

# Economic market report

## PORTLAND METRO AREA



Third Quarter  
2005

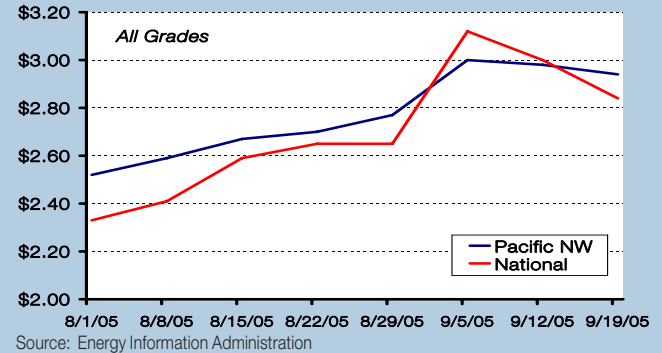
### NATIONAL HIGHLIGHTS

- Hurricane Katrina's economic impact is predicted to be extremely significant, as gas prices climb 40% from midsummer levels. The Congressional Budget Office predicts job losses totaling 400,000 and economic growth to be reduced by as much as one full percentage point for the second half of 2005.
- The Supreme Court ruled, 5-4, that local governments may seize people's homes and businesses against their will for private development. The measure will allow local governments to determine whether or not development on such property would benefit the general community by boosting economic growth.
- China has revaluated the yuan which appreciated 2% of its value against the dollar. Though modest, the Chinese government acknowledges that the currency will now move within a narrow, gradually shifting band against a group of foreign currencies.

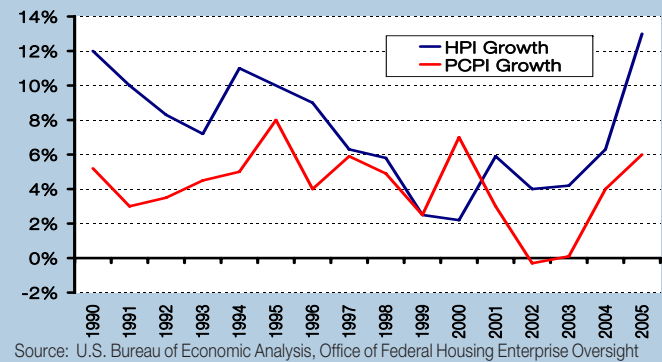
### LOCAL HIGHLIGHTS

- Bruce Warner became the new executive director of the Portland Development Commission. Warner left a position as director of the Oregon Department of Transportation.
- According to the University of Oregon's Index of Economic Indicators, Oregon's economy rebounded from a decline in May. The index rose 0.6% to 106.4. 5 of the 8 indicators marked improvement, including Oregon initial unemployment claims, Oregon residential building permits and manufacturing orders.
- The Oregon Employment Department states that, in the last year, Oregon gained new jobs at twice the rate as the rest of the country—3.4 percent compared to 1.7 percent. Furthermore, they project Oregon's job growth to increase by 240,000 jobs by 2014, a 15 percent increase. This closely follows the last ten years, in which Oregon gained 230,000 jobs for a 17 percent increase in growth.

### AVERAGE GAS PRICE COMPARISON

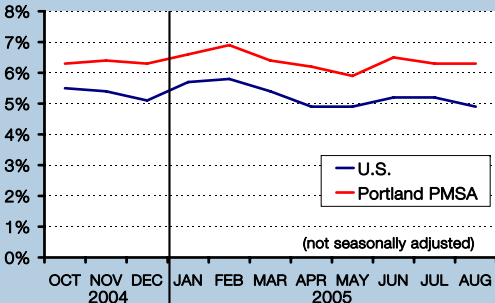


### GAP BETWEEN OREGON HOME PRICE APPRECIATION AND INCOME GROWTH

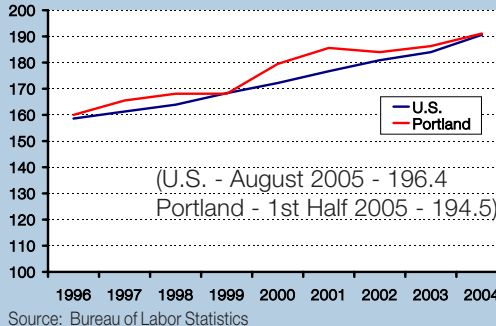


- Portland metro area housing prices continue to climb at unrecorded speed. In August, prices increased 5.5 percent over the month prior. The area's median home sales price has increased by a record-breaking 19.4 percent in the last 12 months alone.
- The Bureau of Labor and Industries, announced that Oregon's minimum wage will increase by 25 cents from \$7.25 per hour to \$7.50 per hour effective January 1, 2006. Currently, Oregon's minimum wage is the second highest in the nation behind Washington State.

