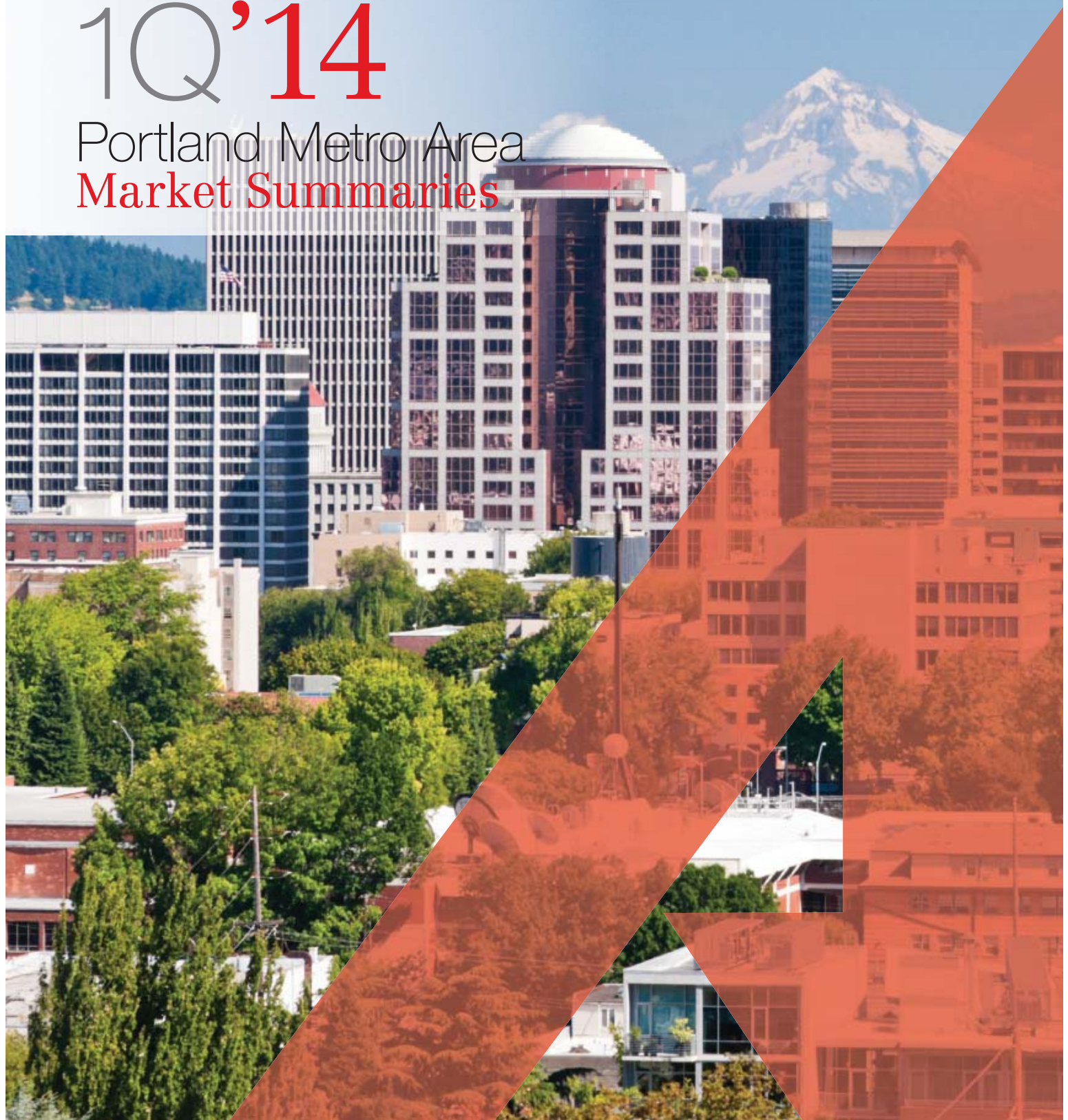


1Q'14

Portland Metro Area Market Summaries



ECONOMIC REPORT

Portland Metro Area



National Highlights

Building upon 2013's stabilizing economic efforts, 2014 began with all the fresh promise of a new year. On February 3, Janet Yellen succeeded Chairman Ben Bernanke as the first woman to lead the Federal Reserve. Yellen promised continuity in the plan to slowly wind down the stimulus as the economy regained its health, and the changing of the guard corresponded within weeks of the first reductions in the Fed's monthly purchases of securities.

The severe winter weather that plagued most of the country also froze commerce in its wake. Disparaging January retail sales threatened to hinder the economy's slow but steady progress, especially when consumer spending accounts for roughly two-thirds of all U.S. economic output. Yet, February rebounded better than expected and Americans spent more freely, resulting in the strongest February numbers since 2008.

The Standard & Poor's/Case-Shiller home price index released in March showed that home prices across the 20 metros it surveyed dipped 0.1 percent in January, but remained 13.2 percent higher than a year earlier. The decline was attributed to the harsh weather intensifying the seasonal slow, but improvement is anticipated by spring.

