

Office market report

PORTLAND METRO AREA

Second Quarter
2005

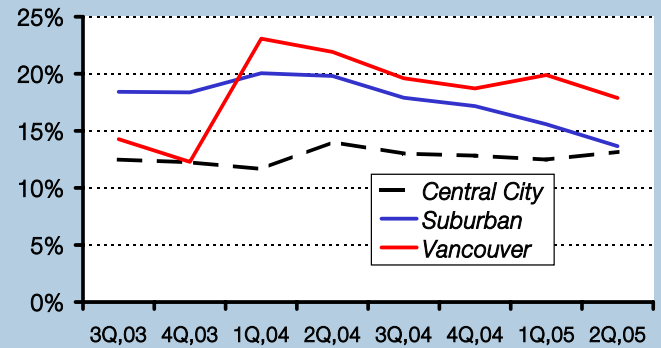
MARKET HIGHLIGHTS

- Portland's Central City office market is experiencing a lack in supply of large, contiguous spaces. With low lease rates in the market, there has been little motivation for developers to construct new space. Vacancy increased from 12.48% posted in the First Quarter to 13.16% this quarter. 256,454 sf was added to the CBD's total rentable sf due to the addition of the Lincoln Building which was owner occupied last quarter, and is now tenanting some of Multnomah County's offices.
- The suburban market absorbed 344,801 sf, with Kruse Way and Sylvan-Sunset submarkets controlling a significant amount of that absorption. Contrary to the CBD, rising rental rates have prompted new development in Kruse Way with Equity Office Properties' construction of Kruse Oaks II, a 107,490 sf, Class A building in Kruse Woods Corporate Park.
- The Vancouver Office Market saw significant absorption as well, with 106,321 sf absorbed this quarter. The vacancy rate is now nearly 2 percentage points down from the First Quarter to 17.88%. Several projects are being developed and the number of building permits issued between January and March is 100, a significant increase over the 38 issued this time last year.

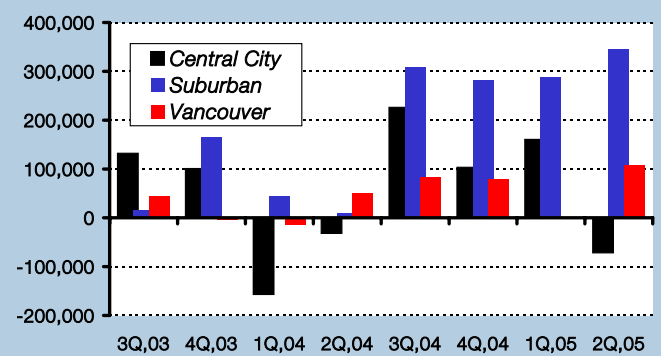
SIGNIFICANT DEALS

- GPT Portland**, purchased the 226,684 sf 1201 Lloyd Building for \$50.44 million from 1201 Lloyd Associates, LLC.
- BRCP/Unico Lincoln, LLC**, purchased 256,454 sf at The Lincoln Building for \$11.25 million from Qwest Corporation.

VACANCY COMPARISON



ABSORPTION COMPARISON



- Weston Investment Company, LLC**, purchased 68,110 sf at Cascade Plaza in Beaverton for \$5.78 from Western Service Company.
- Multnomah County** leased 99,478 SF at the Lincoln Building in downtown Portland.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central City*					
Central Business	14,396,868	1,934,291	13.44	(71,760)	0
Lloyd	2,140,729	138,236	6.46	27,273	0
North/Northwest	2,034,823	371,985	18.28	41,324	0
TOTAL	18,572,420	2,444,512	13.16	(3,163)	0
Suburban*					
Central 217	1,627,489	201,962	12.41	44,920	0
Southern 217	925,414	57,765	6.24	11,340	0
Barbur Boulevard	593,155	69,134	11.66	(3,729)	0
Beaverton-Hillsdale	455,992	40,977	8.99	197	0
Central Beaverton	579,675	73,024	12.60	9,736	0
I-5 South	1,270,943	143,834	11.32	(44,173)	44,000
Johns Landing	980,162	138,599	14.14	4,408	0
Kruse Way	2,069,854	91,730	4.43	92,257	109,000
Lake Oswego/West Linn	446,911	36,474	8.16	(2,104)	90,000
Northeast	986,384	162,603	16.48	20,719	0
Sunnyside/Clackamas	1,169,544	167,884	14.35	61,127	36,000
Southeast	606,748	30,658	5.05	24,724	0
Sylvan-Sunset	3,092,320	807,700	26.12	125,379	60,014
TOTAL	14,804,591	2,022,344	13.66	344,801	339,014
Vancouver	3,123,938	558,439	17.88	106,321	42,000

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

- PacifiCare Health Systems** leased 36,166 sf at Five Centerpointe Drive in Lake Oswego.
- Portfolio Financial Servicing Co.** leased 22,243 sf at the Broadway Plaza Building in Portland.