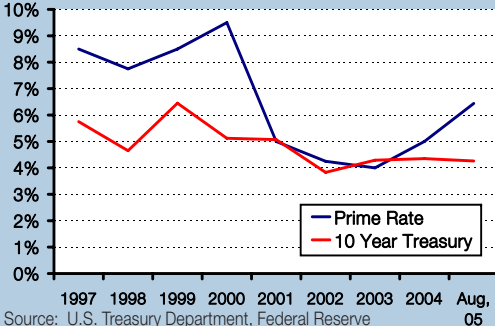
### UNEMPLOYMENT COMPARISON - 2004



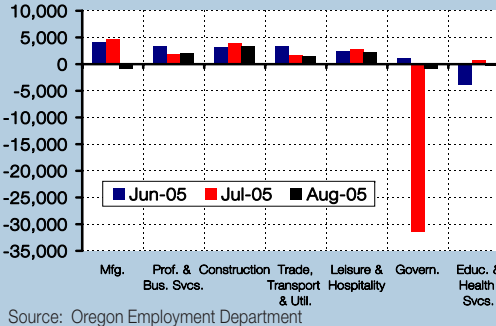
### CONSUMER PRICE INDEX



### PRIME RATE VS. 10-YR. TREASURY



### OREGON MONTHLY JOB GAINS - 2004



Oregon's minimum wage will increase by 25 cents from \$7.25 per hour to \$7.50 per hour effective January 1, 2006. Currently, Oregon's minimum wage is the second highest in the nation behind Washington State.



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# Office market report

PORTLAND METRO AREA

## MARKET HIGHLIGHTS

- The Central City office market recovery continues. Year-to-date absorption of over 250,000 square feet (sf) has reduced the overall vacancy to 12.7%. The majority of this activity has occurred in Class A properties within the Central Business District, where vacancy is now in single digits. This has resulted in a diminishing supply of full floors available, a significant factor in projecting rental rate increases in the near term.
- The suburban office market saw a very small increase in vacancy as they negatively absorbed 31,342 sf this quarter. Year-to-date though, this market has absorbed 601,250 sf, indicating a healthy amount of positive activity. Several submarkets are in the low, single-digit vacancy rates like Lake Oswego/West Linn, which has a vacancy rate of 4.57% and the Southeast Office market with a vacancy of 4.64%.
- The Vancouver office market saw vacancy rise nearly 2 percentage points from 17.88% in the Second Quarter to 19.77% this quarter. The vacancy rate obscures the growth of this market as many companies and businesses are expanding in Clark County. A host of medical/dental offices are opening branch offices such as Vancouver Eye Care, who is leasing additional space in Columbia Tech Center and Cascade Dental, who is adding a third office in Centerpointe Retail Center.

## SIGNIFICANT DEALS

- CH2M Hill leased 140,000 sf at Parkside Center located 2020 Southwest Fourth Avenue in Portland.
- North Pacific Group leased 50,250 sf at Lincoln Center's 5 Lincoln in Portland.

## MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
<b>Central City*</b>					
Central Business	14,396,868	1,829,913	12.71	116,318	0
Lloyd	2,140,729	208,837	9.76	(89,537)	0
North/Northwest	2,034,823	318,026	15.63	66,334	0
<b>TOTAL</b>	<b>18,572,420</b>	<b>2,356,776</b>	<b>12.69</b>	<b>93,115</b>	<b>0</b>

