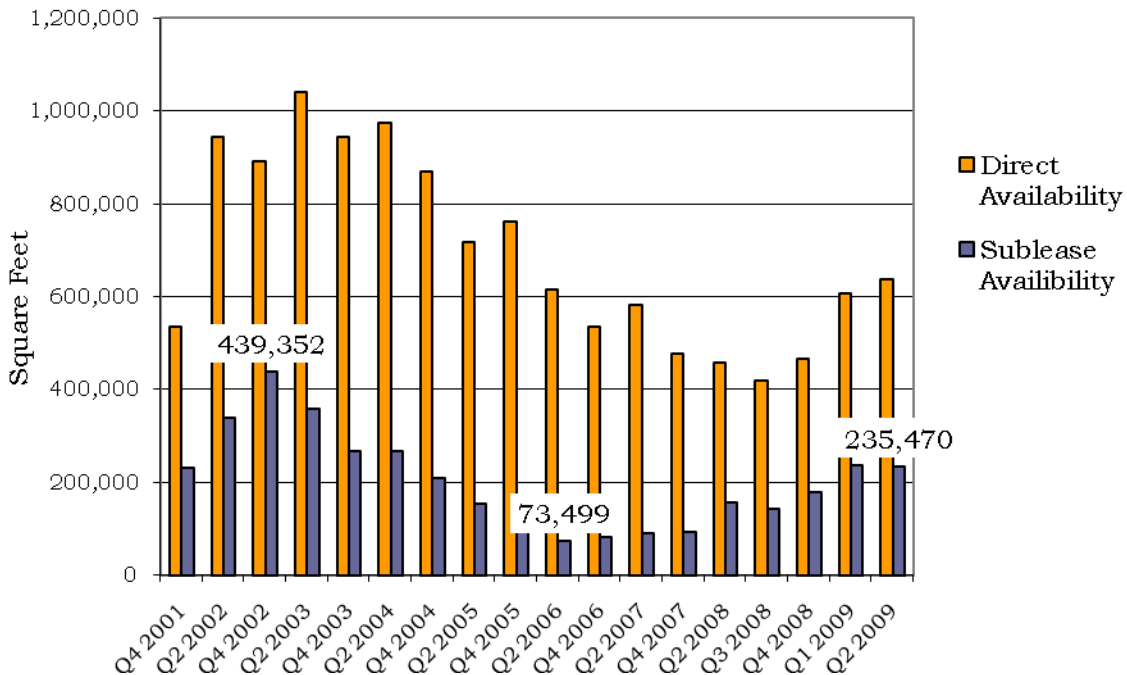
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Direct Rental Asking Rates/sq.ft.



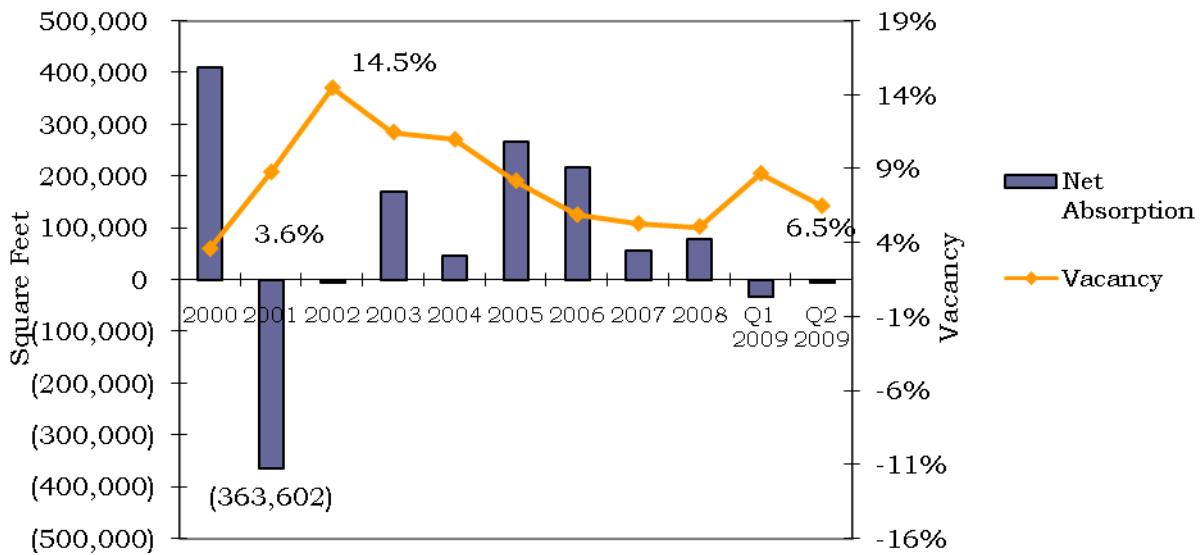
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