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Industrial/Flex

market report

PORTLAND METRO AREA

Second Quarter
2005

MARKET HIGHLIGHTS

- There is a noticeable decrease of 1.7 percentage points in vacancy in the industrial market to 12.3%. This welcome change is indicative of job growth in the region, especially in the manufacturing and distribution industries. Examples of the recovering industrial market include Hyundai's signing of a long-term lease with the Port of Portland, firmly establishing the port as an important center for automotive handling on the West Coast. The Port of Portland also has long-term contracts with Honda and Toyota.
- The vacancy rate in the flex market is nearly 4 percentage points lower at 23.6% than this time last year. Though the percentage is still high, the flex market will benefit from the surge occurring in the industrial market and occupancy rates will start to rise.

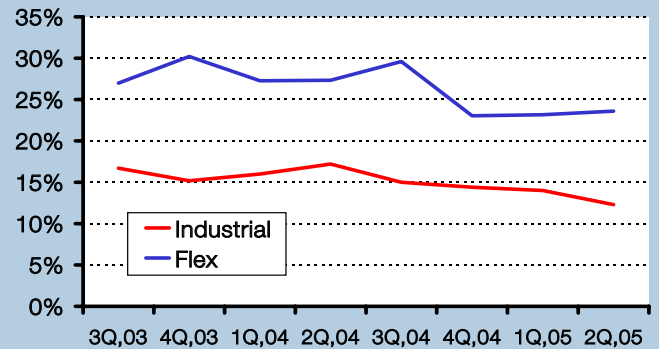
MARKET TRENDS

- A continuing trend for the Second Quarter is the focus on built-to-suit development. The market is seeing greater interest by users to purchase buildings, rather than renting in multi-tenant complexes. Though built-to-suit prices are rising, they are not pricing themselves out of the market. Single tenants still find the increased prices as attractive as the low industrial rental rates.
- Currently, we've seen a rise in user prices, but industrial rental rates have remained flat. Though the user prices are encouraging development, the market needs pressure applied to rental rates to initiate strong development. The market seems poised for such demand as manufacturing and distribution continue to thrive in our burgeoning economy.

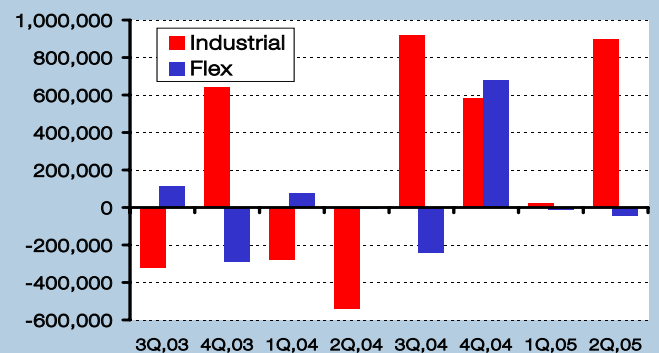
SIGNIFICANT DEALS

- Tennant Investors** purchased the 188,091 sf 205 Distribution Center for \$6.4 million in Clackamas.
- Pro-Active Properties** purchased a 90,000 sf warehouse at 23365 NE Halsey for \$6.37 million in Wood Village.
- B & O Properties, LLC**, purchased the 178,992 sf B & O Commerce Center in Portland.
- Synnex Corporation** leased 52,011 sf at the Robinson Distribution Center in Beaverton.
- Trinity Carpet Brokers** leased 51,730 sf at 2690 SE Mailwell Drive in Milwaukie.