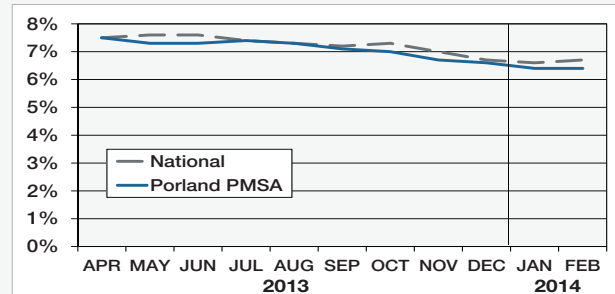
A majority of economists agree that overall conditions — including labor, consumer and housing markets — are expected to improve over the next two years, while inflation remains tame. In congruence to this forecast, the Federal Open Market Committee announced a third \$10 billion to quantitative easing in March, effectively reducing its monthly bond purchases to \$55 billion. Short-term rates will remain near zero to help support the recovery.

Local Highlights

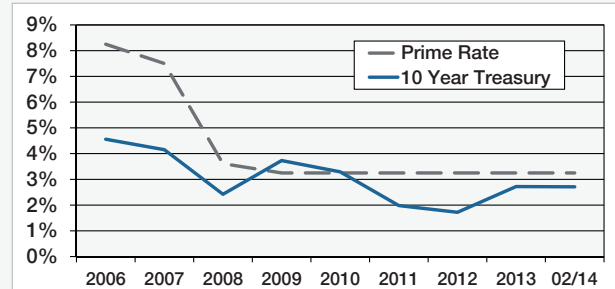
After the State boasted an encouraging 6.9 percent unemployment rate in February, the State Employment Department released projections in March showing that more than half of Oregon's new jobs in the next decade (2012-2022) will be concentrated in the Portland-metro area. Notable creative industries such as computer design, engineering and architectural firms are expected to add considerable growth.

As a possible correlation to the encouraging unemployment rate, Portland's home prices in February improved 15.4 percent ahead a year ago. Homes averaged \$325,000 and local homebuyers closed a record 1,467 sales making it the best February since 2007. Overall, this is a welcome change of pace for the remaining year's economic outlook.

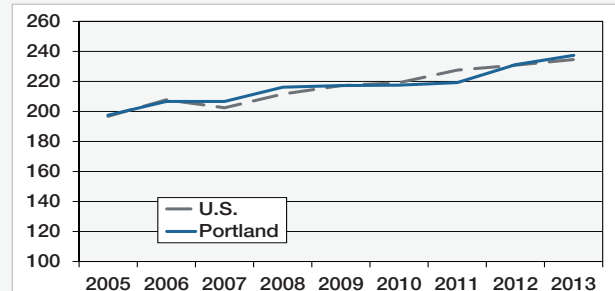
Unemployment Comparison



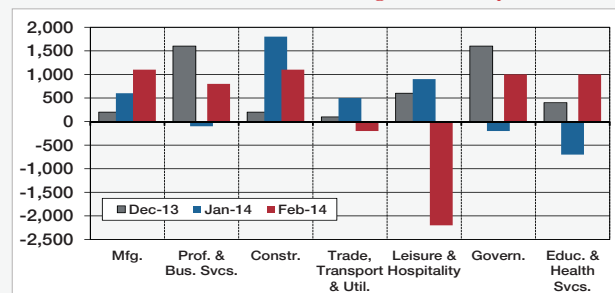
Prime Rates vs. 10-Year Treasury



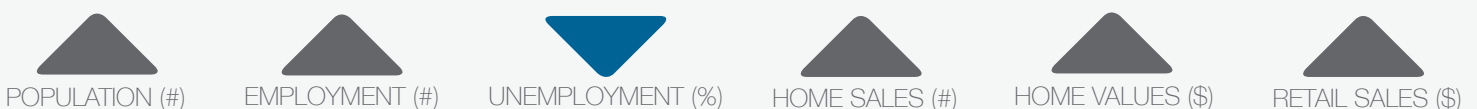
Consumer Price Index



Oregon Monthly Job Gains



Trends for 1Q14



OFFICE REPORT

Portland Metro Area

1Q14



The **Central City** office market's vacancy rate saw little change at 10.92% with negative absorption of 111,443 sf. In the Central Business District, marketing software company Webtrends vacated 66,938 sf at the Pacific Center, but took down 75,000 sf at the US Bancorp Tower. Also in the CBD, Jama Software signed a 34,629 sf lease at 2 & Taylor and is expecting to move in by December 2014. In contrast to these large deals, the bulk of activity was due to a steady stream of smaller leases such as the San Francisco Federal Reserve Bank lease of 13,005 sf at Crown Plaza, and First Data/Perka's lease of 8,246 sf at the Director Building.