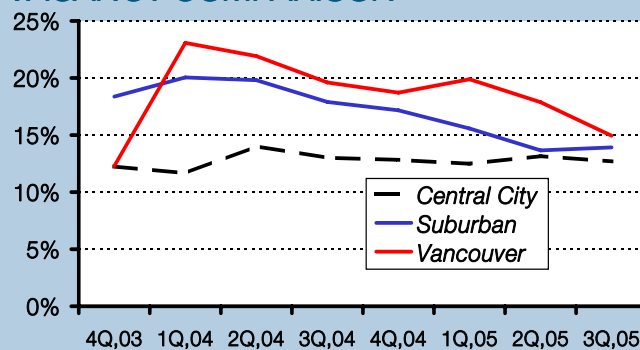
### Suburban\*

Central 217	1,627,489	252,747	15.53	(44,147)	0
Southern 217	925,414	57,163	6.18	6,524	0
Barbur Boulevard	593,155	65,586	11.06	2,953	0
Beaverton-Hillsdale	455,992	74,018	16.23	(33,041)	0
Central Beaverton	579,675	62,978	10.86	11,456	0
I-5 South	1,270,943	70,423	5.54	73,411	0
Johns Landing	980,162	125,376	12.79	17,999	0
Kruse Way	2,069,854	116,991	5.65	(25,093)	107,490
Lake Oswego/West Linn	446,911	20,444	4.57	10,530	90,000
Northeast	986,384	165,616	16.79	(8,108)	0
Sunnyside/Clackamas	1,169,544	169,215	14.47	(1,331)	36,000
Southeast	606,748	28,123	4.64	2,535	0
Sylvan-Sunset	3,092,320	852,730	27.58	(45,030)	76,914
<b>TOTAL</b>	<b>14,804,591</b>	<b>2,061,410</b>	<b>13.92</b>	<b>(31,342)</b>	<b>310,404</b>
Vancouver	3,123,938	617,706	19.77	(63,953)	72,504

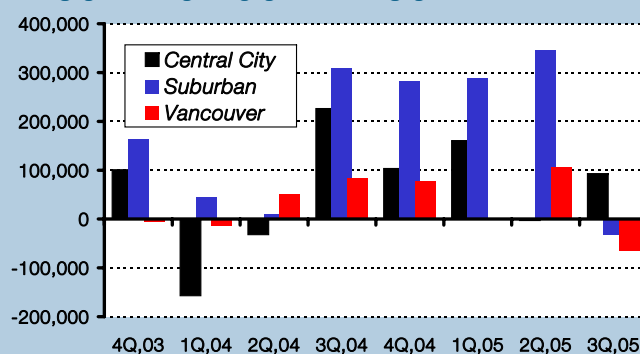
\*Additions and Subtractions to the numbers above are in our detailed report.  
\*\* Numbers only reflect direct space.

Third Quarter  
2005

## VACANCY COMPARISON



## ABSORPTION COMPARISON



- Unitus Community Credit Union leased 46,875 sf at Columbia Financial Center located at 1300 Southwest Sixth Avenue in Portland.
- ScanlanKemberBard Cos. and the Praedium Group of New York purchased 536,500 sf at AmberGlen Business Center in Hillsboro from Principal Financial for \$54.82 million.
- Triple Net Properties purchased 574,000 sf (office and flex) at Woodside Corporate Park, Beaverton, for approx. \$67 million.



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# Industrial/Flex

market report

PORTLAND METRO AREA

Third Quarter  
2005

## MARKET HIGHLIGHTS

- Vacancy rates continue their downward trend. Currently, the market is at a 12.1% vacancy rate. Many believe that once the vacancy rate dips below 12%, the industrial market will see stabilization of lease rates and more aggressive tenants.
- To date, the market has seen 1,450,655 square feet (sf) of positive absorption, which has occurred in several of the submarkets. There isn't a single hotspot in the industrial market. The North/Northeast and Vancouver submarkets have posted the most absorption, but the Northwest boasts a 5.2% vacancy rate.
- The vacancy rate in the flex market has risen from 23.60% in the second quarter of 2005 to 26.14% this quarter. Though the vacancy is more than double the industrial rate, the squeeze in the industrial market will benefit the flex market.

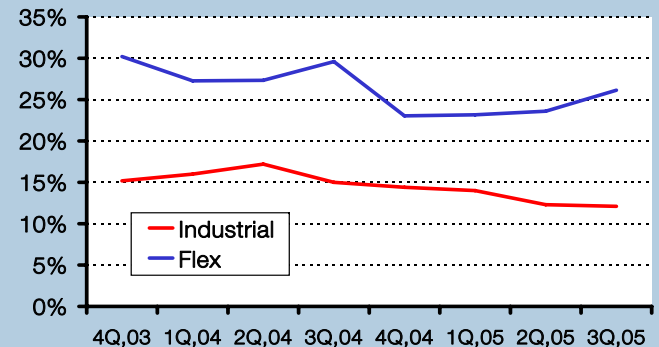
## MARKET TRENDS

- Several of the trends we saw at the beginning of 2005 have continued in the industrial market. We are seeing a significant number of smaller deals occurring and many of them are signing up for longer (3-to-5 year) leases. The rising volume of smaller deals also signals the confidence of business owners that the market recovery is not just a phase, but a full recovery.
- There is still opportunity out there for users of large, 100,000 sf plus spaces, but their numbers are diminishing. Like the office market in the Portland Metropolitan Area, lack of significant, contiguous space will force tenants and users to be more aggressive, driving up rates and spurring on development.