VACANCY COMPARISON



ABSORPTION COMPARISON



MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Industrial & Business Parks*					
North/Northeast	16,377,385	2,321,803	14.20	460,724	688,850
Northwest	1,650,280	103,427	6.30	47,573	0
Southeast	5,711,225	448,418	7.90	236,401	71,820
Southwest 217	2,563,129	409,380	16.00	90,832	0
Southwest I-5	8,792,014	750,431	8.50	(58,830)	147,058
Southwest Sunset	4,228,381	978,626	23.10	(122,328)	0
Vancouver	7,833,338	775,056	9.90	246,049	67,000
TOTAL	47,155,752	5,787,141	12.30	900,421	583,474

Flex*

North/Northeast	357,252	82,239	23.02	0	n/a
Southeast	144,433	15,100	10.45	1,600	n/a
Southwest 217	3,013,152	652,653	21.66	75,394	n/a
Southwest I-5	588,328	153,499	26.09	(25,083)	n/a
Southwest Sunset	5,526,091	1,458,952	26.40	(54,509)	n/a
Vancouver	769,234	91,271	11.87	(42,582)	n/a
TOTAL	10,398,490	2,453,714	23.60	(45,180)	n/a

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

- Flexalloy/Textron Fastening Systems** leased 48,570 sf in Mocks Landing Distribution Center in Portland.



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Retail

market report

PORTLAND METRO AREA

Second Quarter
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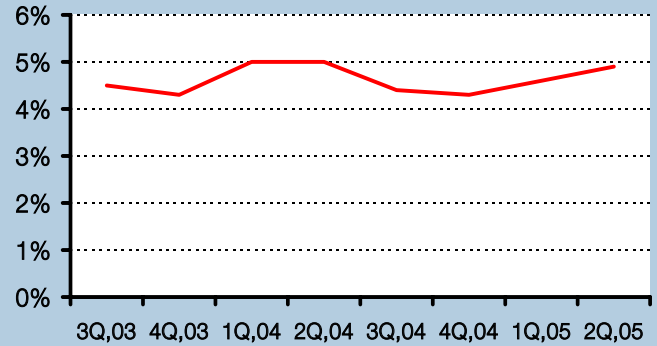
MARKET HIGHLIGHTS

- Low, single-digit vacancy continues in the region and will help raise asking rents throughout all the retail submarkets. There continues to be strong interest in our market from national retailers and limited quality retail space will apply pressure and elevate Portland retail property prices as well.
- First Quarter retail Internet sales rose 23.8% to \$19.8 billion in the United States from \$16 billion a year ago, according to preliminary numbers released by the Department of Commerce. E-commerce made up 2.2% of total retail sales during the First Quarter.
- The Vancouver retail market will welcome the development of Eastgate Plaza, a 450,000 sf retail center on Fourth Plain Boulevard. Anchored by Wal-Mart, it will include space for a mid-size anchor, a big box retailer, restaurant and multi-tenant shop space.

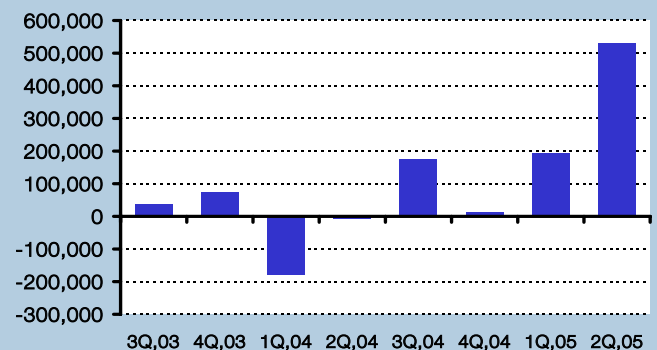
NOTEWORTHY NEWS

- New retail space is under construction at Northwest 23rd and Flanders, the 2-story structure will provide 23,000 sf for tenants Williams-Sonoma and Hold Everything.
- Bridgeport Village opened on May 19. A percentage of sales during the opening were donated to the Boys & Girls Aid Society of Oregon and the Hearts of Hope Breast Cancer Foundation.
- Wild Oats Markets Inc, opened a prototype store at Bridgeport Village. The "interactive shopping experience" includes hosted chefs, wine tastings and food demonstrations.
- Panda Express plans five more Portland-area stores, one along N. Interstate and Lombard, and four more in the city's suburbs including Wilsonville, Beaverton, Hillsboro and Vancouver, Washington. The fast-food chain believes the state of Oregon can support 30 more outlets of the chain.

