Economic market report

PORTLAND METRO AREA

First Quarter 2005

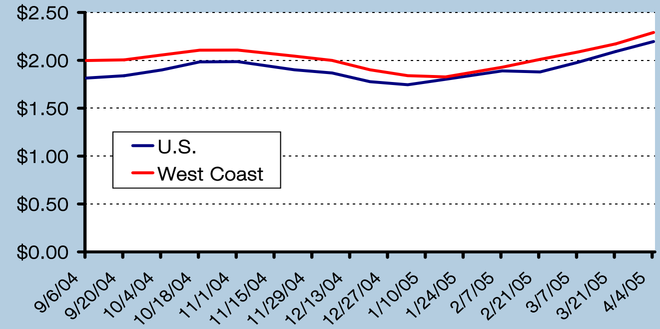
NATIONAL HIGHLIGHTS

- This quarter saw the inauguration of Bush's second-term in office and if his first term was marked by intense international focus, his second term will be identified as one in which national policies and state of affairs such as Social Security, healthcare and controlling federal and trade deficit are the emphasis.
- Job growth has continually increased since the Fourth Quarter of 2003. In February of 2005, the U.S. economy added 262,000 jobs, with growth across a range of industries from manufacturing/construction to retail and business services.
- Interest rates, still historically low, encouraged commercial real estate sales and continue to do so, though this trend is expected to slow in the second half of 2005.

LOCAL HIGHLIGHTS

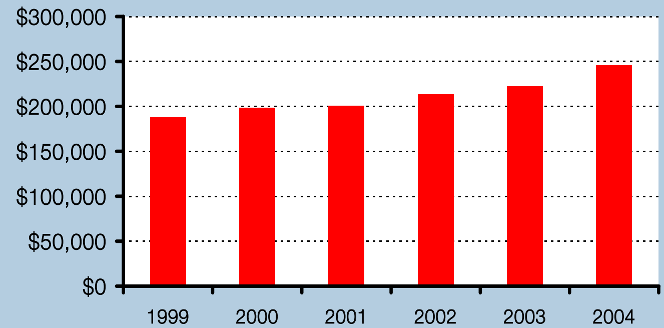
- With little to no new construction in the office and industrial markets, supply and demand has begun to balance out and, as the national and regional economies gather more steam, corporate hiring has started to rise more significantly to begin filling up vacant office and industrial space.
- February added 10,100 jobs, the most significant job gain for Oregon since last spring.
- The manufacturing and transportation industries made steady progress through 2004, and 2005 has seen moderate, but positive, growth.
- New retail development in the area occurred as "lifestyle center" retail complexes such as Bridgeport Village and The Streets of Tanasbourne, and though "lifestyle centers" have proven to be popular and effective, the ability for further development is restricted due to the Urban Growth Boundary.
- Home buying and housing starts have started to drop off and housing product is spending longer periods of time on the market. This is great news for landlords as market rents and vacancy rates will soon stabilize.
- Investment activity remains strong as buyers anticipate revenue growth and sellers anticipate rising cap rates.

HISTORICAL GAS PRICES



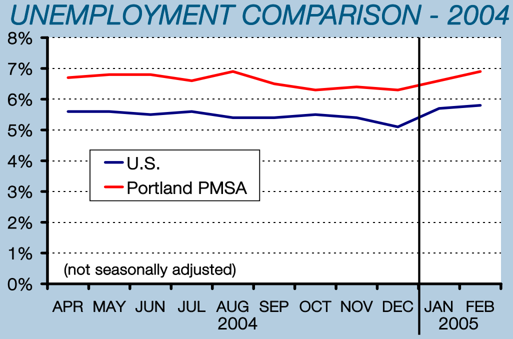
Source: Energy Information Administration