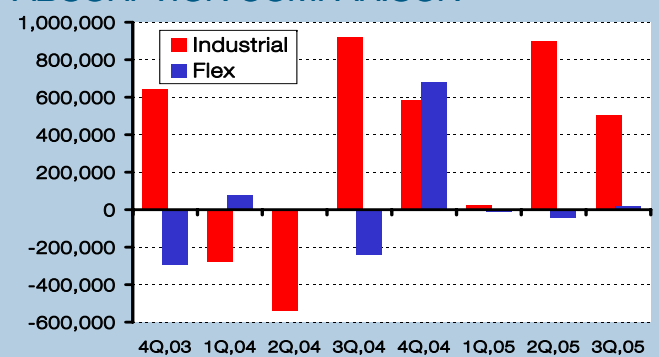
## SIGNIFICANT DEALS

- E Danell Guistina purchased 123,259 sf at West Union Business Park for \$15.35 million in Hillsboro.

## VACANCY COMPARISON



## ABSORPTION COMPARISON



- NBS I-84 OpCo, LLC, purchased 421,975 sf at the I-84 Industrial Center for \$13.375 million in Portland.
- Pro-Active Properties purchased 90,000 sf of industrial space at 23365 Northeast Halsey Street for \$6.37 million in Gresham.
- Pental Granite & Marble of Oregon leased 58,695 sf at 3551 Northwest Yeon Avenue in Portland.
- FedEx Ground Package System leased 50,200 sf at the Kelley Point Distribution Center in Portland.

- PODS leased 41,845 sf at the Wilsonville Distribution Center in Wilsonville.

## MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
<b>Industrial &amp; Business Parks*</b>					
North/Northeast	16,627,485	2,306,756	13.90	268,855	632,750
Northwest	1,650,280	86,177	5.20	17,250	0
Southeast	5,711,225	536,915	9.40	(18,497)	35,880
Southwest 217	2,563,129	466,346	18.20	(56,966)	0
Southwest I-5	8,877,514	812,149	9.10	23,782	158,333
Southwest Sunset	4,228,381	849,617	20.10	129,009	0
Vancouver	7,900,338	697,338	8.80	144,718	20,692
<b>TOTAL</b>	<b>47,558,352</b>	<b>5,755,298</b>	<b>12.10</b>	<b>508,151</b>	<b>847,655</b>

### Flex\*

North/Northeast	357,252	69,292	19.40	12,947	n/a
Southeast	144,433	29,500	20.42	(14,400)	n/a
Southwest 217	3,013,152	641,465	21.29	11,188	n/a
Southwest I-5	588,328	133,180	22.64	20,319	n/a
Southwest Sunset	5,486,135	1,739,217	31.70	(9,915)	n/a
Vancouver	769,234	95,543	12.42	(4,272)	n/a
<b>TOTAL</b>	<b>10,358,534</b>	<b>2,708,197</b>	<b>26.14</b>	<b>15,867</b>	<b>n/a</b>

\* 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

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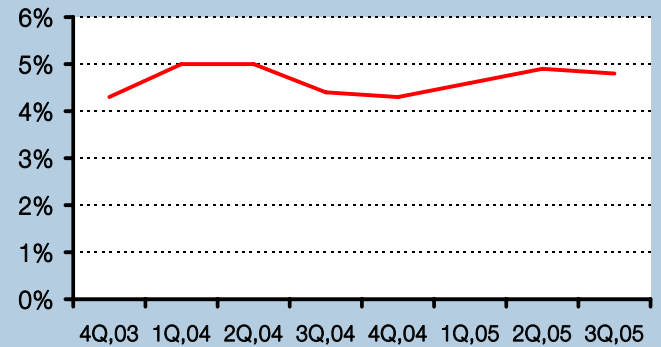
### MARKET HIGHLIGHTS

- Central City is bearing witness to rising occupancy in office space and retailers are taking notice. The Central City's vacancy dropped 1.6 percentage points this quarter to 6%. The Portland Business Alliance conducted its semiannual pedestrian count on intersections within the Business Improvement District in June and noted that overall pedestrian totals were up 6% from June 2004. Some areas saw huge surges in foot traffic including Southwest Fifth Avenue and Morrison, which increased 60% and Southwest Broadway and Alder that increased 30%.
- Retail space will be the hardest to come by in the Southeast/Clackamas, Sunset Corridor and Vancouver submarkets. All of these submarkets are below 4% vacancy, and Southeast/Clackamas and Sunset Corridor are below 3%. With the overall vacancy rate at 4.8%, there is demand for additional retail developments to occur. A significant increase in retail square footage will be seen in Vancouver, followed up by areas in the Portland suburban markets. This will apply pressure to rental rates and keep landlords firmly in the driver seat.

