Economic market report

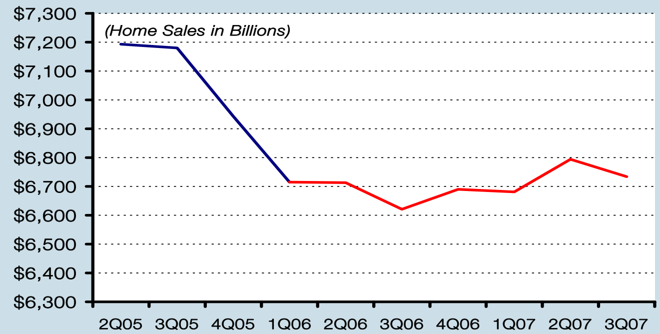
PORTLAND METRO AREA

First Quarter 2006

NATIONAL HIGHLIGHTS

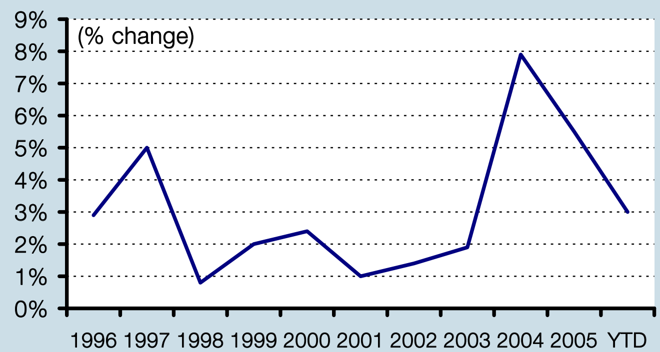
- Benjamin S. Bernanke presented the Humphrey Hawkins testimony in February to Congress. His testimony held few surprises. He noted the risks of further inflationary pressure and made clear that more interest-rate hikes may be necessary. He also admitted that the housing market could "decelerate more rapidly" than expected, but seemed unconcerned about a housing bust. His overall testimony was positive and upbeat concerning the economy and in response, markets moved up a notch and Congress was impressed by the new Federal Chairman's candor and confidence.
- National unemployment fell to its lowest rate since July 2001 in January at 4.7% and rose just slightly to 4.8% in February. Businesses added 243,000 jobs and wages rose 0.3%. On the flip side, productivity, as measured by output per hour, fell at an annual rate of 0.6%, the first drop since the First Quarter of 2001.
- The forecast from the National Association for Business Economics had gross domestic product growing at a healthy 4.5% annual rate from January through March. This positive prognosis comes on the heels of a dismal Fourth Quarter in which growth occurred at a sluggish 1.1% pace as part of the aftermath of hurricanes Katrina and Rita.