PORTLAND PMSA AVERAGE HOME PRICES



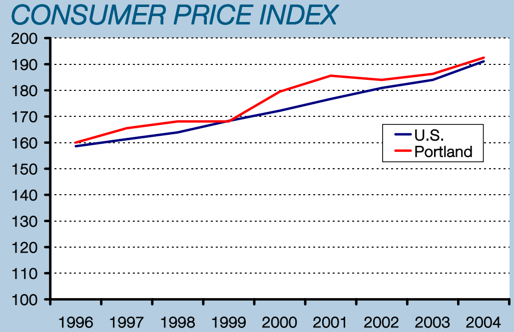
Source: RMLS

UNEMPLOYMENT COMPARISON - 2004



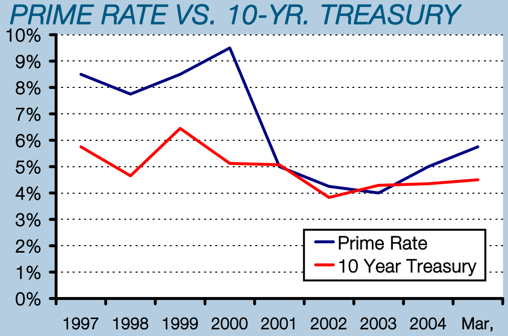
Source: U.S. Department of Labor; Oregon Employment Department

CONSUMER PRICE INDEX



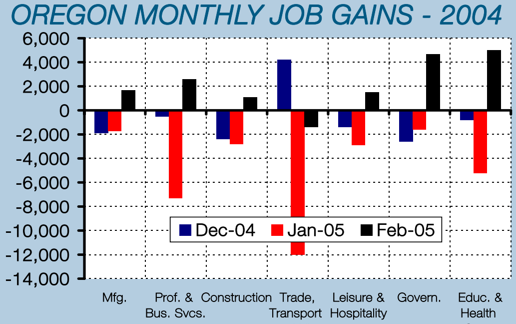
Source: Bureau of Labor Statistics

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

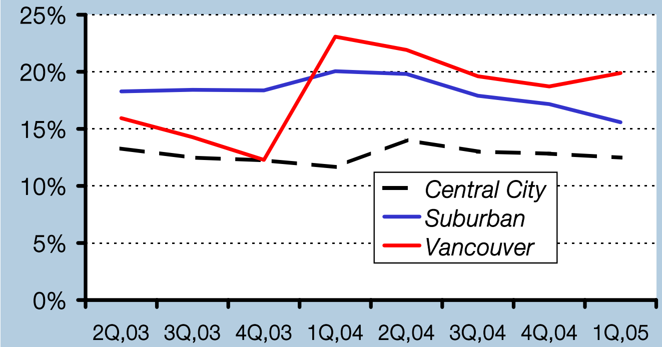
PORTLAND METRO AREA

First Quarter 2005

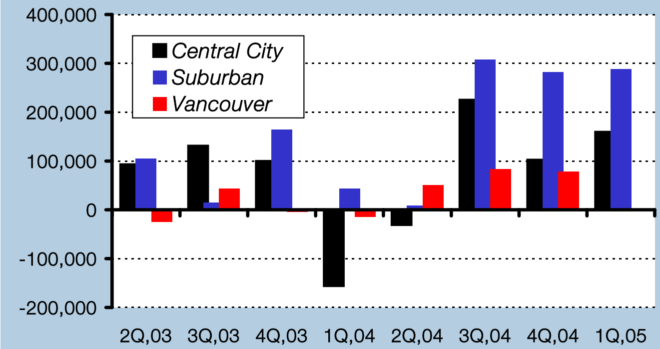
MARKET HIGHLIGHTS

- Overall Central City direct vacancy now stands at just under 12.5% with the Lloyd District the first submarket to inch into single digits. With over 160,000 sf absorbed in the Central City, the first quarter exceeds the total for all of 2004. Over half of the absorption occurred in sublease space, further eroding the inventory of space available at discounted rents.
- The suburban market direct vacancy dropped from 17.17% last quarter to 15.58% due in large part to the robust activity in the Southeast and Kruse Way submarkets. Total absorption for the quarter was 289,465 sf with the Southeast submarket posting the largest gain of 80,301 sf absorbed. In the Lake Oswego/West Linn submarket, the absorption of 30,302 sf forced vacancy down nearly 5 percentage points to 7.00%.
- There has been a slight increase in the vacancy rate in Vancouver due to an extra 45,000 sf coming on line this quarter. Vancouver, which has been outpacing the Portland market over the last several quarters, seems to be slowing down. Only 1,674 sf were positively absorbed in that submarket during first quarter 2005.

