



COMMERCIAL REAL ESTATE MARKET REPORT

Portland Metropolitan Area

Third Quarter
2006

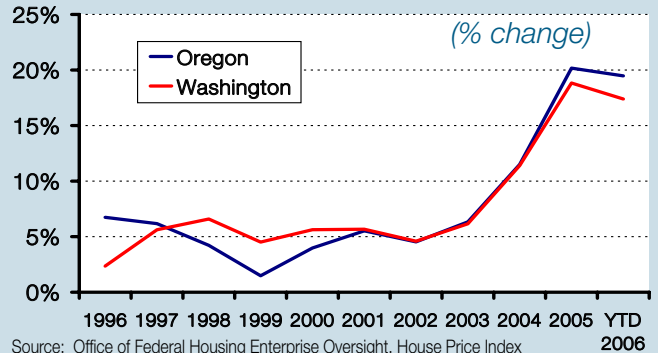
NATIONAL HIGHLIGHTS

- On August 8, 2006, the Federal Reserve halted raising interest rates, the first time in over two years, so the Fed can evaluate whether a slowing economy will keep inflation in check. The federal funds rate will be held at 5.25%, pausing after a cycle that has raised interest rates during 17 successive hikes since mid-2004.
- Due to a surge in tax payments following the President's individual income tax cuts, the White House budget deficit for the fiscal year of 2006 (which ended September 30) was \$296 billion, 2.3% of GDP and 30% lower than was forecasted in February.
- The cooling housing market coupled with slower consumer spending has worried some economists about the future of the national economy, but one sector, capital spending, shows that the economy is prepared for strong second-half growth. Many companies have seen soaring profits through the Second Quarter and record cash flow levels are helping these companies finance growth through new development and updating equipment to meet strong export demand.

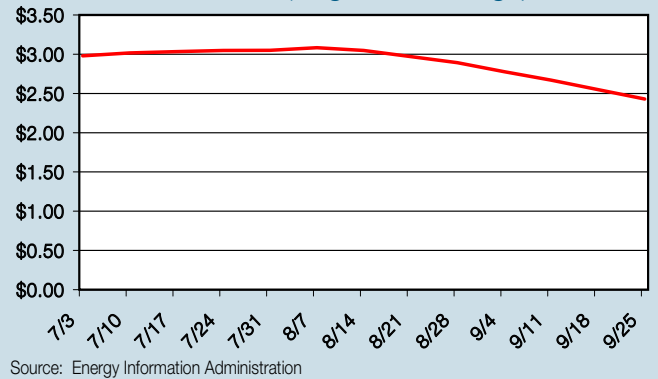
LOCAL HIGHLIGHTS

- Oregon's economic health is slated for continued heartiness through the second half of 2006. Though Intel recently announced plans to cut approximately 10,000 jobs worldwide, experts say there may be little impact in Oregon and the Portland Metropolitan Area. In fact, employment growth continues to increase, with Oregon ranking 5th nationally in annual nonfarm job growth, with a gain of 3.9% in the beginning of 2006. The Federal Deposit Insurance Corporation (FDIC) noted that the state saw more hiring in higher-paying sectors, growth in venture capital payout and one of the healthiest housing markets in the nation. Furthermore, state

SINGLE FAMILY HOME PRICE COMPARISON



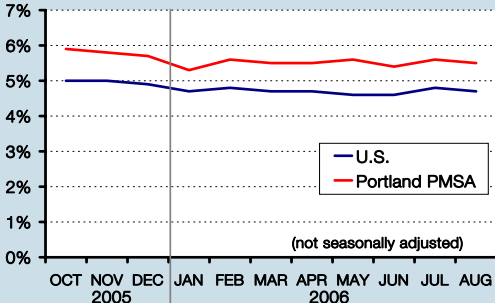
GAS PRICES TREND (all grades average)



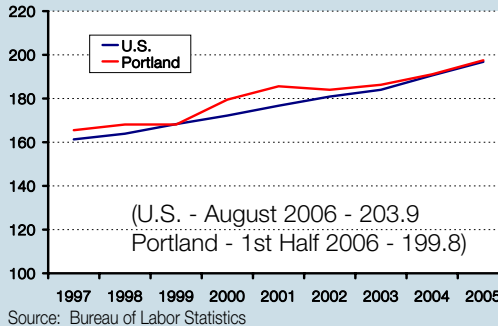
economists project an increase of \$1.2 billion in state tax revenue under the projected budget. Under Oregon law, this must be returned to individual and corporate tax payers in 2006.

