

Office Market Analysis

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Portland Office Market

The office market in Portland’s CBD is faring better than most across the country. Grubb & Ellis consistently ranks Portland in the top 10 cities for current real estate investment for office (2nd/60), industrial (9th/55), retail (10th/53) and multi-family housing (9th (tied)/56). It ranked second behind Washington D.C., in office investment potential, out of 60 markets evaluated by Grubb & Ellis.

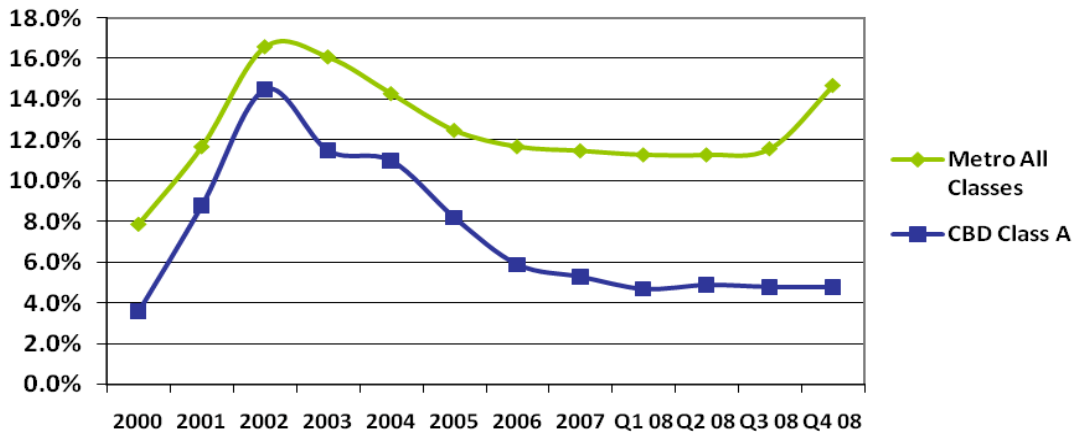
U.S. OFFICE MARKET STRENGTH FORECAST

Top 10 Markets 2009 – 2013*

United States	Overall Score*	Rank
Washington, D.C.	74.5	1
Portland, Ore.	68.4	2
Los Angeles County, Calif.	68.0	3
San Francisco	66.5	4
Austin, Texas	65.1	5
Dallas	63.4	6
Houston	62.2	7
Raleigh-Durham, N.C.	61.5	8
Boston	59.9	9
Oakland/East Bay, Calif.	57.1	10

*Markets were ranked from 0 to 100 against 13 property, economic and demographic variables. Source: Grubb & Ellis, “Press Release Jan. 5, 2009”.

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



Source: Grubb & Ellis, Co., Office Quarterly Reports 2008 Statistics and 2009 Real Estate Forecast

OFFICE	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	10.5%	12.6%	11.7%	12.9%	12.2%
Previous Quarter	10.7%	11.9%	11.6%	13.4%	11.8%
Fourth Quarter 2007	10.8%	11.7%	11.5%	12.8%	11.6%
Fourth Quarter 2006	11.2%	12.60%	11.70%	12.90%	12.2%
CBD and Downtown Vacancy	6.6%	8.7%	5.1%	9.3%	7.6%
Previous Quarter	7.6%	8.5%	7.6%	9.0%	8.1%
Fourth Quarter 2007	8.0%	9.4%	8.2%	10.1%	8.8%
Fourth Quarter 2006	8.8%	10.70%	9.30%	10.70%	10.0%
CBD Class A Vacancy	3.8%	6.4%	5.1%	5.4%	5.3%
Previous Quarter	4.6%	5.6%	4.8%	5.6%	5.2%
Fourth Quarter 2007	4.9%	4.9%	5.3%	5.5%	5.1%
Fourth Quarter 2006	5.0%	6.30%	5.90%	N/A	5.9%
CBD Class A Asking Rents	\$26.63	\$27.07	\$26.80	\$15 to \$31.50	\$26.80
Previous Quarter	\$26.91	\$26.61	\$26.48	N/A	\$26.61
Fourth Quarter 2007	\$24.68	\$25.79	\$25.57	\$24.22	\$25.13
Fourth Quarter 2006	N/A	\$23.10	\$23.60	N/A	\$23.35
Suburban Vacancy	14.1%	16.3%	15.2%	16.2%	15.7%
Previous Quarter	13.6%	15.3%	14.0%	15.6%	14.7%
Fourth Quarter 2007	13.4%	13.9%	14.8%	14.5%	14.2%
Fourth Quarter 2006	13.7%	14.60%	13.40%	13.83%	13.8%
Suburban Class A Vacancy	N/A	16.3%	15.2%	17.0%	N/A
Previous Quarter	N/A	15.8%	15.6%	N/A	15.7%
Fourth Quarter 2007	N/A	14.4%	14.6%	N/A	14.5%
Fourth Quarter 2006	N/A	14.8%	8.6%	N/A	11.7%
Suburban Class A Asking Rents	N/A	\$24.48	\$23.69	\$16.50 to \$33	\$24.09
Previous Quarter	N/A	\$24.46	\$24.11	N/A	\$24.29
Fourth Quarter 2007	N/A	\$24.38	\$24.25	N/A	\$24.32
Fourth Quarter 2006	N/A	\$22.54	\$24.55	N/A	\$23.55