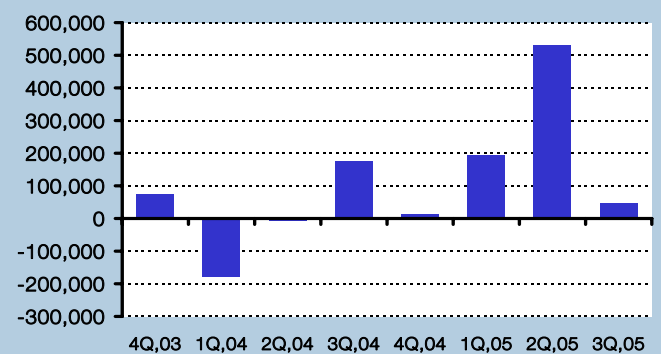
### NOTEWORTHY NEWS

- The North Face opened an outlet in downtown Portland's Brewery Blocks, joining other popular stores in the retail hot spot.
- Possible Wal-Mart plans are in the works as Ossey Development Corp. expects to file plans for a 175,000 square foot (sf) retail center with underground parking for 814 cars in Salmon Creek.
- 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.

### VACANCY COMPARISON



### ABSORPTION COMPARISON



### SIGNIFICANT DEALS

- Better Foods Land Investment Company purchased 25,816 sf of retail space from Centerpointe, LLC, for just over \$7.9 million. Located at 8720 Northeast Centerpointe Drive in Vancouver, Washington, the site is shadowed by Home Depot and is across the street from Costco.
- Langsdorf Dahlen, dba Cascade Dental, has leased 4,305 sf at Centerpointe Retail Center located at 8720A Northeast Centerpointe Drive, in Vancouver, Washington.

## MARKET SUMMARY

### Retail\*

SUBMARKET	INVENTORY	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,148,046	404,215	7.9	(21,434)	20,230
Central City	2,594,772	155,777	6.0	40,334	0
Southeast/E. Clackamas	5,461,585	163,291	3.0	7,080	0
Eastside	5,270,490	291,440	5.5	(5,149)	18,102
Sunset Corridor	5,089,670	140,975	2.8	(54,218)	0
Southwest	9,906,183	521,884	5.3	(13,717)	0
Vancouver	6,739,804	240,246	3.6	88,940	550,704
<b>TOTAL</b>	<b>40,210,550</b>	<b>1,917,828</b>	<b>4.8</b>	<b>41,836</b>	<b>589,036</b>

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# Multifamily

market report

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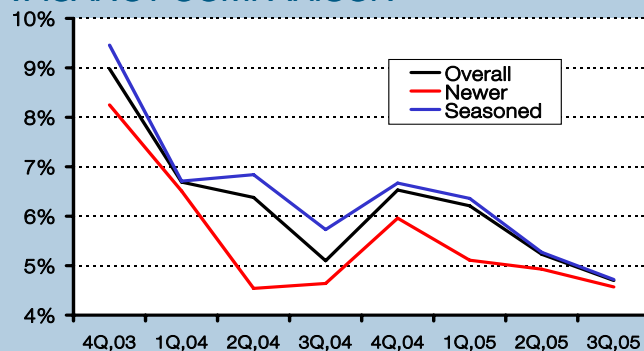
## MARKET HIGHLIGHTS

- Nearly every single submarket in the Portland Metropolitan Area saw a drop in vacancy rate or remained steady from the first half of 2005, with the exception of Lake Oswego/West Linn. The overall vacancy rate fell from 5.23% to 4.70%. Both new and seasoned units saw decreased vacancy, with especially tight markets in the Clackamas/Oregon City/Milwaukie, Southwest Portland, Gresham/Troutdale and Beaverton/Aloha submarkets posting sub 4% vacancies.
- Rental rates have remained within a very close range to rents from Second Quarter, but with current vacancy rates racing to the bottom line and the housing market slowing down, we expect to see rental rates rise next quarter, and throughout 2006. Already, landlords are reporting little to no concession activity and tenants are signing for longer leases.

