

2Q'14

Portland Metro Area Market Summaries



ECONOMIC REPORT

Portland Metro Area

National Highlights

On the tail end of the second quarter, the Federal Reserve continues its gradual curtail of Treasuries and mortgage bonds, dropping to \$35 billion a month starting in July. Critics are skeptical of the Fed's persistent optimistic outlook, yet Fed officials counter that unforeseeable setbacks haven't weakened the economy's momentum. Chairwoman of the Board Janet Yellen tempered its optimism with pragmatism, saying that although damage from the recession would continue to weigh on the pace of recovery, labor markets, household spending and investment were all rebounding at accelerated speed.

Homebuilding improved in May and consumer prices hit the Fed's targeted 2.1 percent inflation rate. While inflation picked up, reducing the value of workers' paychecks, worker pay barely kept up with higher prices. This trend has potential for concern if not remedied, especially since the unemployment rate isn't dropping with strong job growth and reduced jobless claims. The economy posted 4 straight months of job gains above 200,000 in May – the best consecutive stretch since early 2000. Yet, the exodus of workers from the overall labor force also hit its lowest point in over 30-years, clogging the natural job cycle and deepening the pool of employable applicants.

Retail sales were solid in the second quarter, up at a 9.2 percent annualized pace over the past 3 months. Housing starts increased too, but apartments accounted for most of the gains, confirming that more Americans are renting than affording homes. Consumers remain hesitant, and builders are reacting just as cautiously. With overall data highlighting the fragility of a steady economy, second quarter ends as a benchmark on an upward climb.

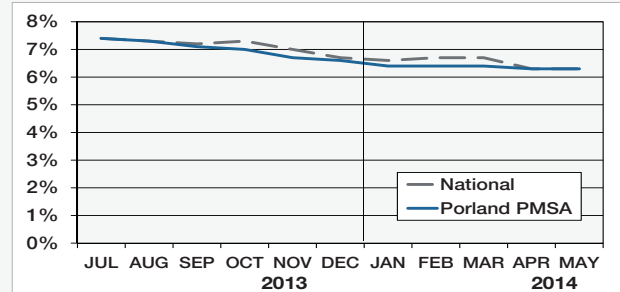
Local Highlights

Despite the status quo of the nation, Portland's local housing market is thriving. Home prices soared, posting the strongest May for new listings since 2008. It's a cutthroat seller's market with the average-priced home fetching \$335,300 in May, a staggering 5.8 percent hike from last year. The housing boom mirrors the local job force with hiring on-track for its best year since 2008.

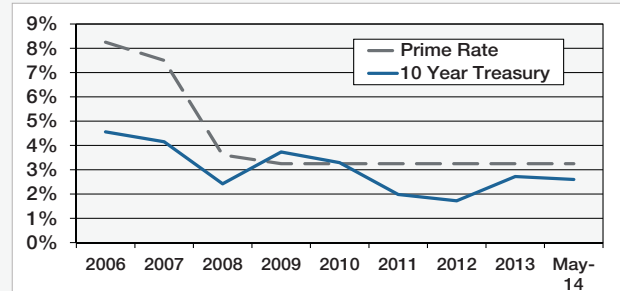
Portland's economic health correlates well with NerdWallet's latest research, which dubbed the city the third healthiest vacation spot in the U.S. This is a welcome accolade as tourism picks up for the summer.