Source: CB Richard Ellis, Cushman and Wakefield, Grubb & Ellis, Norris, Beggs & Simpson

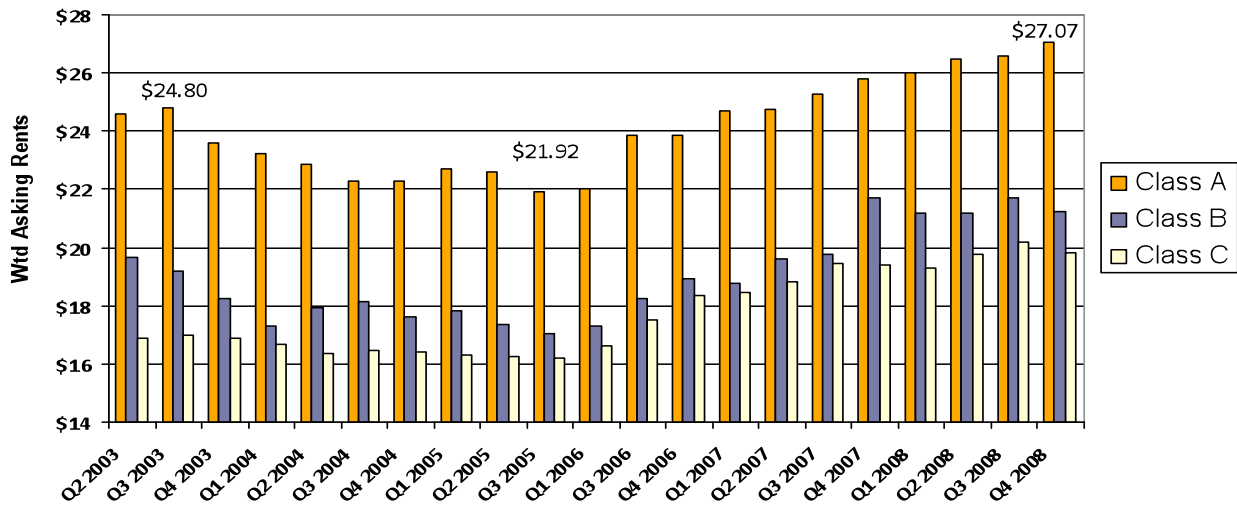
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¹ Vacancy rates above include subleases except those reported by CBRE. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.

Central Business District

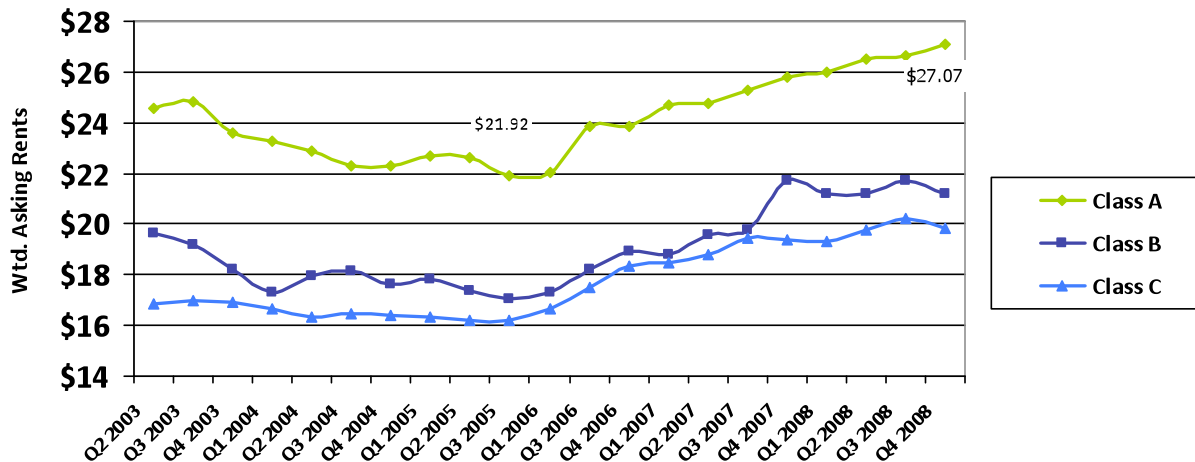
It may be surprising that asking rents have continued to rise in the CBD, even though the market is softening. Large tenants may not have many options downtown for a couple of years, as most of the new office space has been absorbed. According to Cushman & Wakefield, the CBD's overall absorption remains positive at 264,696 square feet and Class A asking rents have actually increased from \$26.61 per square foot in the third quarter to \$27.07 in the fourth quarter. Rates have increased \$5.15 since the low point in the third quarter of 2005. However, both Cushman & Wakefield and Grubb & Ellis see the office market at a turning point, going from a landlord's market to a tenant market, where proactive managers are starting to make more concessions, while trying to keep rental rates steady.