NATIONAL HOMES SALES OUTLOOK



Source: National Association of Realtors

NATIONAL BUILDING COST COMPARISON

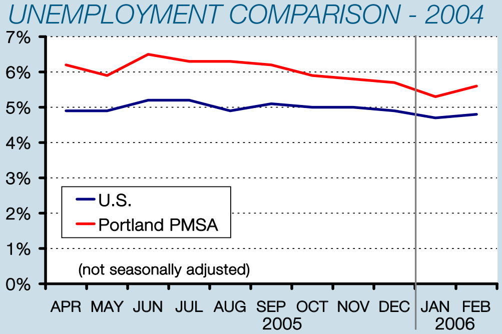


Source: Engineering News-Record.com

LOCAL HIGHLIGHTS

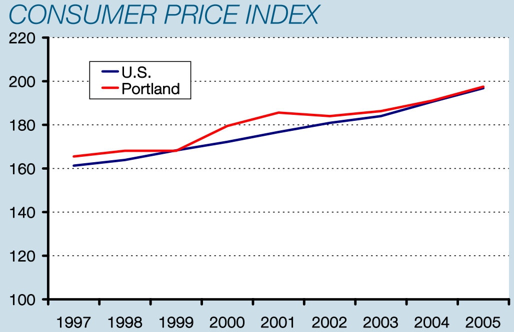
- The cost of building materials will continue to rise through 2006. Shortages of steel, cement, lumber and oil-related products are contributing to prohibitive construction costs. The effects have delayed construction on existing projects and new projects have been put on hold for rebudgeting.
- MidAmerican Energy Holdings Co.'s $9.4 billion buyout of PacifiCorp from Scottish Power was approved by the Oregon Public Utility Commission on February 24th. PacifiCorp is Oregon's second-largest regulated utility after Portland General Electric and serves 535,000 customers in the state. Among the deal's key provisions, MidAmerican pledged to keep the company's headquarters in Oregon, allocate $140 million in rate credits and commit to renewable energy and low-income energy assistance.

UNEMPLOYMENT COMPARISON - 2004



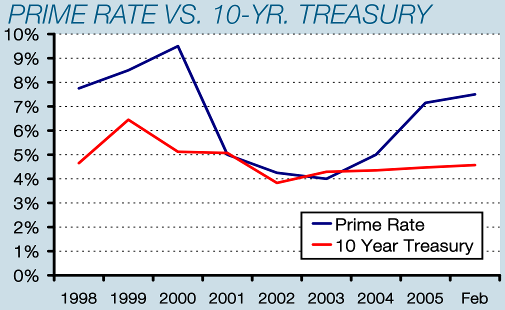
Source: U.S. Department of Labor; Oregon Employment Department

CONSUMER PRICE INDEX



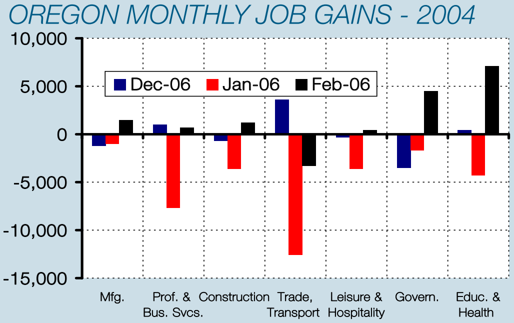
Source: Bureau of Labor Statistics

PRIME RATE VS. 10-YR. TREASURY



Source: U.S. Treasury Department, Federal Reserve

OREGON MONTHLY JOB GAINS - 2004



Source: Oregon Employment Department

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Office market report

PORTLAND METRO AREA

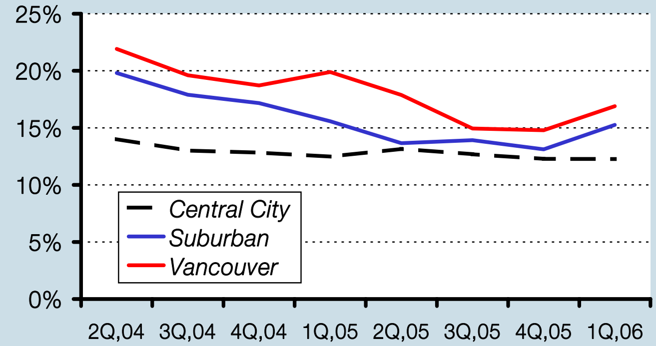
First Quarter 2006

NOTE: A reassessment of submarket and property definitions has created changes in our office report. Submarket boundaries have been realigned and properties have been reexamined to determine if they are in the correct property category, resulting in a shift of inventory.