VACANCY COMPARISON



ABSORPTION COMPARISON



SIGNIFICANT DEALS

- **RealNet Investments** purchased the 74,911 sf Washington Center Tower in Portland for $12.3 million from **AP&J Corporation and DTI Corporation**.
- **Jordan Investments** purchased the 20,000 sf Flying Rhino Building in Portland for $3.6 million from **Northrup Properties Corporation**.
- **The Church of Truth** purchased The Hoop, a 50,671 sf building in Vancouver, WA., for $3 million from **Sivers Investment Partnership**.
- **Oregon Health & Science University's Information Technology Group** leased 66,891 sf at 1515 Market Square in Portland.
- **The Hearing and Speech Institute, Inc.**, leased 20,308 sf at 516 SE Morrison in Portland.
- **Wells Fargo Home Mortgage** leased 18,719 sf at One Monarch Center in Clackamas.

MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central City*					
Central Business	14,140,414	1,699,725	12.02	97,767	0
Lloyd	2,140,729	167,582	7.83	18,762	0
North/Northwest	2,034,823	418,273	20.56	44,129	0
TOTAL	18,315,966	2,285,580	12.48	160,658	0
Suburban*					
Central 217	1,616,890	249,537	15.43	5,895	0
Southern 217	925,414	67,477	7.29	9,998	0
Barbur Boulevard	593,155	66,620	11.23	(3,359)	0
Beaverton-Hillsdale	455,992	41,174	9.03	31,231	0
Central Beaverton	579,675	80,968	13.97	14,564	0
I-5 South	1,270,943	97,741	7.69	6,711	0
Johns Landing	980,162	156,418	15.96	(22,021)	0
Kruse Way	2,070,671	152,798	7.38	40,573	0
Lake Oswego/West Linn	446,911	31,270	7.00	30,302	20,000
Northeast	986,384	181,237	18.37	11,349	0
Sunnyside/Clackamas	1,169,544	226,879	19.40	15,434	0
Southeast	606,748	56,197	9.26	80,301	0
Sylvan-Sunset	3,092,320	897,147	29.01	66,813	20,000
TOTAL	14,794,809	2,305,463	15.58	287,791	40,000
Vancouver	3,095,538	615,550	19.89	1,674	50,400

*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 2005

MARKET HIGHLIGHTS

- Overall industrial vacancy and lease rates have remained flat since last quarter. Total average vacancy rate for the Portland Metro Area was 14%. The SW 217 submarket had a negative absorption of 92,000 sf which increased vacancy to 19.5%; this was tempered by decreasing vacancy rates in the SW I-5 and SW Sunset submarkets.
- The flex market also remained relatively flat this quarter with vacancy rates hovering around 23%, but still a significant change from the high of 29.6% recorded just two quarters ago. Vancouver continues to post low flex vacancy numbers with a rate of 6.33%.

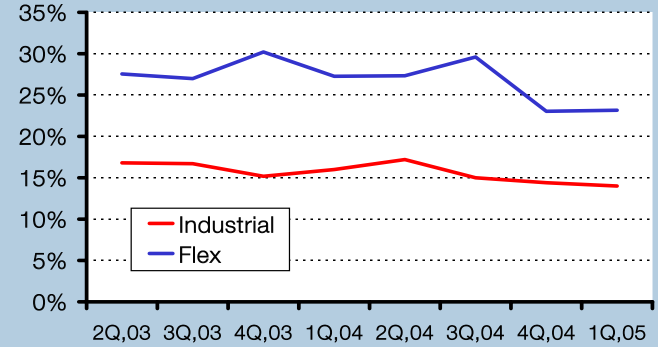
MARKET TRENDS

- As industrial companies begin reporting increases in production, they have turned to logistic companies to satisfy their distribution needs without necessitating the purchase of industrial commercial property on their own. These third-party companies are providing the additional manpower necessary to fulfill the growing distribution requirements. Oregon Transfer, an example of one of these logistic companies, is beginning operations in a new 295,000 sf warehouse in the Rivergate Industrial District. Ultimately, this trend will increase demand for bulk warehouse space as more companies outsource their distribution.
- There has also been a shift in demand for owners wanting to buy and occupy buildings. With inventory low, developers are building more speculative properties to take advantage of this trend. An example of this includes the Columbia South Shore development being created by Jeff Gordon with IDM, LLC, a Vancouver development firm.