With a vacancy rate of 14.60%, the **Suburban** office market benchmarked another record-low since 2008, and ended First Quarter with a positive 253,906 sf absorption. The Sunset Corridor continued 2013's trend as the reigning suburb of choice, especially with Nike claiming another 74,677 sf at Cornell Oaks Corporate Center – Greenbrier Court.

The **Vancouver** office market's vacancy was all but unchanged at 10.38%, having several lease-ups under 3,000 sf. Activity may pick-up within the year, especially since Clark County attained a major economic milestone by recovering all of its 10,000 jobs it lost in the Great Recession.

Market Trends

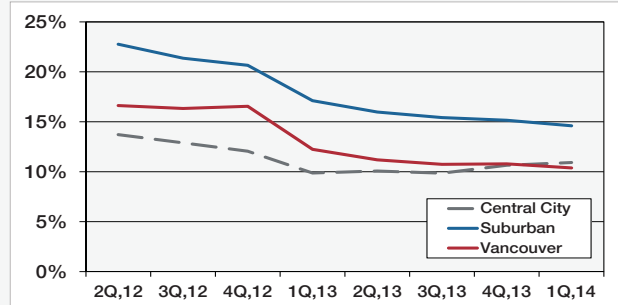
Creative industries - primarily computer design, engineering, and architectural firms - are forecasted to bulk up the local job market within the next decade. Accommodating this projected growth is limited by little to no new construction in the CBD, and traditional office space must incentivize their space to remain competitive and deter tenants' flight to the suburbs. Some buildings, like the US Bancorp Tower, have begun appropriately timed renovations. In its \$15 million dollar modernization, the Big Pink added 15,000 sf in addition to its new third floor construction for marketing software company Webtrends. More evidence to this trend is Puppet Labs, another software company, which doubled in size with its recent leasing of 75,000 sf and move to the completely repositioned Block 300.

Featured Deal

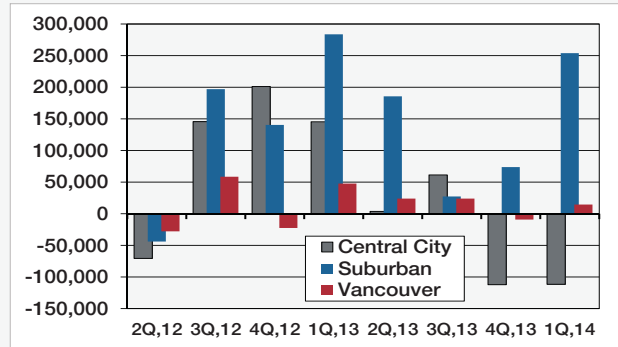


Software startup Perka, Inc. leased 8,785 sf at the Director Building bringing the building to full occupancy. Vice President, Brandon Frank and Senior Vice President, Sean Turley represented the lessor, SN Investments. Perka is a mobile marketing and consumer loyalty platform that helps merchants engage their customers with location-based smartphone apps.

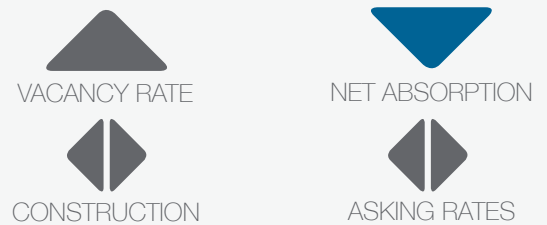
Vacancy Comparison (%)



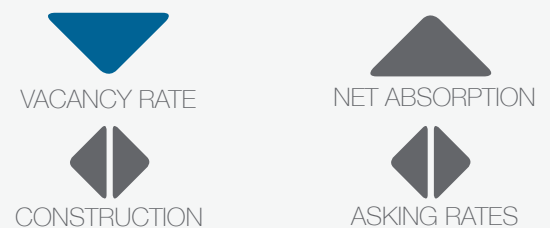
Absorption Comparison



Central City Trends for 1Q14



Suburban Trends for 1Q14



OFFICE REPORT

1Q14

Portland Metro Area

Market Overview*

SUBMARKET	# BLDGS.	INVENTORY (SF)	DIRECT AVAILABLE (SF)	DIRECT VACANCY(%)	TOTAL ABSORPTION	UNDER CONSTRUCTION
CENTRAL CITY*						
Central Business District	118	14,784,716	1,713,614	11.59	(71,172)	273,000
Lloyd District/Central Eastside	21	2,330,633	211,620	9.08	(29,951)	0
Northwest	30	3,079,486	280,665	9.11	(10,320)	0
TOTAL	169	20,194,835	2,205,899	10.92	(111,443)	0
SUBURBAN*						
Sunset Corridor	72	3,634,029	443,899	12.22	120,635	0
Central 217	35	1,840,105	339,464	18.45	(5,077)	0
Southern 217	36	1,144,392	130,857	11.43	63,768	0
Barbur Boulevard	24	492,659	77,274	15.69	(1,395)	0
Beav-Hillsdale/Sylvan	24	807,005	183,060	22.68	(10,667)	0
Central Beaverton	14	690,923	86,114	12.46	(11,287)	0
I-5 South	58	2,108,471	359,918	17.07	32,546	0
S Waterfront/Johns Landing	23	1,018,602	94,190	9.25	34,538	55,000
Kruse Way	32	2,321,570	338,985	14.60	50,671	0
Lake Oswego/West Linn	19	438,085	59,221	13.52	13,377	0
North/Northeast	25	897,741	111,570	12.43	(9,898)	0
Central 205	33	1,281,934	220,328	17.19	(27,995)	0
Southeast	19	392,792	47,613	12.12	4,690	0
TOTAL	414	17,068,308	2,492,493	14.60	253,906	55,000
Vancouver	126	4,674,586	485,187	10.38	14,562	12,000