VACANCY COMPARISON



ABSORPTION COMPARISON



- In other restaurant chain news, Moe's Southwest Grill opened its first shop in Wilsonville in April and has plans to open 19 more in the Portland area.
- On April 27, sidestepping popular opinion, the Portland Development Commission picked Opus Northwest, over Beam Development, to spearhead the Burnside Bridgehead project which is projected to create 120,000 sf of new retail space.

SIGNIFICANT DEALS

- OfficeMax North America leased 13,070 sf of retail space at 930 NW 14th in Portland.

MARKET SUMMARY

Retail*

SUBMARKET	INVENTORY	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,148,046	382,781	7.4	15,827	20,230
Central City	2,594,772	196,111	7.6	(15,705)	0
Southeast/E. Clackamas	5,461,585	170,371	3.1	123,313	18,102
Eastside	5,251,986	286,291	5.5	13,209	20,000
Sunset Corridor	5,192,620	86,757	1.7	48,675	20,000
Southwest	9,891,531	508,167	5.1	312,388	14,652
Vancouver	6,739,804	329,186	4.9	33,456	567,050
TOTAL	40,280,344	1,959,664	4.9	531,163	660,034

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Multifamily

market report

PORTLAND METRO AREA

Second Quarter
2005

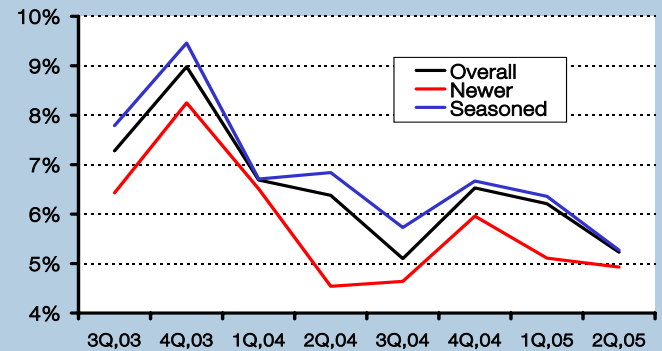
MARKET HIGHLIGHTS

- For the Second Quarter, we have seen an increase in occupancy in both new and seasoned units, with a combined improvement of 1 percentage point from 6.2% to 5.23%.
- The overall market average rent has stayed flat, which was predicted last quarter. Rents will start to move up when the market occupancy rate has fully stabilized at 5% vacancy overall.

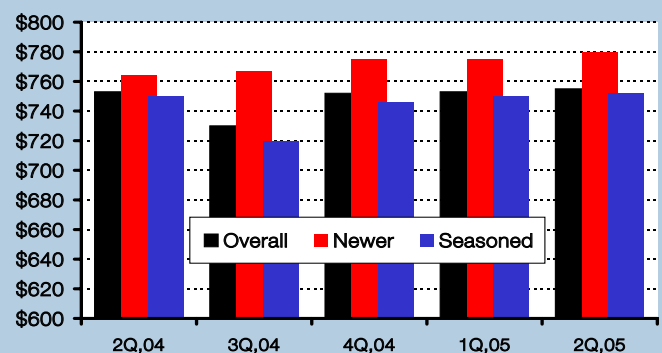
MARKET TRENDS

- The condominium conversion trend is still going strong in the Portland Metropolitan Area. With the limited number of apartment buildings with which to create these conversions, the market has not been saturated, nor has there been enough product to satisfy the appetites for this type of housing. An example is Hoyt Street Properties decision to convert the Lexus into condominiums during the lease up process. Within one day, all 139 units were sold for \$150,000 to \$400,000. This trend will continue for at least one more year or until we see a significant increase in interest rates or a recession.
- While the Portland Metropolitan Area continues to see very little apartment building product out for sale and with cap rates so low (5.5% to 6.5%), investors are turning towards single-family homes as investment properties. This has helped push median house prices considerably – 15.3% over this time last year to \$224,900.
- The rental market in the Portland Metropolitan Area is stabilizing. The rental market closely follows the regional economy and with the lowering unemployment rate and healthy consumer spending, we are seeing fewer concessions offered by landlords and less fluctuation in rental rates. Several factors have led to this stabilization. The hot housing market has been very attractive for first-time homebuyers during the last three years, but now the apartment market is seeing a significant drop in tenants buying houses. Rental rates are also more reflective of actual market rates than they have been in the last several years, now that landlords have dropped concessions and do not need to inflate monthly rental rates to overcome these discounts.