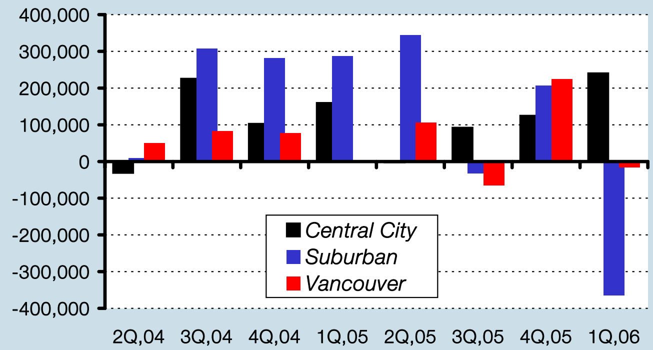
MARKET HIGHLIGHTS

- The Central City office market absorbed 241,031 square feet (sf) in the First Quarter of 2006. 83,742 sf of Class A inventory was absorbed in the Central Business District (CBD). More than 47,000 sf was occupied in US Bancorp Tower in a number of leases. Likewise, Class B inventory in the Northwest office submarket was dominated by the 90,926 sf absorbed in the Montgomery Park building. The occurrence of more than 200,000 sf of absorption is significant and upholds the belief that 2006 will continue the strong real estate activity of 2005. Already, 2006's first quarter absorption rate is more than half of 2005's year-end total.
- The readjustment of the suburban market has added 994,320 sf to the total inventory. With the addition of this extra square footage, the vacancy rate crept up to 15.26%, but very little sublease space is available on the market. New construction and higher rates are occurring in tight submarkets including the Kruse Oaks II development in Kruse Way, and Stafford Commons and Summerlin Center developments in Lake Oswego/West Linn. Kruse Way and Lake Oswego/West Linn boast vacancy rates of 6.11% and 7.38% respectively, and an average Class A rate of $24.11 and $19.49.
- The Vancouver market was also affected by the adjustments, adding 262,869 sf to its inventory. The market's 16.9% vacancy rate is misleading. There are only four Class A properties available that can provide more than 10,000 sf. In fact, the vacancy rate for Class A space is in single digits at 9.91%. This has elevated competition for premium space and kept pressure on rates, which have risen from $19.02 last quarter to $19.56 this quarter.

VACANCY COMPARISON



ABSORPTION COMPARISON



SIGNIFICANT DEALS

- **Evergreen Corporate Center, LLC,** in Hillsboro sold the approx. 314,000 sf Evergreen Corporate Center to **BRCP Realty, LP,** for $25.1 million.
- Raleigh West Executive Building & Shopping Center (58,000 sf of Office space and 73,723 sf Retail) in Portland was sold by **Prologis** to **Carlyle Investment Company** for $11.4 million.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
*Central City**					
Central Business	14,250,594	1,699,872	11.72	155,043	0
Lloyd	2,087,070	249,421	11.95	(9,733)	0
Northwest	2,427,050	383,984	15.82	95,721	0
TOTAL	18,764,714	2,303,277	12.27	241,031	0
*Suburban**					
Central 217	1,673,040	306,557	18.32	(82,916)	0
Southern 217	940,876	71,477	7.60	20,657	0
Barbur Boulevard	581,268	94,191	16.20	(585)	0
Beav-Hillsdale/Sylvan	773,809	156,300	20.20	(18,856)	0
Central 205	1,215,433	191,253	15.74	(40,225)	0
Central Beaverton	623,431	113,151	18.15	13,317	0
I-5 South	1,662,225	189,317	11.39	(43,671)	44,000
Kruse Way	2,068,258	126,472	6.11	(42,756)	107,490
Lake Oswego/West Linn	506,935	37,390	7.38	10,674	81,000
North/Northeast	896,532	147,827	16.49	(16,582)	99,558
Southeast	656,253	128,722	19.61	(93,127)	30,000
Sunset Corridor	3,151,750	730,836	23.19	(85,641)	0
SW Waterfront/Johns Lndg	1,105,097	125,683	11.37	16,153	96,549
TOTAL	15,854,911	2,419,176	15.26	(363,558)	458,597
Vancouver	3,459,311	584,648	16.90	(16,085)	172,477

**Additions and Subtractions to the numbers above are in our detailed report.*
***Numbers only reflect direct space.*

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Industrial/Flex
market report
PORTLAND METRO AREA

First Quarter 2006

NOTE: A reassessment of submarket and property definitions has created changes in our industrial/flex report. Submarket boundaries have been realigned and properties have been reexamined to determine if they are in the correct property category, resulting in a shift of inventory.