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

**Numbers only reflect direct space.

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
US Bancorp	US Bancorp Tower & Plaza	276,551	CBD
Puppet Labs	Block 300	74,784	CBD
The Oregonian	Crown Plaza	40,413	CBD

Source: CoStar, Oregonian, Portland Business Journal, Daily Journal of Commerce

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
DRA Advisors, LLC	Lincoln Building	\$37,100,000	CBD
Providence Health & Services	Providence St. Vincent Med Cntr (3 properties)	\$16,000,000	Beav-Hillsdale/Sylvan
BPR Properties	Oregon Pioneer Building	\$4,950,000	CBD

Source: CoStar

INDUSTRIAL/FLEX REPORT

Portland Metro Area

1Q14



Industrial vacancy dropped to 8.91% with positive absorption of 650,843 sf. This is the lowest vacancy and highest absorption since 2007. The positive absorption has brought this product type to a healthy level, building confidence in the 2014 projection for gradual growth and an uptick in rents. The robust demand is also a national shift for all types of industrial space - warehouse, distribution centers, manufacturing and flex.

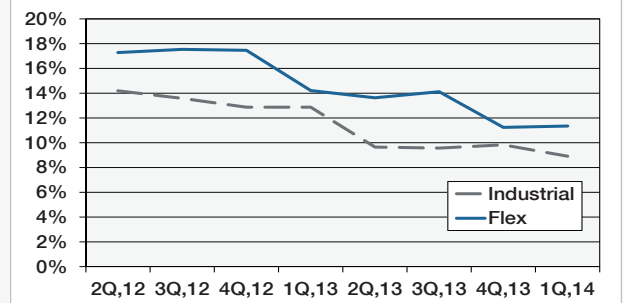
Despite a few vacancies such as wine distributor Odom Corporation leaving 184,860 sf at the Cascade Distribution Center, the North/Northeast submarket saw steady activity in renewals. M&M Investment Car Dealership leased 67,548 sf at Hayden Island Commerce Center and Kintetsu World Express, a transportation company, signed a 34,020 sf lease renewal at Alderwood Corporate Center III. In the Southeast submarket, 164,824 sf was absorbed at 212 Corporate Center due to its purchase by aerospace manufacturer PECO, Inc. In the Northwest submarket, Colgate-Palmolive renewed its commitment for 210,330 sf in Building A of the Rivergate Corporate Center III.

As the second lowest rate since 2001, the 11.35% **flex** vacancy this quarter reflected the expansion seen in the latter half of 2013. The trend toward suburbia gained traction last year with sprawl from Intel and Kaiser Permanente, and it continued this quarter with multiple, smaller leases. In the Southwest Sunset submarket, Amberglen Business Center leased 35,698 sf to biotechnology company Allon Therapeutics and technology manufacturer, Hitachi High Technologies America, Inc., leased 14,351 sf at the Ronler Corporate Center Building D.

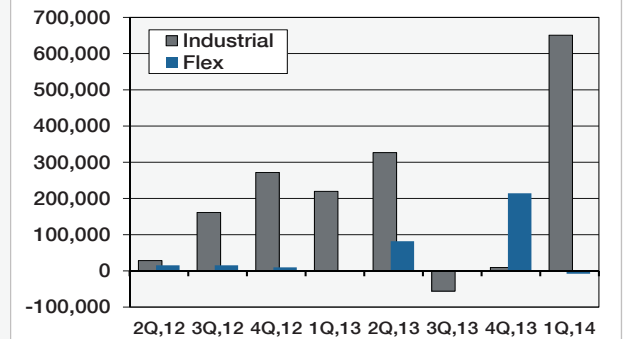
Market Trends

In continuation with our Fourth Quarter 2013 report, the Central Eastside still garners the most buzz in industrial news. We keep close tabs on the hyped speculation as the TriMet Portland-Milwaukie Light Rail Bridge nears completion. In addition to the bridge's name finally announced in April, recent developments include Portland Mayor Charlie Hales' strong push to make the area the city's next thriving employment district. Hales' efforts coincide with a new report by the State Employment Department released in March projecting that more than half of Oregon's new jobs in the next decade (2012-2022) will be concentrated in the Portland-metro area. The charm of the Central Eastside has already attracted more than 1,100 businesses in the past decade during the recession, so it will be curious to see what tenants follow suit with Hales' endeavors, making this topic an ongoing conversation for the remaining year.