- Washington is also experiencing healthy economic expansion. Unemployment was 4.9% as of July, mirroring the national average of 4.8% for that month. Washington and Oregon continue to attract large demographic numbers for the highly sought after, educated 25 to 34 year old age group.

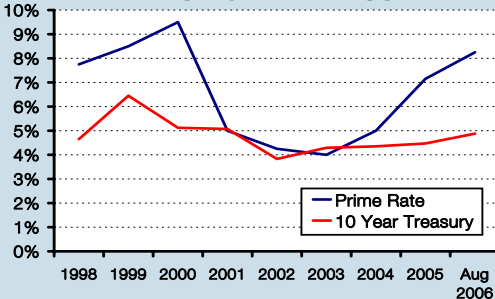
UNEMPLOYMENT COMPARISON - 2004



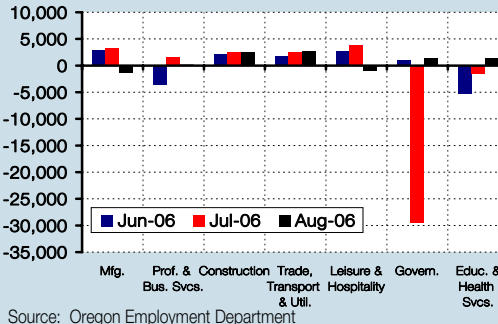
CONSUMER PRICE INDEX



PRIME RATE VS. 10-YR. TREASURY



OREGON MONTHLY JOB GAINS - 2004



NAI Norris, Beggs & Simpson

Commercial Real Estate Services, Worldwide.

121 SW Morrison Suite 200
Portland OR 97204
tel 503 223 7181
www.nai-nbs.com

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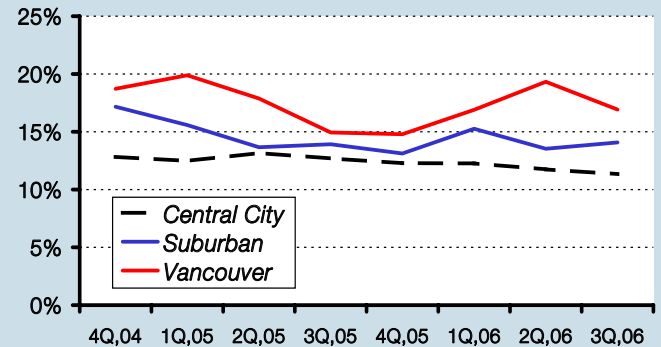
MARKET HIGHLIGHTS

- Currently, the Central City office market's vacancy rate is 11.34%. Of the three submarkets, the Northwest showed the most activity this quarter and reduced vacancy from 13.96% in the Second Quarter to 9.72% for the Third Quarter. This submarket saw 103,045 sf of positive absorption making up all the positive absorption in the three submarkets. Class A space is posting a vacancy rate of 6.89% this quarter, indicating the tightening market will experience rate increases which will support development demand.
- The suburban market saw several new developments under construction and completed in the last 12 months. The pre-leasing process has begun for: Durham Plaza in I-5 South submarket; Kruse Oaks II in the Kruseway submarket; and Tigard Triangle Commons. Projects that came online include: Stafford Commons and Summerlin Center in the Lake Oswego/West Linn submarket. Considering the market's added square footage, the effect on vacancy rates has been minimal, with the Suburban office market seeing just a slight increase to 14.08% this quarter. Also, several suburban submarkets have seen rate increases, especially if the submarket's vacancy rate was well below the overall rate.
- The Vancouver office market saw vacancy decrease significantly this quarter. During the Second Quarter, vacancy stood at 19.33%, and this quarter dropped to 16.27%. As vacancy dropped, rental rates rose on average of \$0.20/psf. Even though the Vancouver market experienced heavy development growth over the last two years it did not add any inventory this quarter.