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

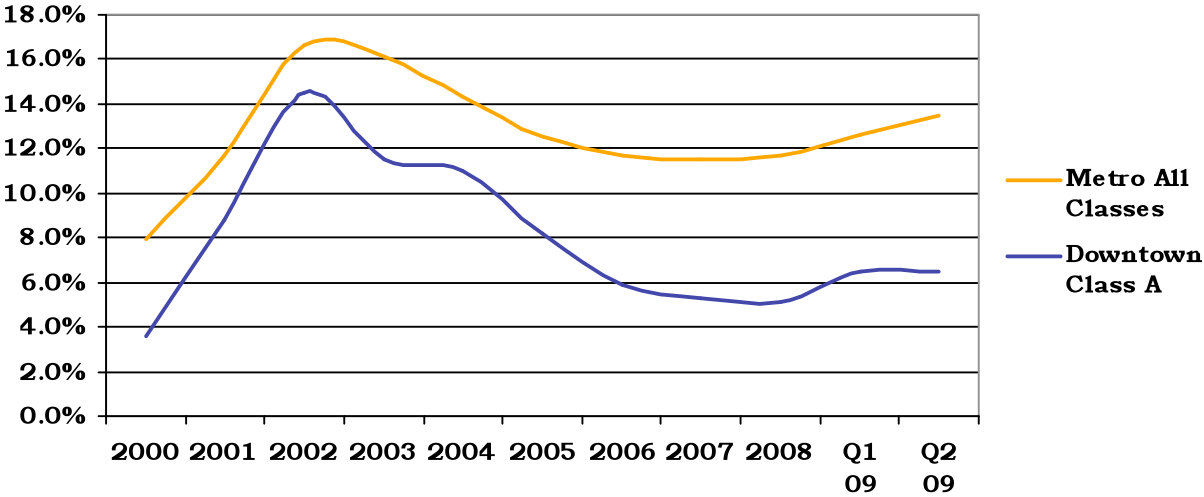
Suburbs:

Most vacancies have been felt in the suburbs, especially southwest. Kruse Way was hit hard, because of the nature of the businesses located there and the completion of Kruse Oaks III, adding a vacant 110,000 SF to the submarket. The Tualatin/Wilsonville submarket still shows the greatest vacancy rate of 26.9%, although its current vacant square footage of 430,302 SF equals only one-quarter the vacant square footage found in The Washington Square/Kruse Way submarket, which now has highest total vacant square footage with 1,653,480 SF currently vacant. According to CBRE, Airport Way also saw an increase in vacancy with the addition of 92,754 SF at Cascade Station II. There is very little new construction in the pipeline with TMT Development halting construction on the Park Avenue West tower. New designs show reduction from 32 to 26 stories (24 office, 4 more than before, and 2 retail) and no condominiums. CBRE reports over six suburban submarkets with over 20% vacancy: Airport Way, Beaverton, Hillsboro, Kruse Way, Tualatin and Washington Square.