Vacancy Comparison (%)



Absorption Comparison



Industrial Trends for 1Q14



Flex Trends for 1Q14



INDUSTRIAL/FLEX REPORT

Portland Metro Area

1Q14

Market Overview*

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

SUBMARKET	# BLDGS.	INVENTORY (SF)	TOTAL AVAILABLE (SF)	VACANCY(%)	TOTAL ABSORPTION	UNDER CONSTRUCTION
INDUSTRIAL*						
North/Northeast		20,724,447	2,320,820	11.20	69,272	53,333
Northwest		1,480,650	83,033	5.61	(10,000)	0
Southeast		6,518,856	507,149	7.78	276,412	0
Southwest 217		2,677,259	443,273	16.56	(16,900)	0
Southwest I-5		9,227,924	631,218	6.84	121,849	0
Southwest Sunset		2,104,533	139,064	6.61	0	393,370
Vancouver		8,348,699	426,200	5.10	210,210	70,000
TOTAL		51,082,368	4,550,757	8.91	650,843	516,703
FLEX*						
North/Northeast		608,274	56,690	9.32	0	0
Southeast		263,229	13,951	5.30	897	0
Southwest 217		2,693,459	476,343	17.69	(67,410)	0
Southwest I-5		1,041,743	19,544	1.88	13,785	0
Southwest Sunset		4,784,480	459,012	9.59	54,858	0
Vancouver		971,114	150,853	15.53	(9,987)	0
TOTAL		10,362,299	1,176,393	11.35	(7,857)	0

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Colgate-Palmolive	Rivergate Corporate Ctr III - Bldg A	210,330	North/Northeast
Owens & Minor, Inc.	Wilsonville Business Ctr - Bldg 3	86,567	Southwest I-5
Terminal Transfer, Inc.	Kelley Point Distribution Center - Bldg 2	62,500	North/Northeast

Source: CoStar, Oregonian, Portland Business Journal, Daily Journal of Commerce

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
IndCor Properties, Inc.	NE Crossing Portfolio (88 properties, 6 locally)	\$550,000,000	Nationwide
Lindquist Development Co. Inc.	4330 SW Macadam Ave	\$4,850,000	Southwest 217
Oregon Metal Slitters, Inc.	All Automatic Transmission	\$3,800,000	North/Northeast

Source: CoStar

Featured Deals



Colgate Palmolive Company Lease

Senior Vice Presidents, Mike Merino and Scott MacLean

represented the Colgate Palmolive Company in its renewal of 210,330 sf at Rivergate Corporation Center III. This distribution lease renewal was one of the larger deals in the Northwest submarket.

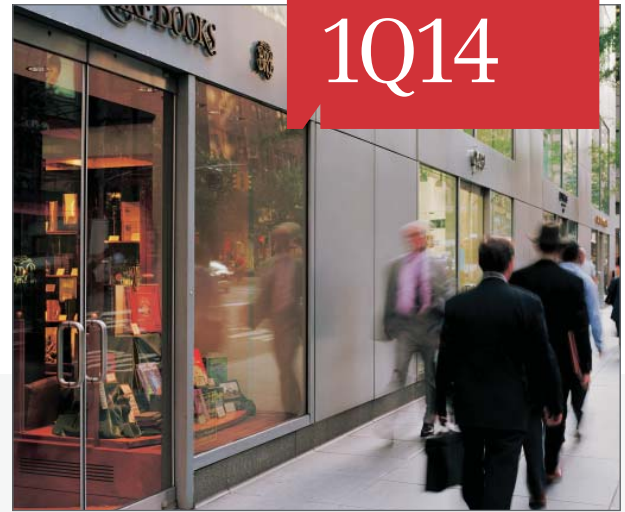


14 Acres in Longview, WA Land Sale

JJ Wood Energy, LLC has purchased 14-acres of industrial land in Longview, WA for \$1.5 million. Associate Vice President, Ron Kawamoto and Senior Real Estate Broker, Sierk Braam represented both parties. The land will supplement the expanding business of bark manufacturer, Swanson Bark Wood Products, Inc.

RETAIL REPORT

Portland Metro Area



The First Quarter **retail** vacancy remained flat at 6.20% from 2013 over last quarter. Like last quarter, the suburbs had the most leasing activity. The Sunset Corridor submarket sported the lowest vacancy rate of 4.41% and 20,861 sf positive absorption. Tanasbourne Town Center gained beauty supply chain Ulta in a 10,539 sf lease, and Farmington Village added three tenants to become fully leased. The Southwest submarket also had one of the larger retail transactions of the quarter with 32,423 sf for bowling center Ten Pins Plus, Inc. at Valley Plaza Shopping Center. There were a few notable vacancies in the 122nd/Gresham submarket with Ace Hardware and Final Table leaving Menlo Park Plaza. The two retailers vacated a total 20,054 sf, and Grocery Depot also vacated 24,984 sf at Troutdale Market Center.