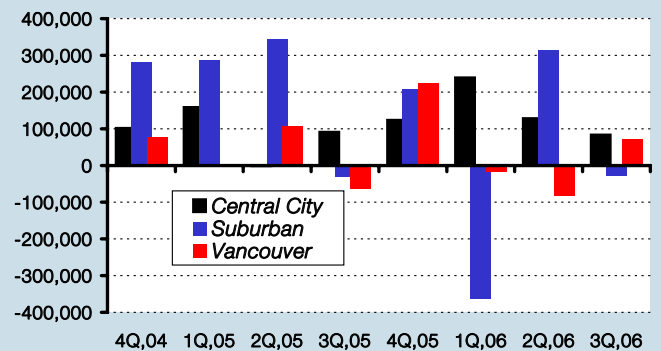
SIGNIFICANT DEALS

- Unico Properties/JP Morgan** purchased the 1,098,319 sf US Bancorp Tower in the Central Business District for just over \$270.35 million.

VACANCY COMPARISON



ABSORPTION COMPARISON



- One Pacific Square CF, LLC**, purchased One Pacific Square in downtown Portland for \$48 million.
- One Main Place** purchased One Main Place in downtown Portland for \$69.3 million from LAFP Portland, Inc.
- White Stag Block, LLC**, purchased the 117,000 sf 5 NW Naito Parkway for \$5.5 million. White Stag Block will house the U of O Architectural School.
- Portland General Electric** leased 31,436 sf of office space at SouthCenter Business Park, Building B, in Tualatin.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central City*					
Central Business	14,250,943	1,639,276	11.50	(11,823)	40,000
Lloyd	2,087,070	252,764	12.11	(5,788)	0
Northwest	2,427,050	235,874	9.72	103,045	0
TOTAL	18,765,063	2,127,914	11.34	85,434	40,000
Suburban*					
Sunset Corridor	3,173,148	805,228	25.38	(66,468)	57,514
Central 217	1,673,040	245,409	14.67	16,325	0
Southern 217	940,876	63,052	6.70	(1,037)	0
Barbur Boulevard	581,268	80,249	13.81	20,685	0
Beav-Hillsdale/Sylvan	773,809	126,214	16.31	26,962	0
Central Beaverton	623,431	80,212	12.87	16,361	0
I-5 South	1,517,102	174,952	11.53	(58,650)	49,716
SW Waterfront/Johns Lndg	1,105,097	116,959	10.58	(12,716)	0
Kruse Way	2,068,258	105,187	5.09	(3,946)	107,490
Lake Oswego/West Linn	519,935	91,949	17.68	21,113	0
North/Northeast	896,532	135,988	15.17	5,766	201,188
Central 205	1,215,433	130,726	10.76	48,504	0
Southeast	656,253	61,289	9.34	(41,655)	39,000
TOTAL	15,744,182	2,217,414	14.08	(28,756)	454,908
Vancouver	3,524,286	596,462	16.92	71,511	183,748

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



NAI Norris, Beggs & Simpson

Commercial Real Estate Services, Worldwide.

**121 SW Morrison Suite 200
Portland OR 97204
tel 503 223 7181
www.nai-nbs.com**

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Industrial/Flex

market report

PORTLAND METRO AREA

Third Quarter
2006

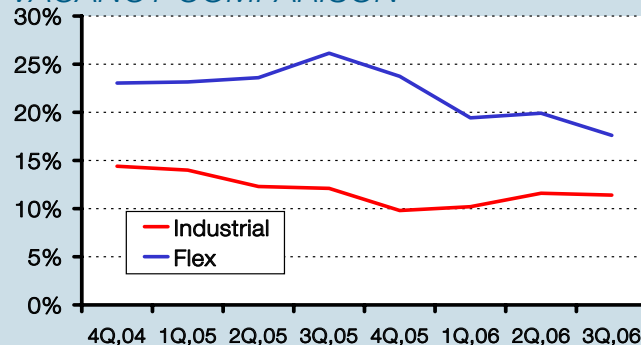
MARKET HIGHLIGHTS

- The industrial market added 536,243 sf of total inventory mainly in the North/Northeast and Southeast submarkets. Total absorption for this quarter was 427,389 sf, indicating strong demand for industrial product. The vacancy rate dropped slightly to 11.4% this quarter. The Southwest 217 submarket saw a significant drop in vacancy from 18.6% Second Quarter to 14.7% this quarter, absorbing 120,858 sf with standouts like the 40,000 sf lease at Fry Distribution Center and 24,842 sf at 217 Distribution Center. The Vancouver market saw a slight increase to 6.5%, but enjoys the second lowest overall vacancy of all the submarkets. With no product under construction, we should see Vancouver's vacancy rate decrease next year with pressure for new construction.
- The flex market has been defined by high overall vacancy rates, but low vacancy in individual business parks. Several flex parks like International Corporate Center in the North/Northeast submarket have 4 of their 6 buildings at 100% occupancy, as well as the 48,930 sf Beaverton Tech Center in the Southwest 217 submarket. The 508,519 sf Creekside Corporate Park only has 46,045 sf available. The flex market vacancy trended down again this quarter to 17.61%, absorbing 236,963 sf.