CBD Direct Rental Asking Rates/sq.ft.



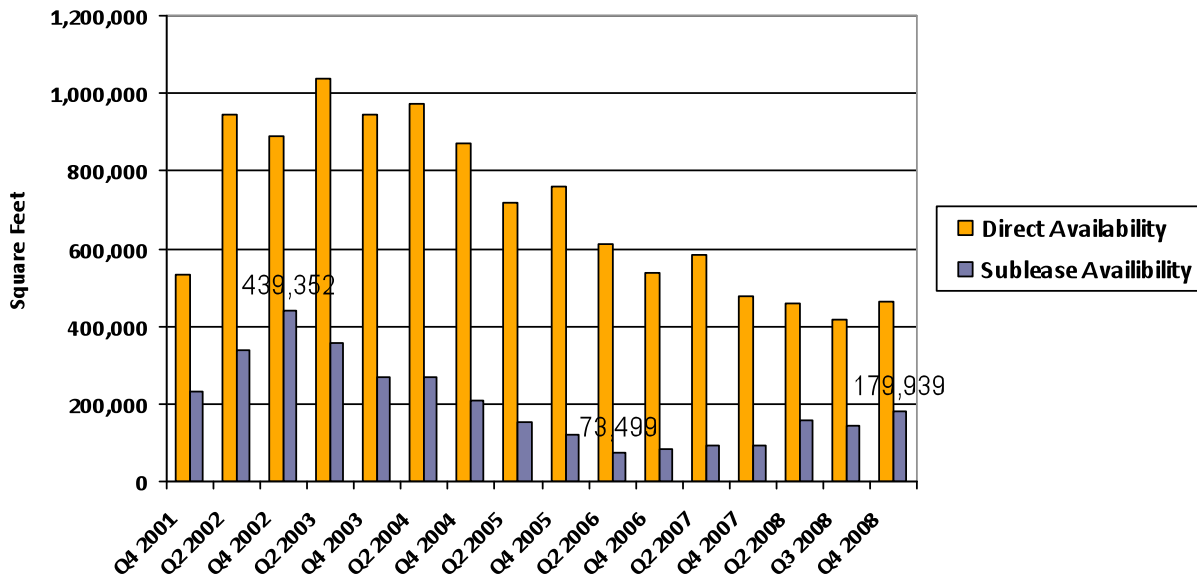
*Source: Cushman & Wakefield, Quarterly 2008 Market Updates Portland, Oregon Office & Industrial Markets

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



*Source: Cushman & Wakefield, Quarterly 2008 Market Updates Portland, Oregon Office & Industrial Markets