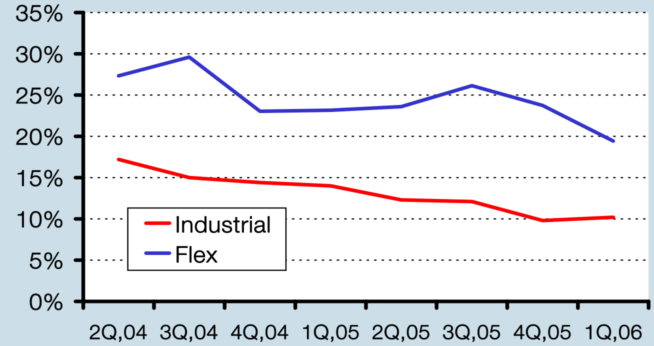
MARKET HIGHLIGHTS

- We saw steady progress in the industrial market, with most submarkets showing either moderate improvement in vacancy and absorption or holding steady. The largest submarket, North/Northeast has finally entered the single-digit vacancy realm at 9.6%. Vacancy remains high in the Southwest 217 and Southwest Sunset submarkets at 18.7% and 23.6% respectively, however these vacancy rates have not increased over the last few quarters.
- The Vancouver market started 2006 robustly, absorbing 48,035 square feet (sf). With approximately half a million square feet available and only three properties capable of providing 50,000 sf or more, the market is looking towards new development.
- The Flex market saw a decrease in vacancy to 19.43% from 23.47% this quarter. Several factors contributed to this drop including positive absorption in Omark Business Center I and Nimbus Oaks Business Center, as well as competitively low vacancy rates in submarkets like Southwest 217 at 12.92% and Southwest I-5 at 12.65%.

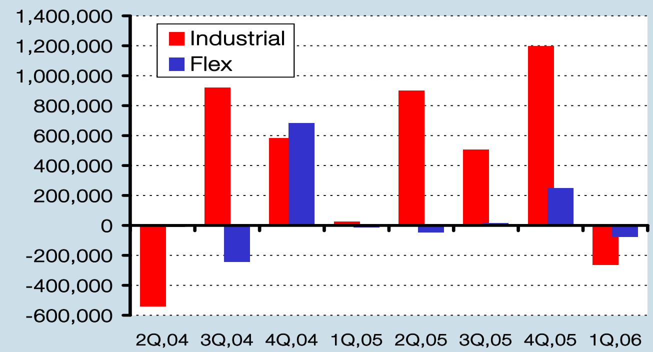
MARKET TRENDS

- Rising interest rates are starting to affect sales in the industrial market. In correlation with this, leasing activity is increasing. With the limited number of large space options in the inventory, rates have been rising and new development is on the horizon. Examples of this include the Prologis Park development along NE Marine Drive, which will add 2 new buildings, 219,000 sf in Spring 2006. Likewise, Bybee Lake Logistics Center was approved to build a second distribution center in the Rivergate Industrial District.

VACANCY COMPARISON



ABSORPTION COMPARISON



SIGNIFICANT DEALS

- **Leavitt-Wolff Hillsboro Holdings** purchased 5445 NE Dawson Creek Drive in Hillsboro, 81,082 sf for $20.125 million.
- **Becker Trucking** subleased 54,587 sf at PDX East, 15617 NE Airport Way in Portland.
- **DePaul Industries** leased 54,193 sf at Hayden Island Commerce Center, in Portland.
- **Marjack Co** leased 33,969 sf at Holeman Distribution Center, 10755 SE Jennifer St, Clackamas.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
*Industrial & Business Parks**					
North/Northeast	16,690,011	1,605,611	9.60	6,611	1,014,983
Northwest	1,612,488	106,276	6.60	(9,311)	0
Southeast	5,742,637	545,050	9.50	(32,645)	272,916
Southwest 217	3,129,225	586,011	18.70	(372,940)	0
Southwest I-5	7,688,020	601,986	7.80	27,126	320,324
Southwest Sunset	2,936,874	693,677	23.60	70,371	50,000
Vancouver	8,138,695	553,298	6.80	48,035	383,675
TOTAL	45,937,950	4,691,909	10.20	(262,743)	2,041.898
*Flex**					
North/Northeast	354,320	104,589	29.52	(158)	n/a
Southeast	145,704	31,100	21.34	1,883	n/a
Southwest 217	2,360,307	305,052	12.92	2,111	n/a
Southwest I-5	1,174,439	148,508	12.65	(16,489)	n/a
Southwest Sunset	5,517,697	1,279,968	23.20	(87,327)	n/a
Vancouver	728,969	127,966	17.55	25,670	n/a
TOTAL	10,281,436	1,997,183	19.43	(74,310)	n/a