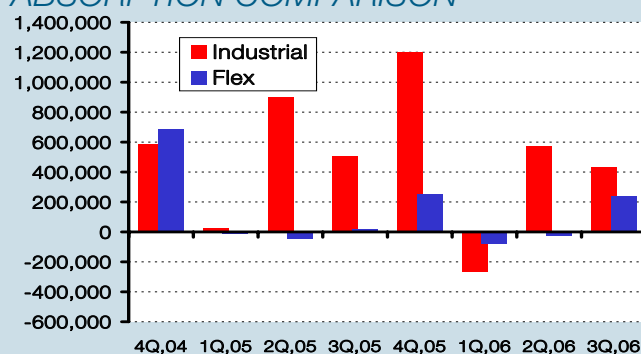
MARKET TRENDS

- Like the housing market, the industrial market is also experiencing a slight cooling off and existing building prices have leveled off. This comes after several quarters of aggressive industrial activity, where many users were jumping into ownership, and appreciation of these properties was escalating rapidly. With owner-user and investor interest taking a breather, cap rates have started to increase and leasing has grown due to lack of new development.
- In the Clark County/Vancouver market, there is a distinct movement towards Cowlitz County. Woodland, Kalama, and Longview are seeing more traffic and inquiries. Currently several land owners in

VACANCY COMPARISON



ABSORPTION COMPARISON



Woodland have petitioned the City to annex their property into the city so that services can be available for industrial users who are interested in moving there.

SIGNIFICANT DEALS

- Richards Homewares** purchased 106,000 sf at 10675 North Lombard for \$4.16 million.
- Promotion Products** leased 166,404 sf at 11601 SE Foster Rd.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
<i>Industrial & Business Parks*</i>					
North/Northeast	17,747,289	2,192,417	12.40	311,811	282,627
Northwest	1,642,488	94,261	5.70	(8,268)	0
Southeast	6,015,638	733,521	12.20	94,207	197,280
Southwest 217	3,129,225	459,971	14.70	120,858	28,586
Southwest I-5	8,137,100	718,763	8.80	4,766	148,346
Southwest Sunset	2,936,874	717,359	24.40	(39,047)	59,975
Vancouver	8,236,895	537,806	6.50	(56,938)	0
TOTAL	47,845,509	5,454,098	11.40	427,389	716,814

Flex*

North/Northeast	354,366	71,810	20.26	16,423	n/a
Southeast	145,704	23,985	16.46	7,115	n/a
Southwest 217	2,360,307	257,786	10.92	37,152	n/a
Southwest I-5	1,174,439	105,867	9.01	21,455	n/a
Southwest Sunset	5,517,697	1,219,842	22.11	156,472	n/a
Vancouver	757,719	136,671	18.04	(1,654)	n/a
TOTAL	10,310,232	1,815,961	17.61	236,963	n/a

* Additions and Subtractions to the numbers above are in our detailed report.

** Under construction numbers for industrial also include flex buildings.

- Core-Mark International** leased 111,740 sf at Commerce Park Milwaukie.
- SCA/Packaging North America** leased 84,970 SF at Wilsonville Business Center.



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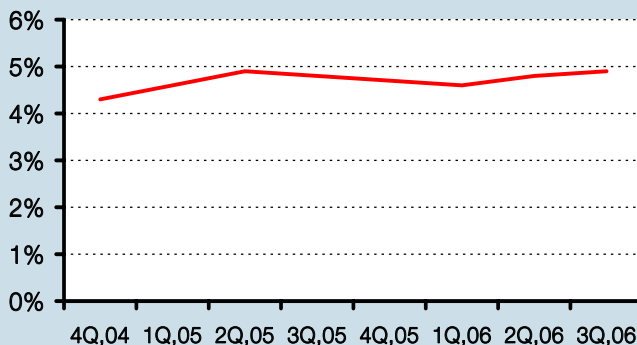
MARKET HIGHLIGHTS