VACANCY COMPARISON



AVERAGE RENT COMPARISON



SIGNIFICANT SALES

- Jerry and Kenneth Fuller, purchased Stark Street Crossings. The 130 units located at 20433 SE Stark Street in Gresham were built in 2003 and sold for \$9.8 million.
- Gresham Village, LLC, purchased The Village Apartments at 2753 NE Rene Avenue in Gresham for \$8.4 million. The 152 units were sold by WXI/MCN Commercial Real Estate, LP.
- Ann Boyce, purchased Rolling Creek Apartments from Rolling Creek, LLC. The 111 units sold for \$5.49 million and are located in Vancouver.

MARKET SUMMARY

Multifamily*

SUBMARKET	AVERAGE RENT PER UNIT				% VACANT
	1 BD/1 BTH	2 BD/1 BTH	2 BD/2 BTH	3 BD/2 BTH	
Downtown Portland	\$882 (\$1.24)	\$1,125 (\$1.26)	\$1,467 (\$1.24)	\$2,480 (\$1.30)	5.72
Southeast Portland	\$597 (\$0.89)	\$683 (\$0.78)	\$733 (\$0.73)	\$877 (\$0.75)	6.62
North/Northeast Portland	\$620 (\$0.91)	\$710 (\$0.78)	\$823 (\$0.83)	\$781 (\$0.67)	5.87
Southwest Portland	\$619 (\$0.88)	\$663 (\$0.77)	\$1,001 (\$0.88)	\$829 (\$0.68)	3.55
Gresham/Troutdale	\$556 (\$0.80)	\$615 (\$0.73)	\$679 (\$0.71)	\$816 (\$0.72)	4.98
Lake Oswego/West Linn	\$737 (\$0.93)	\$828 (\$0.87)	\$998 (\$0.89)	\$1,121 (\$0.80)	4.53
Wilsonville	\$605 (\$0.85)	\$685 (\$0.75)	\$732 (\$0.76)	\$859 (\$0.75)	7.01
Tigard/Tualatin	\$593 (\$0.88)	\$663 (\$0.77)	\$771 (\$0.77)	\$883 (\$0.75)	4.76
Beaverton/Aloha	\$612 (\$0.88)	\$685 (\$0.77)	\$781 (\$0.78)	\$925 (\$0.79)	4.46
Hillsboro	\$680 (\$0.92)	\$725 (\$0.77)	\$830 (\$0.78)	\$1,011 (\$0.78)	5.54
Clackamas/Or Cty/MLwk	\$581 (\$0.83)	\$657 (\$0.75)	\$718 (\$0.76)	\$865 (\$0.72)	4.40
Vancouver	\$593 (\$0.83)	\$647 (\$0.72)	\$755 (\$0.73)	\$858 (\$0.71)	5.00
OVERALL	\$642 (\$0.91)	\$713 (\$0.80)	\$842 (\$0.81)	\$966 (\$0.76)	5.23

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Economic market report

PORTLAND METRO AREA

Second Quarter 2005

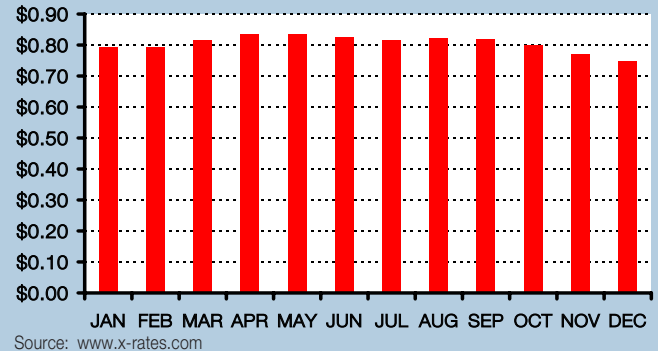
NATIONAL HIGHLIGHTS

- The dollar reached its highest level against the euro in nearly seven months on May 13th, with one euro costing just over \$1.26.
- The U.S. Economy added 274,000 jobs in April. Though this growth has slowed in May, the national unemployment rate dropped slightly from 5.2% to 5.1%.
- In March, the U.S. Trade Deficit fell to \$54.99 billion, down from the record monthly deficit of \$60.57 billion reported in February.
- Consumer prices dipped 0.1% in May, the first decline in 10 months. Lower energy prices aided this reduction.