** Additions and Subtractions to the numbers above are in our detailed report.*
*** Under construction numbers for industrial also include flex buildings.*

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Retail market report
PORTLAND METRO AREA

First Quarter 2006

MARKET HIGHLIGHTS

- The retail market remains extremely tight as vacancy rates continue to be below the 5% mark. At 4.6%, the market saw positive absorption in 122nd/Gresham, Southwest and Central City submarkets. Sunset Corridor negatively absorbed 79,548 square feet (sf), but only slightly impacted the vacancy rate in this submarket which went from 2.4% last quarter to 4.2% this quarter.
- With such low vacancy in all submarkets over several quarters, there is high demand for new retail development to further attract national retailers. 1,228,341 sf is currently under construction and 1.5 million sf of proposed space is being reviewed. This is great news for retailers, but some areas, such as the Central City submarket, will have a hard time finding space to develop into retail.

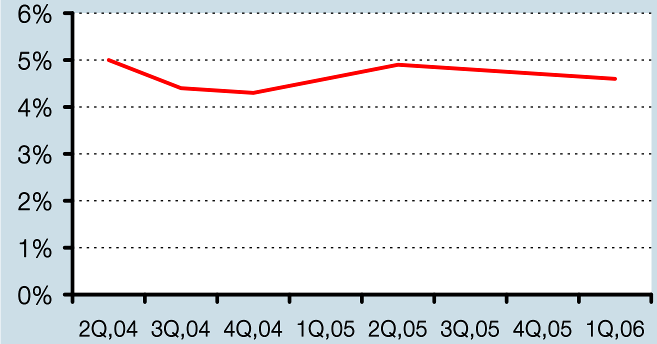
NOTEWORTHY NEWS

- The Westfield Group, owner of Westfield Shopping Town in Vancouver, purchased the local Mervyns building and site, along with four others in its malls, consummating a deal worth $46.5 million. The California-based Mervyns chain will close its anchor store and 18 others in Washington and Oregon. The Westfield Group will gain 82,000 sf on two floors within the Westfield Vancouver mall.
- In March, Clackamas Town Center initiated an expansion that will include 250,000 sf of retail space, two open-air plazas, a remodeled food court, a movie theater and an 850-space parking structure. The purpose for the expansion is to welcome the I-205 light rail. The I-205 Light Rail Project is phase 1 of the South Corridor Project and will add 6.5 miles of MAX tracks and 8 stations between the Gateway Transit Center and Clackamas Town Center.

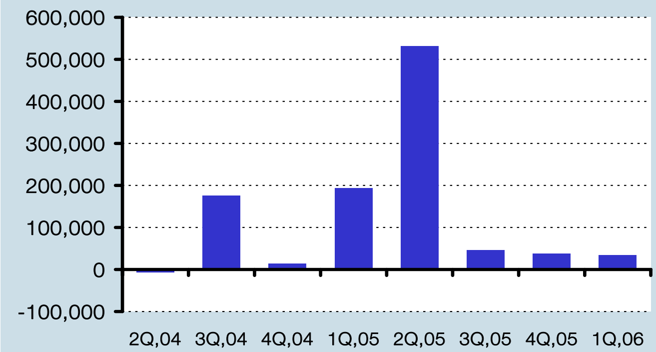
SIGNIFICANT DEALS

- **Gresham Investors** purchased 16,338 sf at 2044-2099 Northeast Burnside Street in Gresham for $4.266 million from **Tempus Properties**.
- **Little Chapel Properties** purchased a 10,119 sf retail building at 430 North Killingsworth in Portland for $525,000 from **Uniservice Corp**.