- Third Quarter's overall vacancy rate is at 4.9%, just 10 basis points up from last quarter's 4.8%. The Sunset Corridor submarket reduced vacancy from 3.8% last quarter to 3.0% this quarter. Another submarket posting a small decrease in vacancy is Vancouver, dipping from 6.0% to 5.8% in this quarter. The most significant change in vacancy occurred in the 122nd/Gresham submarket which negatively absorbed 96,903 sf. A few retail centers lost significant square footage: Powell Valley Junction (60,000 sf), Troutdale Market Center (38,000 sf) and Rockwood Plaza (14,209 sf). This contributed to a rise in vacancy from 6.7% to 8.5%.
- This quarter, total inventory decreased from 39,635,484 sf to 39,479,884 sf, attributed to a shift in inventory in the Sunset Corridor submarket. All other submarkets remained the same except for the Eastside submarket which added an additional 17,000 sf. The decrease in inventory coupled with the low vacancy rate has created demand for new construction as the Portland Metropolitan Area continues to woo national retailers.

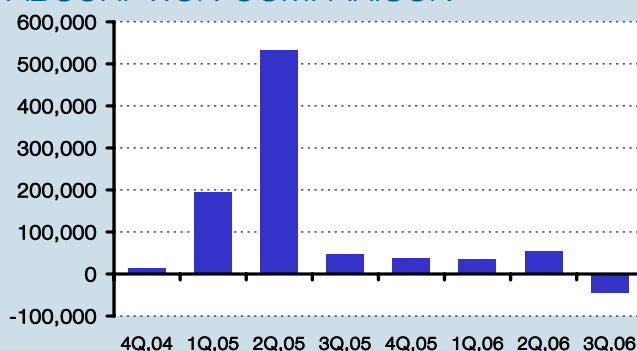
NOTEWORTHY NEWS

- A series of firsts are slated for Clark County with Best Buy opening their first store in area this quarter and plans to open a second store in the Hazel Dell Town Center in 2007. Another first for Clark County includes the Opus development at the Landing of Evergreen, which will be the first lifestyle center in the county. This is a positive sign for the area, indicating that national retailers are confident that even with the sales tax, an increasing number of shoppers will remain in the area rather than cross the river to Portland.
- There has been significant retail growth in the suburbs, particularly surrounding recently developed lifestyle centers. In particular, the success and proximity of Bridgeport Village has spawned the development of The Pointe at Bridgeport. Located across from the lifestyle center, several retailers have found a home with attractive car and pedestrian traffic created by Bridgeport Village and a Whole Foods grocery store is currently under construction in the same area. Another retail outlet benefiting from Bridgeport Village is the Nyberg Center, which will see Best Buy opening a store.

VACANCY COMPARISON



ABSORPTION COMPARISON



SIGNIFICANT DEALS

- Trails End Investors, LLC**, bought the 102,407 sf Trails End Marketplace in Oregon City for \$30.47 million.
- Watanabe & Watanabe, LP**, sold the 48,474 sf Mill Plain Center in Vancouver, WA, for \$8.87 million.
- State of Oregon, Department of Human Services** leased 31,214 sf of retail space at Powell Villa Shopping Center in Portland.
- PETCO Animal Supplies** leased 15,500 sf of retail space at SE Mill Plain Blvd. and Chkalov Drive in Vancouver.
- Sweetwater Farm** leased 5,000 sf at 237 NW 14th in Portland.

MARKET SUMMARY

Retail*

SUBMARKET	INVENTORY	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,494,959	466,229	8.5	(96,903)	215,000
Central City	2,570,772	120,445	4.7	(14,217)	31,500
Southeast/E. Clackamas	5,199,976	124,404	2.4	(23,885)	144,419
Eastside	4,814,151	253,744	5.3	7,508	58,463
Sunset Corridor	4,669,891	140,422	3.0	55,498	0
Southwest	9,485,670	427,638	4.5	7,521	84,400
Vancouver	7,244,465	418,072	5.8	19,991	697,850
TOTAL	39,479,884	1,950,954	4.9	(44,487)	1,231,632