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

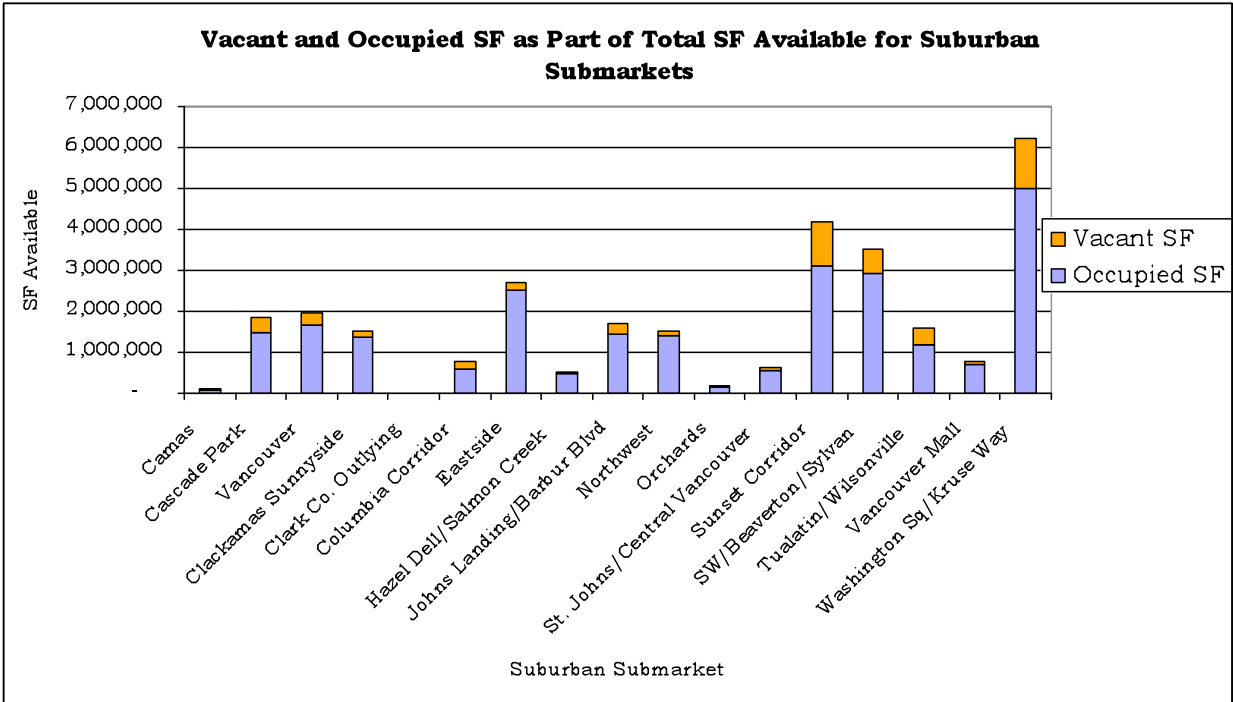
Suburban Office Submarkets Ranked by Highest Percent of Vacancy		
Submarket	Rank	Vacancy Rate
Camas	3	25.3%
Cascade Park	6	18.8%
Vancouver	9	14.7%
Clackamas Sunnyside	14	8.60%
Clark Co. Outlying	11	14.1%
Columbia Corridor	4	23.0%
Eastside	16	7.4%
Hazel Dell/Salmon Creek	17	5.5%
Johns Landing/Barbur Blvd	10	14.5%
Northwest	15	7.9%
Orchards	7	16.8%
St. Johns/Central Vancouver	12	10.7%
Sunset Corridor	2	25.6%
SW/Beaverton/Sylvan	7	16.8%
Tualatin/Wilsonville	1	26.9%
Vancouver Mall	13	9.00%
Washington Sq/Kruse Way	5	19.6%

**Office Vacancy:
Metro Wide All Classes v. CBD Class A**



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

Vacant and Occupied SF as Part of Total SF Available for Suburban Submarkets



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

Major Lease Transactions Q2 2009

Lessee	Property	Submarket	Size (SF)
Ashmead Education (renewal)	Plaza West Building	Tigard	20,646
ADP, Inc (renewal)	ADP Plaza	CBD	115,180
Corvel	ODS Tower	Southeast	21,664
Genesis Financial Solutions (renewal)	Creekside Corporate Park	Beaverton	27,862
Health Net Health Plan of OR (renewal)	Triangle Corp Park III	Tigard	54,579
Kaiser Permanente	Murray Scholls Town Center	Beaverton	17,795
Northwest Area Indian Health Board	Broadway Plaza	CBD	16,792
Papa Murphy's International	Clark Center Building	Vancouver	24,267
SAIF	1500 SW First Ave	CBD	32,726
West Coast Bank	5000 Meadows	Kruse Way	16,044

Source: CB Richard Ellis, MarketView Second Quarter 2009 Office Report, Norris, Beggs and Simpson, "Market Summaries 2Q09", Cushman and Wakefield, "MarketBeat 2Q09", Grubb & Ellis, "Office Trends Report 2Q09"