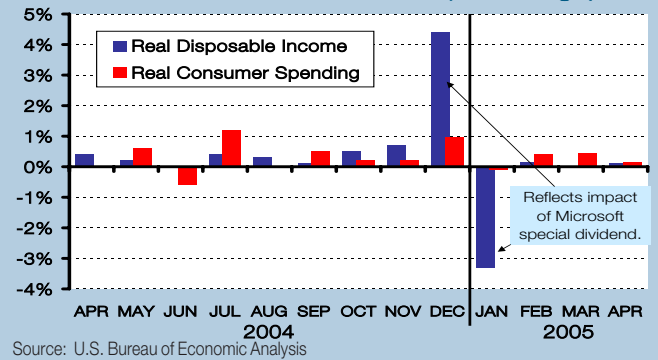
LOCAL HIGHLIGHTS

- The Portland Development Commission picked Opus Northwest to head the Burnside Bridgehead project. Due to public outcry, a local developer, Beam Development, and Opus have verbally agreed to work jointly on the project.
- Though Oregon's economy grew in April, unemployment ticked up from 6.1% to 6.5%. Economists say this unusual trend, is indicative of continued population growth and an increase of people entering the job market.
- According to the most recent Blue Chip Job Growth rankings, Oregon placed 3rd in the nation for year over year job growth; a significant jump from the state's 26th ranking last year. From March 2004 to March 2005, jobs increased by 3.75%.
- Recently, Apple made the decision to switch from IBM to Intel to produce chips. This switch will help offset the loss Intel took when Microsoft transferred to an IBM processor chip for their

EURO TO 1 USD - 2004



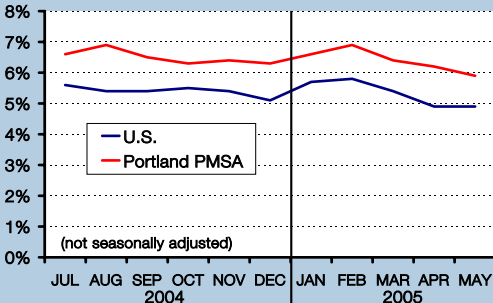
REAL DISPOSABLE INCOME AND REAL CONSUMER SPENDING (% change)



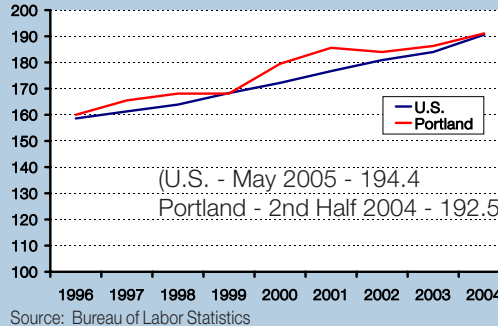
second version of its Xbox video game machine. Intel is the largest employer in the Portland Metropolitan Area with nearly 11,000 employees.

- In other Intel news, Washington County and the City of Hillsboro unanimously approved an agreement with Intel to provide tax incentives via the Strategic Investment Program, on more than \$25 billion dollars of investment in equipment over the next 20 years. The agreement ensures that the largest employer in Portland, will continue to grow in Oregon.

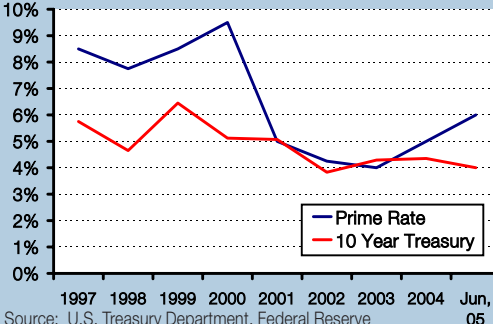
UNEMPLOYMENT COMPARISON - 2004



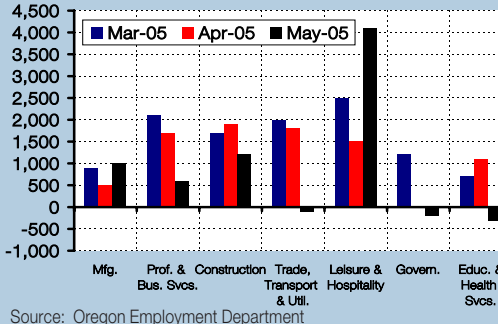
CONSUMER PRICE INDEX



PRIME RATE VS. 10-YR. TREASURY



OREGON MONTHLY JOB GAINS - 2004



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