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Multifamily market report

PORTLAND METRO AREA



Third Quarter
2006

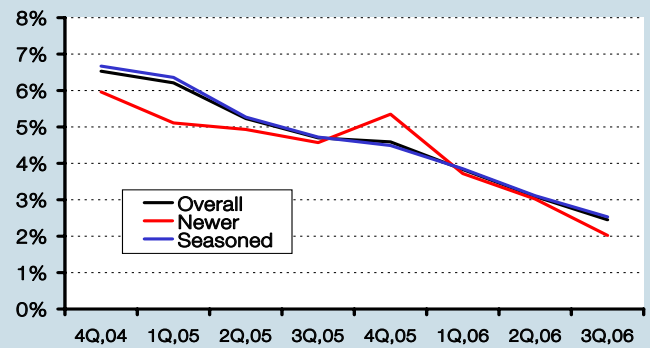
MARKET HIGHLIGHTS

- The Multifamily market is reporting the lowest vacancy rate it has seen in several years. Currently at 2.45% overall, it is 64 basis points lower than last quarter which was 3.09%. Submarkets that made significant vacancy drops from the last quarter include Gresham/Troutdale, which went from a Second Quarter vacancy of 4.21% to a current rate of 1.96%; Beaverton/Aloha, which went from a vacancy of 3.96% to its current 2.99%; and Vancouver, which decreased vacancy from 3.58% to 2.90%.
- According to CoStar, a real estate research company, 160 property transactions have occurred in Portland during the past 12 months. The value of these transactions is over \$900 million with an average unit price of \$72,000.

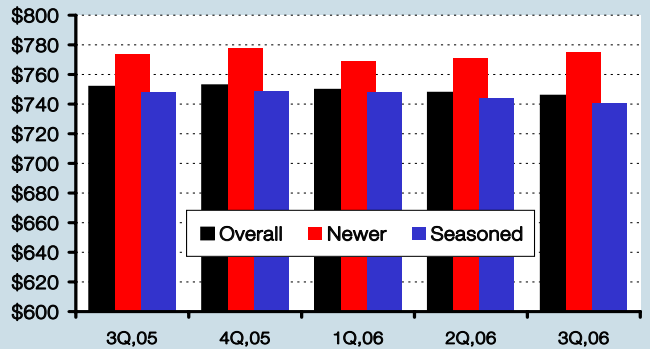
MARKET TRENDS

- Though the housing market is starting to cool down in the Portland Metropolitan Area, the price of single family homes has not come down significantly since this time last year. In July 2006, the average price for a Portland home was 17.4% higher than it was in 2005. Likewise, Clark County experienced an even higher rise in July, with homes valued at 19.7% more than they were in 2005. Potential home buyers continue to be priced out of the market and multifamily vacancy rates reflect that.
- With vacancy rates at their lowest in several years, landlords are starting to recuperate their losses over the last five years. Landlords have started to raise rents, particularly in areas where vacancy is below 2%, decreasing rent concessions and are reinstating utility charges back to renters.
- Inventory will continue to be tight well into 2007. 1,441 new rental units are being delivered in 2006, with about the same number slated for 2007. These units represent less than 1% of the total inventory. Coupled with the loss of approximately 1,000 to 1,500 units over the last three years to condominium conversions, the multifamily market does not have the supply to meet rising demand.
- The Multifamily market is seeing an increase in inventory in the \$1 to \$5 million range. Some experts have suggested this increase indicates that sellers believe the market has peaked.

VACANCY COMPARISON



AVERAGE RENT COMPARISON



SIGNIFICANT SALES

- **Holland Holdings III, Kellogg Lake**, purchased Mira Monte Lodge from **Franklin-Kellogg Lake, LLC**. The 231 units, located at 12200 SE McLoughlin Blvd. in Milwaukie, sold for \$17.5 million.
- **Clermont Apartments, LLC**, purchased Clermont Apartments in Portland for \$15.2 million. The 183 units were sold by **Fairfield Cornell Springs, LP**.
- **Towncenter Park Associates, LLC**, purchased Towncenter Park Apartments from **MRA Investment, LLC**. The 111 units sold for \$9.3 million and are located in Wilsonville.