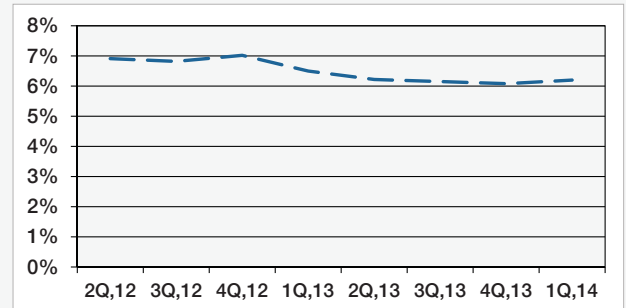
In Vancouver and Clark County, vacancy dipped to 7.78% with few changes from the previous quarter. However, Albertsons announced two more Clark County grocery stores closures, and Nordstrom said it will close its stores at Westfield Vancouver mall and Portland's Lloyd Center in 2015. The two Albertsons locations leave substantial vacancies of 51,034 sf and 52,364 sf each. Though these major closures appear to reflect dwindling confidence in the local economy, Clark County has reportedly recovered all of its jobs lost in the Great Recession. Market fundamentals suggest that this will directly impact the local retail market and tighten inventory as consumer spending increases with more disposable income.

Noteworthy News

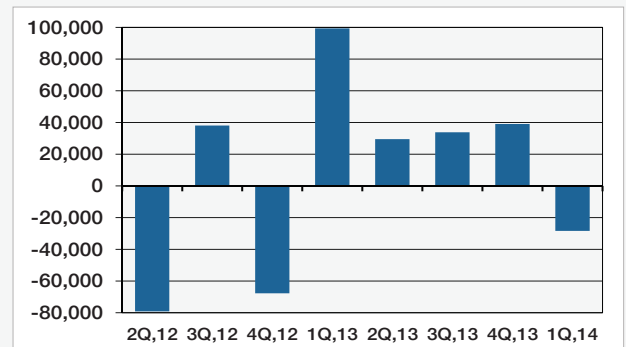
The harsh winter that isolated most of the country certainly disrupted its retail sales. Consumer spending accounts for roughly two-thirds of all U.S economic output, and after a troubling 0.6% drop in January's retail sales, February rebounded better than expected. Though consumers have mixed feelings regarding the job market and income, Americans spent more freely in February, resulting in the strongest February numbers since 2008.

It appears that consumers are emerging more optimistic for the remainder of the year too, which bodes well for the local retail market. Significant growth in leisure retail outlets such as fitness chains support consumers' willingness to spend, and Portland-based Barre3 is an excellent example with its newest 1,600 sf location on North Williams Avenue in the Eastside submarket. Barre3 is the fastest growing fitness chain and the new location will serve as its world headquarters. Barre3's success highlights a niche in Portland's retail market unlike other metro areas. Fitness chains can draw significant depth in the market that houses big names like Nike, Adidas and Columbia Sportswear. According to *Men's Health*, Portland is also America's 'fittest city' with over 54.7% active adults committing to 30 minutes of activity 5 days or more per week.

Vacancy Comparison (%)



Absorption Comparison



Trends for 1Q14



RETAIL REPORT

Portland Metro Area

1Q14

Market Overview*

SUBMARKET	# BLDGS.	INVENTORY (SF)	TOTAL AVAILABLE (SF)	VACANCY(%)	TOTAL ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	40	5,720,985	573,479	10.02	(65,081)	
Central City	58	2,264,344	123,866	5.47	(10,116)	0
Eastside	27	5,682,719	300,022	5.28	(25,800)	0
Southeast/East Clackamas	30	5,312,568	296,163	5.57	19,092	0
Southwest	97	11,579,900	534,067	4.61	33,692	145,205
Sunset Corridor	41	5,229,358	230,383	4.41	20,861	0
Vancouver	94	10,164,018	790,339	7.78	(1,016)	195,000
TOTAL	387	45,953,892	2,848,319	6.20	(28,368)	340,205

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

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Harbor Freight Tools	5035 Southeast 82nd Avenue	21,725	Southeast/E Clackamas
Garage Sale Warehouse	4810 Southwest Western Avenue	10,507	Southwest
Kruse Village - Bldg F	Comprehensive Pain Clinic of Portland	7,800	Southwest

Source: CoStar, Oregonian, Portland Business Journal, Daily Journal of Commerce

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Moffett Creek Ranch Partnership, GP	Universal Center (2 properties)	\$5,340,000	Eastside
Cecil B and Clara A Tennis Trust	West Slope Center	\$2,950,000	Southwest
One Pacificcoast Bk Fsb	Diamond Parking Service	\$2,851,800	Central City

Source: CoStar

Featured Deals



Baerlic Brewing Company, LLC Lease

Portland is set to gain another brewpub. Baerlic Brewing Company, LLC leased 7,300 sf at the Ladd Center and will debut their taproom by Spring 2014. Senior Real Estate Broker, JJ Unger and Senior Vice President, Scott MacLean represented the lessor, Einstein and Noah Corporation.