VACANCY COMPARISON



ABSORPTION COMPARISON



- **First and Last, Inc.,** leased 1,500 sf at South View Center in Vancouver, Washington.
- **JQR Development Group of Oregon, LLC,** has leased 4,627 sf at 13 Northwest 23rd Place in Portland.
- **D'Ambrosio & Associates, LLC,** leased 6,161 sf at The Crossing at Gresham Station in Gresham.
- **Tuesday Morning** leased 9,753 sf in Gresham Square on 56 Northwest Burnside from Gresham Square.
- **A-Boy Supply Co. Inc.,** leased 6,500 sf at 2617 Northwest Vaughan Sreet in Portland.

MARKET SUMMARY

*Retail**

SUBMARKET	INVENTORY	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,474,796	379,550	6.9	60,390	255,230
Central City	2,570,772	107,073	4.2	22,547	28,500
Southeast/E. Clackamas	5,199,976	102,792	2.0	6,102	64,419
Eastside	4,720,663	238,230	5.0	(6,061)	138,488
Sunset Corridor	4,842,491	204,247	4.2	(79,548)	40,000
Southwest	9,485,670	422,168	4.5	40,596	44,300
Vancouver	7,217,045	364,582	5.1	(9,757)	657,404
TOTAL	39,511,413	1,818,642	4.6	34,269	1,228,341

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Multifamily market report

PORTLAND METRO AREA

First Quarter 2006

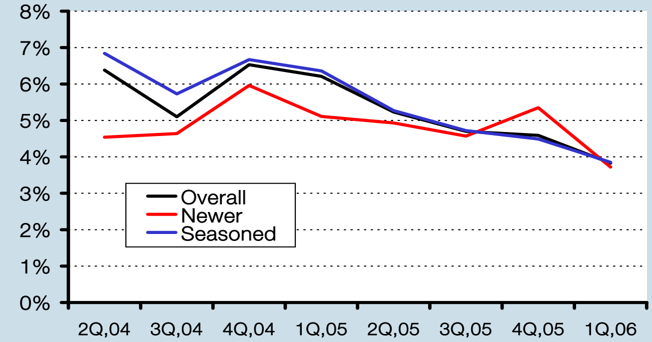
MARKET HIGHLIGHTS

- Several factors contributed to the overall vacancy rate dropping from 4.59% to 3.83% this quarter. The first was the reduction of inventory due to condominium conversions, the second was the continued population growth and the third was the strengthening economy and high-priced housing market. All these factors had been in play for the last five years, but the effect on the Multifamily market (lower vacancy and rising rental rates) had not been fully realized until this quarter.
- It is interesting to note the inversion in vacancy rates between new and seasoned apartments. The Portland Metropolitan population seems to favor seasoned units as evidenced by years of seasoned units having lower vacancy rates than their younger siblings. This quarter, we saw an inversion of this standard. Several submarkets show sub 3% vacancy rates for new units; in each case, seasoned units have higher vacancy rates.