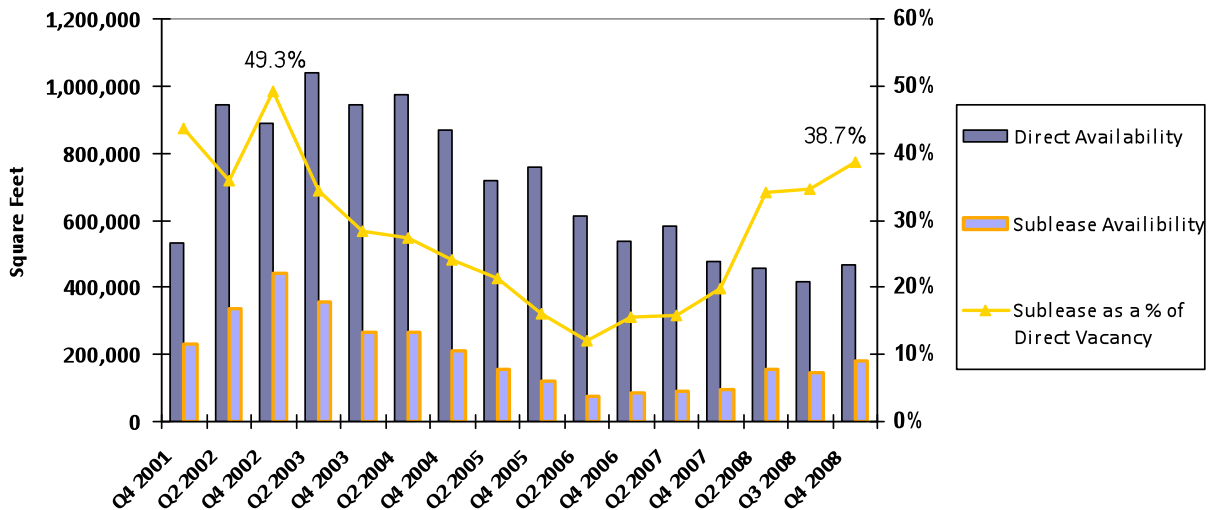
Office CBD Class A Direct v. Sublease Availability (Sq. Ft.)



*Source: Cushman & Wakefield, Third Quarter 2008 Market Update Portland, Oregon Office & Industrial Markets

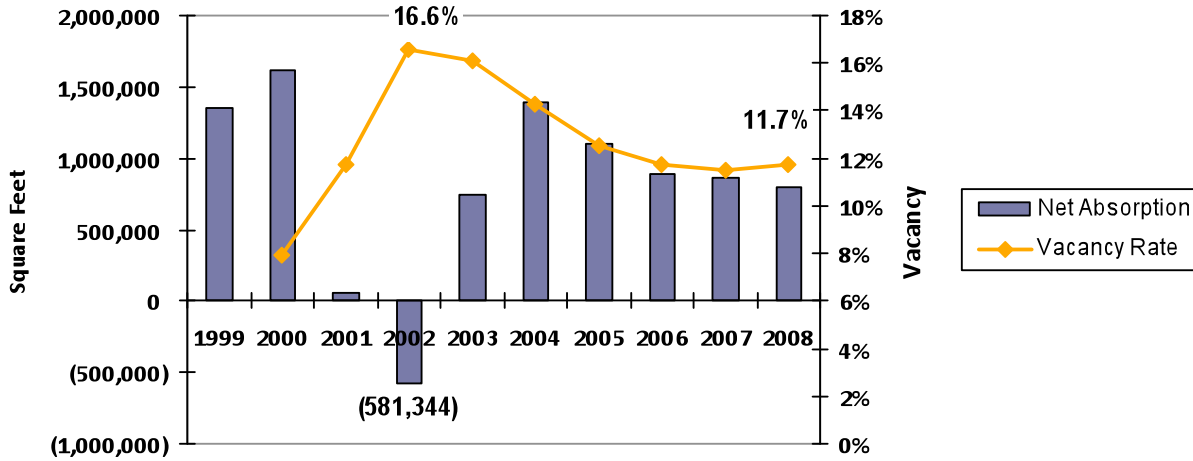
As reported by Cushman and Wakefield, sublease space as a percentage of the direct availability has continued to increase in the CBD, and is up from 19.9% in the fourth quarter of 2007 to 38.7% in the fourth quarter of 2008, with 179,939 square feet available for sublease. However, it is still well below the peak seen in the fourth quarter of 2002 when it reached 49.3%

Office CBD Class A Direct v. Sublease Availability



*Source: Cushman & Wakefield, Third Quarter 2008 Market Update Portland, Oregon Office & Industrial Market