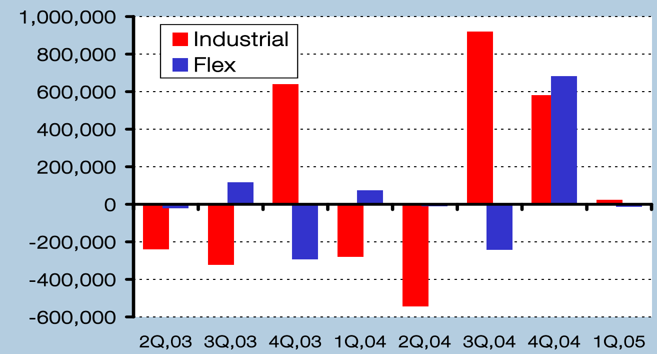
SIGNIFICANT DEALS

- **Eastern Western Corp.** purchased the 70,000 sf Willamette Valley Distribution building for $4.2 million in Oregon City.
- **Island Pacific Oregon, LLC,** purchased the 53,500 sf Toshiba building in Hillsboro from **Toshiba Ceramics America, Inc.,** for $4.5 million.
- **HSHE Rockport, LLC,** purchased 5.2 acres on Tualatin-Sherwood Road in Tualatin for $1.31 million.
- **Graziano Food Services, Inc.,** leased 26,000 sf at the AJW Building in Portland.
- **Megenthaler Transfer** and Storage leased 21,000 sf at Utility Industrial Park in Tigard.
- **NW Pacific Aluminum and Glass** leased 17,475 sf at Clackamas Commerce Center in Clackamas.

VACANCY COMPARISON



ABSORPTION COMPARISON



MARKET SUMMARY

SUBMARKET	INVENTORY	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Industrial & Business Parks*					
North/Northeast	16,353,385	2,734,859	16.70	(86,753)	274,100
Northwest	1,650,280	151,000	9.10	(4,655)	0
Southeast	5,610,875	614,819	11.00	(17,756)	72,550
Southwest 217	2,563,129	500,212	19.50	(92,391)	0
Southwest I-5	8,792,014	691,601	7.90	96,386	147,058
Southwest Sunset	4,228,381	856,298	20.30	44,980	0
Vancouver	7,833,338	1,019,105	13.00	84,480	89,766
TOTAL	**47,031,402**	**6,567,894**	**14.00**	**24,291**	**583,474**
Flex*					
North/Northeast	357,252	82,239	23.02	(9,432)	n/a
Southeast	144,433	16,700	11.56	(3,600)	n/a
Southwest 217	3,013,152	728,047	24.16	20,878	n/a
Southwest I-5	588,328	128,416	21.83	(29,586)	n/a
Southwest Sunset	5,526,091	1,404,443	25.41	7,990	n/a
Vancouver	769,234	48,689	6.33	870	n/a
TOTAL	**10,398,490**	**2,408,534**	**23.16**	**(12,880)**	**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 2005

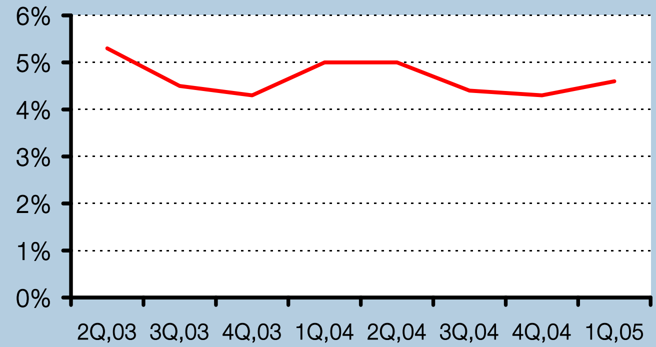
MARKET HIGHLIGHTS

- Consumer spending, which had faltered slightly in the beginning of last quarter's holiday season, rebounded through December 2004 and continues to post strong numbers through the first quarter of 2005. As of February, consumer spending showed a 6.7% gain from a year ago.
- Even though the First Quarter posted nearly 200,000 sf of positive absorption, the overall vacancy rate rose slightly to 4.6%. This can be attributed to several projects coming online this quarter and adding 350,000 sf of inventory. These projects include Hazel Dell Towne Center in Vancouver, WA, and an 82,000 sf project in Clackamas.