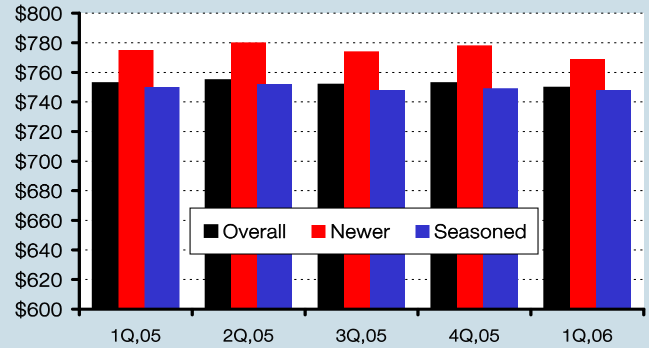
MARKET TRENDS

- One positive trend leading the multifamily market turnaround is increasing job growth and rising wages. Oregon's unemployment rate fell from 5.7% in December 2005 to 5.3% in January. Along with this drop in unemployment was Oregon and Washington's rise in minimum wage from $7.25 to $7.50 (Oregon) and $7.39 to $7.63 (Washington) per hour. Washington continues to have the highest minimum wage rate in the country.
- The Portland Metro Area is also seeing rapid population growth. According to United Van Lines annual migration study, Oregon continues its 18-year, high-inbound trend with the highest inbound migration of all states in the study. The inbound percentage for Oregon was 63.6%. The data is tracked from the 226,353 interstate household moves handled by United in the 48 contiguous states. The volume of population growth translates into a need for housing of all types, in particular, multifamily housing.
- Condo conversions and lack of new multifamily development continues to affect the supply of rental properties. The most recent conversion of Portland Center Apartments, University Park Apartments and Goose Hollow Village has removed more than 700-plus units from the multifamily inventory.

VACANCY COMPARISON



AVERAGE RENT COMPARISON



SIGNIFICANT SALES

- **Matteson Vancouver Investors I, LLC**, purchased Madison Park Apartments from **Meadow Heights, LLC**. The 336 units, located at 12901 NE 28th Street in Vancouver, sold for $22.3 million.
- **BVF Clackamas, LLC**, purchased Clackamas Village Apartments at 8800 SE Causey Loop in Portland for $19.7 million. The 372 units were sold by **Wang Investment, LLC**.
- **Durham Park Apartments, LLC**, purchased Durham Park Apartments from **Durham Park, LP**. The 224 units sold for $15.6 million and are located in Tigard.

MARKET SUMMARY

Multifamily

SUBMARKET	AVERAGE RENT PER UNIT 1 BD/1 BTH	2 BD/1 BTH	2 BD/2 BTH	3 BD/2 BTH	% VACANT
Downtown Portland	$880 ($1.26)	$1,124 ($1.25)	$1,461 ($1.24)	$2,479 ($1.32)	2.78
Southeast Portland	$596 ($0.89)	$684 ($0.78)	$736 ($0.73)	$877 ($0.76)	3.53
North/Northeast Portland	$619 ($0.91)	$709 ($0.78)	$825 ($0.83)	$784 ($0.68)	2.32
Southwest Portland	$615 ($0.88)	$666 ($0.77)	$1,017 ($0.89)	$833 ($0.70)	3.67
Gresham/Troutdale	$562 ($0.81)	$619 ($0.73)	$686 ($0.72)	$820 ($0.72)	4.72
Lake Oswego/West Linn	$744 ($0.95)	$806 ($0.89)	$998 ($0.90)	$1,093 ($0.81)	4.92
Wilsonville	$607 ($0.85)	$685 ($0.75)	$735 ($0.76)	$858 ($0.75)	4.54
Tigard/Tualatin	$597 ($0.88)	$664 ($0.78)	$774 ($0.77)	$887 ($0.76)	4.07
Beaverton/Aloha	$617 ($0.89)	$688 ($0.77)	$786 ($0.78)	$930 ($0.79)	4.03
Hillsboro	$678 ($0.92)	$729 ($0.78)	$831 ($0.78)	$1,011 ($0.78)	2.92
Clackamas/Or Cty/Mlwk	$582 ($0.83)	$661 ($0.75)	$720 ($0.76)	$865 ($0.72)	4.29
Vancouver	$585 ($0.82)	$649 ($0.72)	$744 ($0.72)	$846 ($0.71)	4.72
OVERALL	$639 ($0.91)	$713 ($0.80)	$835 ($0.81)	$956 ($0.76)	3.83

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