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	\$881 (\$1.27)	\$1,123 (\$1.24)	\$1,474 (\$1.24)	\$2,470 (\$1.32)	1.31
Southeast Portland	\$592 (\$0.89)	\$684 (\$0.78)	\$739 (\$0.74)	\$881 (\$0.76)	2.62
North/Northeast Portland	\$622 (\$0.91)	\$709 (\$0.78)	\$825 (\$0.83)	\$785 (\$0.68)	1.83
Southwest Portland	\$580 (\$0.86)	\$667 (\$0.77)	\$797 (\$0.77)	\$849 (\$0.72)	3.90
Gresham/Troutdale	\$568 (\$0.82)	\$623 (\$0.73)	\$693 (\$0.72)	\$824 (\$0.72)	1.96
Lake Oswego/West Linn	\$753 (\$0.96)	\$805 (\$0.89)	\$995 (\$0.90)	\$1,097 (\$0.82)	4.87
Wilsonville	\$603 (\$0.84)	\$668 (\$0.72)	\$711 (\$0.75)	\$829 (\$0.72)	3.18
Tigard/Tualatin	\$600 (\$0.89)	\$667 (\$0.78)	\$777 (\$0.77)	\$892 (\$0.76)	2.40
Beaverton/Aloha	\$624 (\$0.90)	\$691 (\$0.77)	\$789 (\$0.79)	\$937 (\$0.80)	2.99
Hillsboro	\$678 (\$0.91)	\$721 (\$0.77)	\$838 (\$0.79)	\$1,016 (\$0.79)	1.92
Clackamas/Or Cty/Mlwk	\$584 (\$0.83)	\$665 (\$0.76)	\$720 (\$0.76)	\$861 (\$0.71)	3.54
Vancouver	\$583 (\$0.82)	\$649 (\$0.72)	\$741 (\$0.72)	\$845 (\$0.70)	2.90
OVERALL	\$638 (\$0.91)	\$708 (\$0.79)	\$824 (\$0.80)	\$953 (\$0.77)	2.45

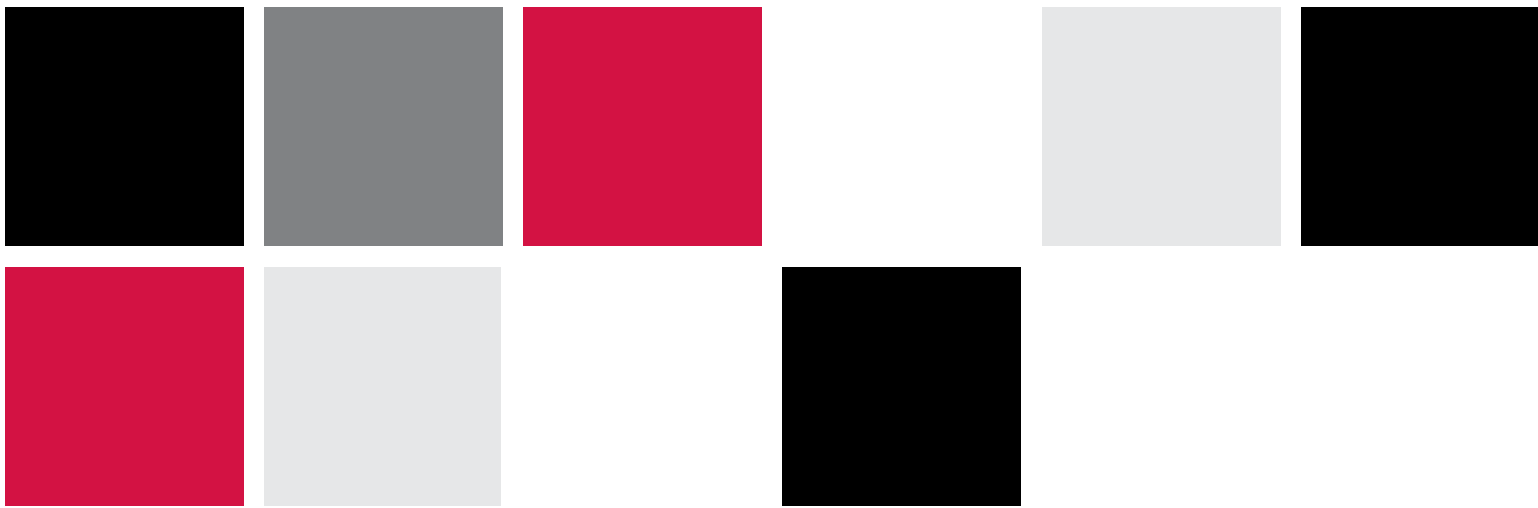


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NAI NORRIS, BEGGS & SIMPSON OFFICES

121 SW Morrison
Suite 200
Portland OR 97204
503 223 7181

500 E. Broadway
Suite 410
Vancouver WA 98660
360 699 7181

600 University Street
Suite 1028
Seattle WA 98101
206 587 1840

www.nai-nbs.com



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