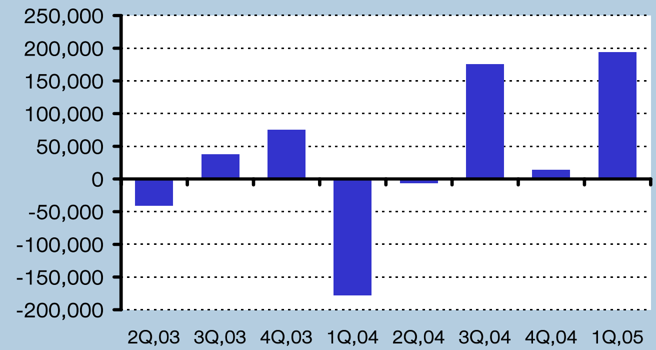
NOTEWORTHY NEWS

- The Portland Development Commission (PDC) asked developers to go back to the drawing board to come up with alternatives to the original designs for the East Burnside Development project, due to public outcry against the architectural proposals that all included a big box retailer.
- The Portland City Council has approved an amendment to the Cascade Station District, located in the Portland International Airport's International Center, to increase the square footage for potential retailers. This will serve to attract large, national retailers such as IKEA, which could draw shoppers from the Portland/Vancouver area and beyond.
- Federated Department Stores, Inc., purchased May Department Stores Co., parent company of Meier & Frank. The $11 billion deal, which merges the nation's two largest department store chains, will create a retailing power with nearly 1,000 department stores around the country and nearly $30 billion a year in revenue. The transaction proposes changing the name of Meier & Frank to Macy's and a revamping of the product line and interior store design.
- Making room for a Nike Factory Store prompted Woodburn Company Stores announcement of their planned $1.6 million, 23,700 sf expansion. Nike will occupy 15,000 sf in the new addition.

VACANCY COMPARISON



ABSORPTION COMPARISON



- Washington Square breaks ground on the second phase of its planned 100,000 sf expansion, which will accommodate 28 stores in time for the 2005 holiday shopping season.

SIGNIFICANT SALES

- **CenterCal, LLC**, a joint venture controlled by the California State Teachers Retirement System, purchased the 465,000 sf Bridgeport Village, located at the intersection of I-5 and Boones Ferry Road, for $170 million, about $366/sf.
- **Wilsonville, LLC**, purchased the 166,829 sf Wilsonville Town Center for $29.9 million or approximately $179/sf.

MARKET SUMMARY

*Retail**

SUBMARKET	INVENTORY	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,148,046	398,608	7.7	20,724	20,230
Central City	2,594,772	180,406	7.0	46,495	13,000
Southeast/E. Clackamas	5,419,563	168,662	3.1	118,258	18,102
Eastside	5,251,986	299,500	5.7	(57,782)	113,022
Sunset Corridor	5,192,620	135,432	2.6	(43,529)	20,000
Southwest	9,460,031	306,555	3.2	106,664	412,126
Vancouver	6,713,804	336,642	5.0	3,104	111,400
TOTAL	**39,780,822**	**1,825,805**	**4.6**	**193,934**	**707,880**

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Multifamily market report

PORTLAND METRO AREA

First Quarter 2005

MARKET HIGHLIGHTS

- The current overall average total market rent is at $753, just one dollar more than the overall average in fourth quarter 2004.
- While average rents have remained flat from the last quarter, concessions have dropped off considerably. Landlords have stopped trying to entice hard-to-find tenants with move-in specials and free first and last month rents due to the increasing availability of tenants in a slowing, home-buying environment.
- This quarter's data is slightly skewed due to the fact that previous quarters' data on new units has now crossed over into seasoned unit data. With little to no construction of new market rate apartment complexes, much of the new unit data is based on a small percentage of total apartment data. This difference has affected the individual submarket numbers significantly.