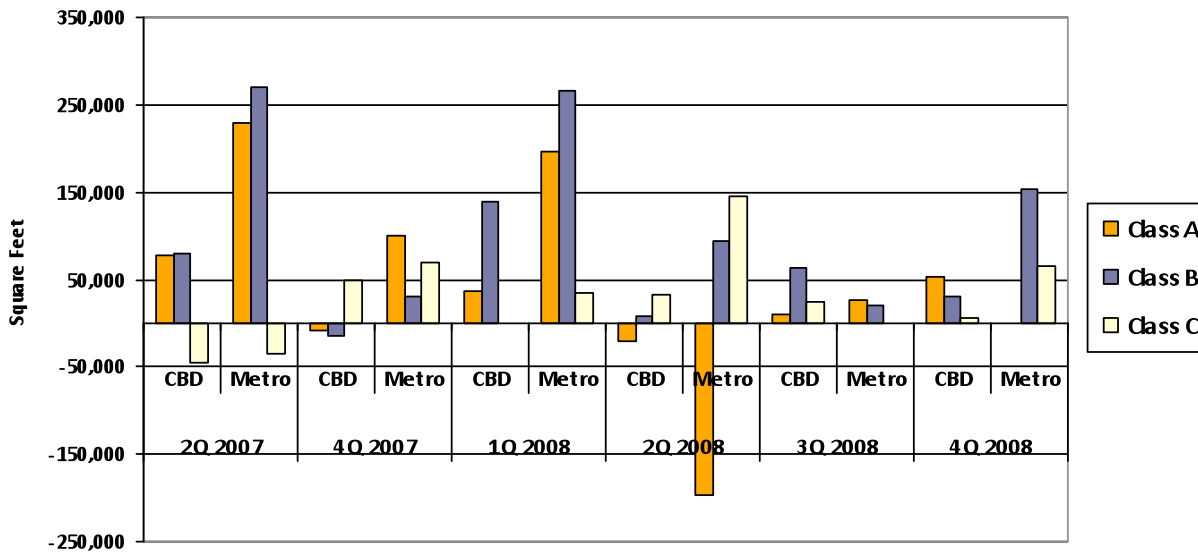
Overall Net Absorption (sq. ft.) and Vacancy (%) for Portland Market



*Source: Grubb & Ellis, Co., Office Quarterly Report, Fourth Quarter 2008 Statistics

According to Grubb & Ellis, the overall net absorption remains positive at a total of 795,117 square feet, which was just shy of the ten year average absorption rate of 800,000 square feet. The vacancy rate of 11.7% remains below the 16.6% peak seen in 2002. It also reports an almost static Class A office absorption of 734 square feet during the fourth quarter in the metro-wide area. The CBD remains positive counterbalancing the negative absorption seen in certain submarkets in the suburbs.

Office Absorption for Class A, B & C



Source: Grubb & Ellis, Co., Office Quarterly Report, Second, Third, Fourth Quarter 2008 Statistics

Suburbs

Most vacancies are felt in the suburbs, especially southwest. Kruse Way has been hit hard because of the nature of the financial businesses located there. This trend is expected to continue into 2009 with the expected first quarter addition of 115,000 square feet at Kruse Oaks III. The Sunset corridor experiences an even greater vacancy rate of 22.3%, although the total vacant square footage is only slightly less than that of the Kruse Way/Washington Square submarket. The Tualatin/Wilsonville submarket shows the greatest vacancy rate of 27.3%, although its current vacant square footage of 436,289 square feet equals only half the vacant square footage found in Kruse Way.

Total Vacancy for Select Suburban Submarkets

Submarket	Market Size (Sq. Ft.)	2Q 08 Vacancy	3Q 08 Vacancy	4Q 08 Vacancy	% change	Current Vacancy Square Footage
Washington Square/ Kruse Way	5,955,954	13.8%	13.5%	14.7%	-8.9%	873,396
Sunset Corridor	3,721,895	21.2%	22.3%	22.3%	0.0%	831,548
Beaverton	3,484,188	17.2%	16.9%	15.4%	8.9%	537,153
Eastside	2,102,026	6.7%	8.2%	8.2%	0.0%	171,363
Johns Landing/Barber Blvd.	1,679,436	13.3%	14.2%	13.1%	7.7%	219,213
Tualatin/Wilsonville	1,600,522	21.9%	28.7%	27.3%	4.9%	436,289

Source: Grubb & Ellis, Co., Office Quarterly Report, Second, Third, Fourth Quarter 2008 Statistics

Major Lease Transactions Q4 2008

	Lessor/Agent	Property	Submarket	Size (SF)
Stoel Rives	TMT Development	Park Avenue West	CBD	157,000
Nike	BRCP	Evergreen Corporate Ctr	Sunset Corridor	75,010
Jive Software	Harsch Investment	The Reserve	CBD	37,667
Ater Wynne LLP	Unico Properties	The Lovejoy	CBD	36,336
Tripwire	RREEF	One Main Place	CBD	36,000
Heald College	BB&S Development	6035 NE 78th Court	Airport Way	39,600
ITT Tech	Trammell Crow	Cascade Station	Airport Way	34,029
Multnomah County	Norris & Stevens	Columbia Pacific Plaza	North/Northeast	27,243
Evraz, Inc	TMT Development	1000 Broadway Building	CBD	15,962
David Rothwell	Unico Properties	US Bancorp Tower	CBD	12,855

Source: Grubb & Ellis, "2009 Real Estate Forecast", Norris, Beggs & Simpson, "Market Summaries 4Q08",
Cushman and Wakefield, "MarketBeat 4Q08"