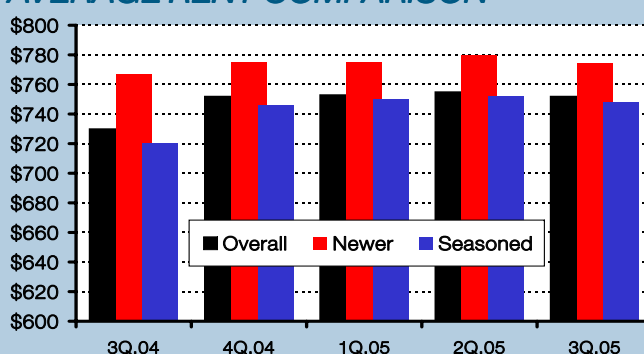
## MARKET TRENDS

- The Portland Metropolitan Area is experiencing a very hot housing market. With the median price of homes at \$253,000, a 19.4% increase from August 2004's \$212,000, many buyers are being priced out of purchasing and renting has become a much more attractive option while rents are still low.
- Rents won't be low for long though. Significant increases in occupancy have begun pushing rental rates upward in all the submarkets. Many of the new, luxury developments have seen aggressive pre-leasing, and although CAP rates are hovering between 5.5% and 6.5%, many investors are snapping up properties as they anticipate a boom in the rental market.
- Even though condominium conversions have been a significant trend for several quarters now, there has been a huge surge in new development. More than 2,500 condominium units are slated to come online in the next year. Condominium towers are going up on South Waterfront, the River District, Yamhill Historic District, Southwest Broadway and Jefferson, PGE Park and many other locations. These units won't come cheap either. Prices will exist in the \$400,000 to \$500,000 per unit range.

## VACANCY COMPARISON



## AVERAGE RENT COMPARISON



## SIGNIFICANT SALES

- Bean Investment Real Estate**, purchased Portland Center Apartments. The 537 units, located in downtown Portland, were sold for \$77.5 million making it the largest multifamily transaction this year.
- GRE Harbour Court, LLC**, purchased Harbour Court Apartments at 910 North Harbour Drive in Portland for \$10.77 million. The 99 units were sold by E.C. Street, LLC.
- Sunridge Associates, LP**, purchased Chinook Way Apartments from Chinook Way, LLC. The 125 units sold for \$10.05 million and are located in Fairview, OR.

## 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	\$865 (\$1.23)	\$1,129 (\$1.26)	\$1,465 (\$1.23)	\$2,470 (\$1.31)	4.39
Southeast Portland	\$597 (\$0.89)	\$683 (\$0.78)	\$733 (\$0.73)	\$877 (\$0.75)	6.62
North/Northeast Portland	\$618 (\$0.91)	\$710 (\$0.78)	\$824 (\$0.83)	\$781 (\$0.67)	5.87
Southwest Portland	\$620 (\$0.88)	\$663 (\$0.77)	\$977 (\$0.87)	\$833 (\$0.68)	3.55
Gresham/Troutdale	\$556 (\$0.80)	\$615 (\$0.73)	\$678 (\$0.71)	\$817 (\$0.72)	3.96
Lake Oswego/West Linn	\$737 (\$0.93)	\$830 (\$0.87)	\$997 (\$0.89)	\$1,121 (\$0.80)	4.61
Wilsonville	\$605 (\$0.85)	\$685 (\$0.75)	\$732 (\$0.76)	\$859 (\$0.75)	6.11
Tigard/Tualatin	\$593 (\$0.88)	\$662 (\$0.77)	\$771 (\$0.77)	\$885 (\$0.76)	4.61
Beaverton/Aloha	\$612 (\$0.88)	\$685 (\$0.77)	\$781 (\$0.78)	\$925 (\$0.79)	3.83
Hillsboro	\$678 (\$0.92)	\$725 (\$0.77)	\$828 (\$0.78)	\$1,011 (\$0.78)	4.48
Clackamas/Or Cty/Mlwk	\$581 (\$0.83)	\$657 (\$0.75)	\$718 (\$0.76)	\$865 (\$0.72)	2.92
Vancouver	\$592 (\$0.83)	\$647 (\$0.72)	\$753 (\$0.73)	\$859 (\$0.71)	4.67
<b>OVERALL</b>	<b>\$638 (\$0.90)</b>	<b>\$712 (\$0.80)</b>	<b>\$835 (\$0.80)</b>	<b>\$963 (\$0.76)</b>	<b>4.70</b>

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