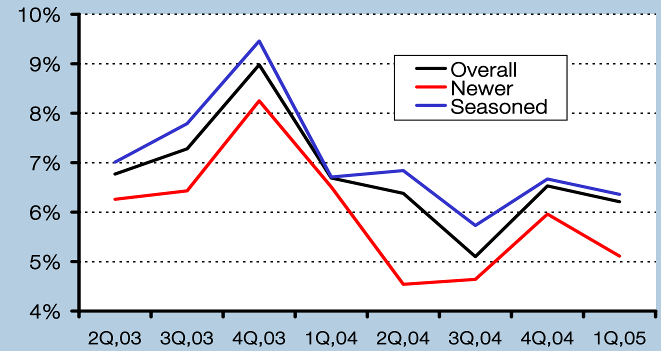
MARKET TRENDS

- Since 2003, the hot trend in the multifamily market was condominium conversions. Developers were snatching up apartment complexes from struggling landlords with the help of low interest rates. Now that the interest tides are turning, development interest has begun to slacken as demand for their product lessens. There is little interest in suburban development of these structures, but well-placed, luxury condominium projects continue to attract buyers such as The Envoy and Uptown Terrace.
- We expect to see vacancy decline through the next three quarters and rental rates will begin to increase more significantly in the second half of 2005.
- With no hint of interest rates hikes stopping, there will be a very noticeable downturn in first-time home buying which will provide landlords better leverage when re-evaluating rental rates in the next few quarters.

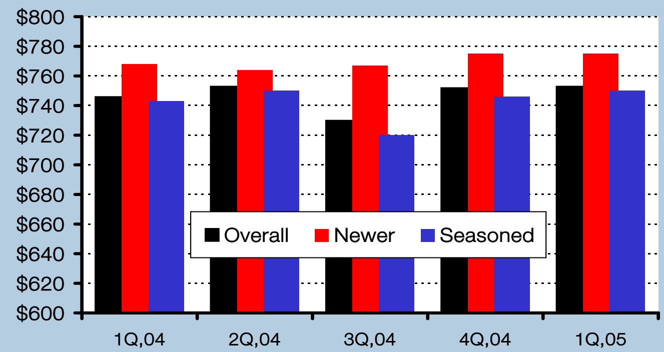
SIGNIFICANT SALES

- **King City Associates, LP**, purchased King City Apartments. The 196 units located at 11775 SW King George Drive in Portland were built in 1968 and sold for $11.44 million.

VACANCY COMPARISON



AVERAGE RENT COMPARISON



- **5005, LLC**, purchased an apartment complex at 5005 SW Murray Boulevard in Beaverton for $11 million. The 192 units were sold by **Pacific Life Insurance Company**.
- **San Gatiano Company, LP**, purchased Sterling Park Apartments from **GIT Property Investment, LLC**. The 73 units sold for $4.85 million and are located at 16804 SE Powell Boulevard.
- **Gilcrest, Inc.**, sold Gilcrest Apartments, a 56-unit apartment complex located at 6422-6420 NE 4th Plain Boulevard in Vancouver, to **David A & Sally McIntyre** for $2.85 million.

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	$875 ($1.23)	$1,141 ($1.27)	$1,467 ($1.23)	$2,466 ($1.30)	5.28
Southeast Portland	$595 ($0.88)	$684 ($0.78)	$733 ($0.73)	$877 ($0.75)	7.66
North/Northeast Portland	$623 ($0.91)	$711 ($0.78)	$825 ($0.83)	$782 ($0.67)	7.98
Southwest Portland	$619 ($0.88)	$660 ($0.77)	$981 ($0.87)	$820 ($0.67)	6.37
Gresham/Troutdale	$556 ($0.80)	$613 ($0.72)	$678 ($0.71)	$815 ($0.72)	6.47
Lake Oswego/West Linn	$737 ($0.93)	$829 ($0.86)	$996 ($0.88)	$1,121 ($0.79)	7.09
Wilsonville	$605 ($0.85)	$684 ($0.75)	$733 ($0.76)	$862 ($0.75)	7.17
Tigard/Tualatin	$593 ($0.88)	$663 ($0.77)	$770 ($0.77)	$886 ($0.76)	5.25
Beaverton/Aloha	$612 ($0.88)	$684 ($0.77)	$779 ($0.78)	$927 ($0.79)	6.18
Hillsboro	$679 ($0.92)	$723 ($0.76)	$830 ($0.78)	$1,012 ($0.78)	5.61
Clackamas/Or Cty/Mlwk	$581 ($0.83)	$657 ($0.75)	$718 ($0.76)	$863 ($0.72)	4.78
Vancouver	$590 ($0.83)	$646 ($0.71)	$753 ($0.72)	$857 ($0.71)	5.55
OVERALL	**$641** ($0.91)	**$713** ($0.79)	**$839** ($0.80)	**$966** ($0.76)	**6.21**

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