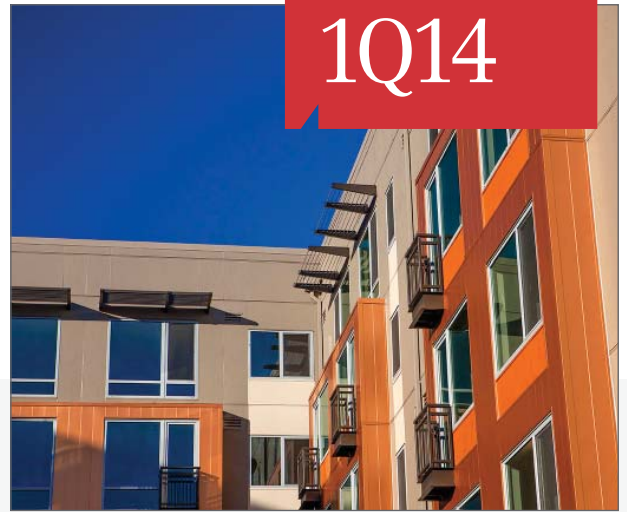
14610 SE Mill Plain Blvd. Sale

TwinStar Credit Union has purchased the vacant Sterling Savings Bank on 14610 SE Mill Plain for \$1 million. Vice President, Denis O'Neill and Associate Vice President, Pam Lindloff represented both the buyer and seller. The former Sterling Savings Bank included a vacant 2,528 sf office building and 45,738 sf lot.

MULTIFAMILY REPORT

Portland Metro Area

1Q14



Portland currently reigns as the seventh hottest apartment boomtown, ahead of both Seattle and San Francisco. This is no surprise when the **multifamily** market boasted another healthy 2.46% vacancy rate with rents jumping north of \$235 from last quarter and both permits and construction still on the climb. Although rents did in fact increase, the dramatic spike is partially due to the annual truing up of our database as we reestablish parameters and account for any former discrepancies.

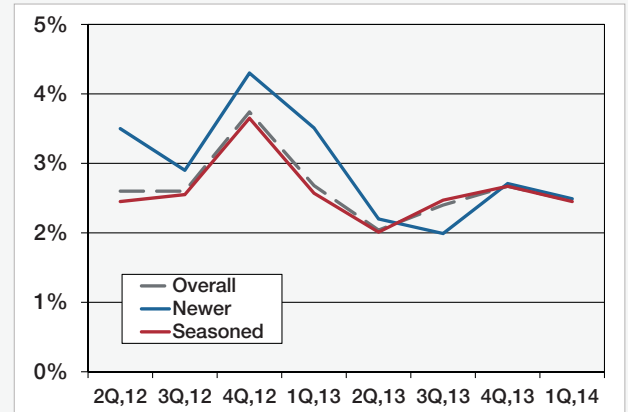
Market Trends

Rental rates will continue to increase for the remainder of the year with the first sizable apartment projects coming online in the summer of 2014. This will begin a streak of projects flooding the market through 2016. The larger 150+ unit projects slated in the Pearl, Northwest and Lloyd districts as well as the close-in Eastside are expected to be absorbed at a much slower pace than the quickly filled smaller developments.

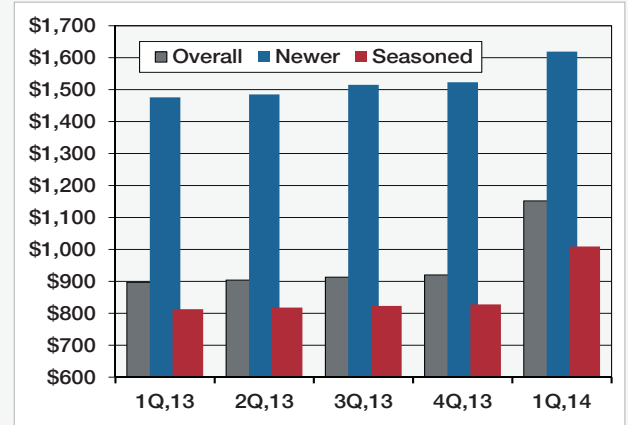
Substantial construction in the suburbs will also slow down the pace of absorption throughout the Portland metro area. Large-scale projects in neighborhoods like Orenco Station and Bridgeport to Wilsonville are providing healthy competition, if not on rates but greater amounts of space. The steady competition is healthy while inventory remains tight, but this will eventually shift. Once the new unit's delivery taper out, rental rates will flat line and vacancy will creep up again as competition grows stout.

There is question and speculation if the current rental boom will continue as new deliveries enter the market, especially since Portland has also underbuilt the apartment market in the past 6 years. The surge in proposed permits and construction has been a game of catching-up to the preexisting demand, so the market should be able to absorb the growth. Yet, all of the construction has been concentrated in areas achieving the highest rent and is marketed toward the same demographic who can afford the new product. The real test will be if these projects can source from the same profile of tenant and if that population is deep enough to fill the expected deliveries. Once the market softens with more inventory, this premium renter will have top choice of space and location. It will also test the flexibility of tenants willing to relocate from their current housing. Consequently, this will drive down rents and invite more competition with comparable housing in all submarkets.

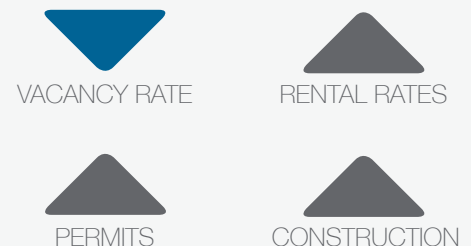
Vacancy Comparison (%)



Rental Rate Comparison



Trends for 1Q14



MULTIFAMILY REPORT

1Q14

Portland Metro Area

Market Overview*

SUBMARKET	AVERAGE RENT PER UNIT				% VACANT
	1 BED/1 BATH	2 BED/1 BATH	2 BED/2 BATH	3 BED/2 BATH	
Downtown Portland	\$1,674 (\$2.09)	\$1,501 (\$1.70)	\$2,595 (\$2.07)	\$2,765 (\$1.80)	3.60
Southeast Portland	\$1,057 (\$1.63)	\$931 (\$1.07)	\$1,144 (\$1.16)	\$1,210 (\$1.03)	2.65
North/Northeast Portland	\$1,364 (\$1.81)	\$964 (\$1.10)	\$1,925 (\$1.69)	\$1,116 (\$1.00)	2.47
Southwest Portland	\$893 (\$1.35)	\$945 (\$1.11)	\$1,302 (\$1.27)	\$1,305 (\$1.07)	1.08
Gresham/Troutdale	\$765 (\$1.11)	\$843 (\$0.99)	\$922 (\$0.93)	\$1,045 (\$0.90)	1.80
Lake Oswego/West Linn	\$987 (\$1.32)	\$1,055 (\$1.17)	\$1,265 (\$1.15)	\$1,530 (\$1.16)	2.57
Wilsonville	\$900 (\$1.24)	\$975 (\$1.04)	\$1,202 (\$1.17)	\$1,281 (\$1.08)	3.78
Tigard/Tualatin	\$844 (\$1.24)	\$931 (\$1.10)	\$1,050 (\$1.05)	\$1,266 (\$1.10)	2.25
Beaverton/Aloha	\$870 (\$1.27)	\$970 (\$1.10)	\$1,105 (\$1.12)	\$1,314 (\$1.12)	2.41
Hillsboro	\$980 (\$1.32)	\$1,024 (\$1.11)	\$1,257 (\$1.15)	\$1,427 (\$1.11)	2.57
Clackamas/Or Cty/Mlwk	\$839 (\$1.19)	\$969 (\$1.10)	\$1,033 (\$1.04)	\$1,315 (\$1.06)	2.35
Vancouver	\$798 (\$1.11)	\$879 (\$0.96)	\$1,013 (\$0.95)	\$1,135 (\$0.92)	2.09
TOTAL	\$1,078 (\$1.47)	\$978 (\$1.10)	\$1,355 (\$1.25)	\$1,326 (\$1.07)	2.46

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	UNITS	SUBMARKET
JP Morgan Chase & Co. Invest Mgmt	Tupelo Alley	\$53,000,000	188	North/NE Portland
Sares-Regis Group	The Gables at Mountain Park	\$19,500,000	129	Lake Oswego/West Linn
Metro4rent Properties	Tabor East Apartments	\$7,295,000	72	Southeast Portland
Ride Connection	Glisan Commons	\$3,356,635	67	North/NE Portland
Donald Mutal	2110 NW Flanders St.	\$2,215,000	13	North/NE Portland
J.E.M.S Corporation	Ivy Tree	\$1,950,000	24	Southwest Portland
John D & Anne Z Ferguson	Garden Glen Manor	\$1,900,000	22	Southeast Portland

Source: CoStar

Featured Deals



The Erickson & Fitz Buildings Sale

The Erickson and Fritz buildings, totaling a combined 51,381 sf, sold for \$2.2 million. Senior Vice President, Robert Black represented the buyer, Innovative Housing Inc. The pair of historic buildings will be transformed into approximately 60 work-housing units in Old Town/Chinatown.



9.67 Acres in Hillsboro Land Sale

Polygon Northwest Company, LLC bought a 9.67-acre piece of land in Hillsboro, for \$3.4 million. The metro and city of Hillsboro sold the land to become a single-family residential community. Vice President, Denis O'Neill and Associate Vice President, Mike Tharp represented the seller.

NAI Norris, Beggs
& Simpson

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Portland OR 97204
503 223 7181

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