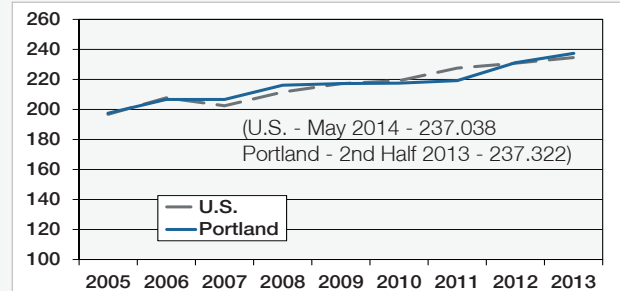
Unemployment Comparison



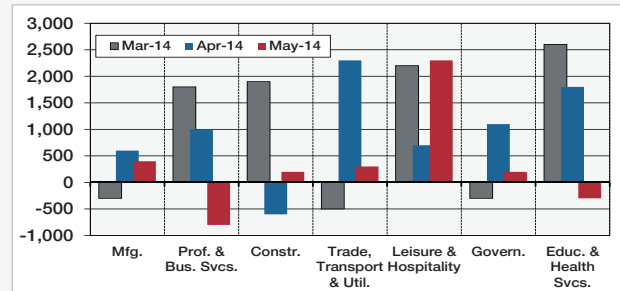
Prime Rates vs. 10-Year Treasury



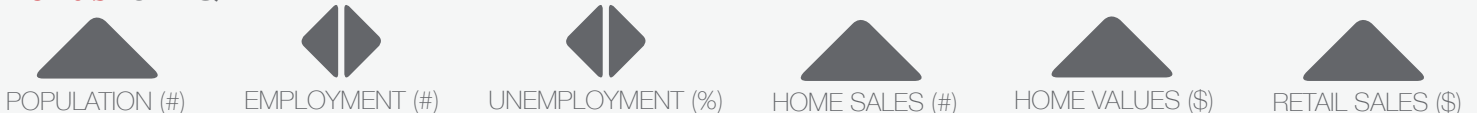
Consumer Price Index



Oregon Monthly Job Gains



Trends for 2Q14



OFFICE REPORT

Portland Metro Area

Central City office space showed encouraging signs of a tightening market during Second Quarter 2014. Vacancy dropped to 10.5% with positive absorption of 70,398 sf. The quick turnaround from First Quarter's sluggish start underscored major activity from large tenants creatively reacting to limited options, which resulted in many renewals and backfilling of space. The mad shuffling of major tech companies caused repositioning efforts to push rates higher with increasing occupancy.

Tech firms were by and large the common denominator of activity this quarter. Educational company, Knowledge Universe announced its recommitment to 79,971 sf plus an additional 23,810 sf of sublet space at Liberty Centre in the Lloyd District. Online fraud detection firm, iovation had the choice to move, but decided to renew and remodel their existing 18,500 sf space at U.S Bancorp Tower, following the trend set by New Relic, Survey Monkey, and Webtrends. Software provider Cvent, Inc. doubled its size and leased 14,000 sf at Block 300. The domino tech effect continued with Smarsh, an information archiving and compliance company, backfilling the 47,640 sf hole left by Webtrends at Pacific Center. Simple, an online-only bank, backfilled Puppet Labs and absorbed 37,441 sf at RiverTec.

The **Suburban** office market's vacancy rate saw little change at 14.62% with positive absorption of 17,402 sf. VTech renewed its 26,658 sf lease at Building 3 of the Nimbus Corporate Center in Beaverton. In Sunset Corridor, Genesis Financial Solutions signed the largest lease of Second Quarter with 72,524 sf at Cornell Oaks Corporate Center.

The **Vancouver** office market's vacancy jumped to 11.32% this quarter with 42,626 sf negative absorption, but the city followed the regional tech trend. Vancouver made its bid to attract major tech companies with its recently designated Vancouver-Camas Applied Digital Technology Accelerator Innovation Partnership Zone (IPZ). GarageGames, a video game technology provider, was confirmed as the newest addition to IPZ, and will relocate from Las Vegas to Vancouver.

Featured Deal

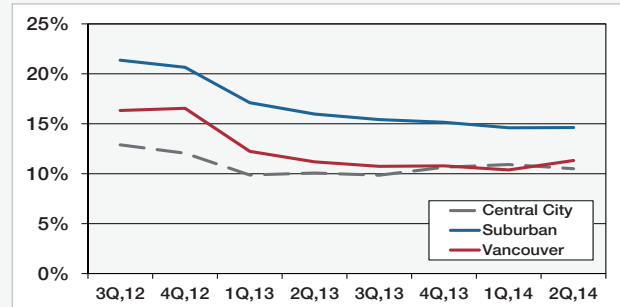


Collins Pine Companies, a family-owned timber manufacturer, leased 13,989 sf at the Wilsonville Town Center. NAI Norris, Beggs & Simpson Senior Vice Presidents Jennifer Medak and John Medak represented the lessor, Wilsonville Town Center Office. Collins Pine Companies is expected to move their corporate offices in September 2014.

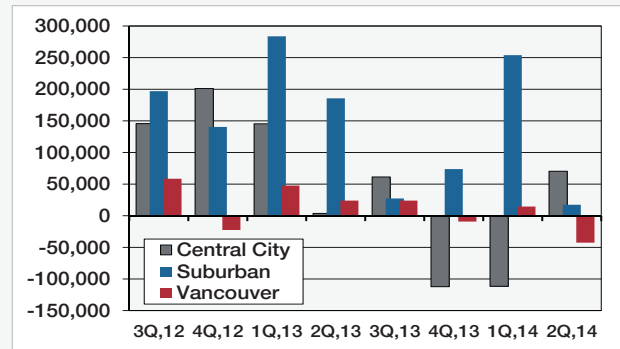
2Q14



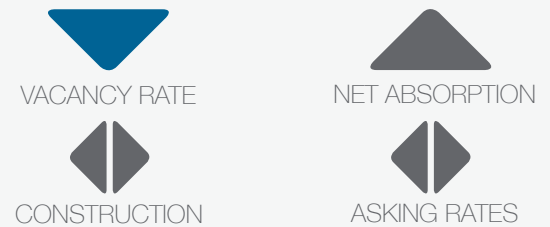
Vacancy Comparison (%)



Absorption Comparison



Central City Trends for 2Q14



Suburban Trends for 2Q14



OFFICE REPORT

2Q14

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	1,580,033	10.69	114,500	273,000
Lloyd District/Central Eastside	21	2,330,633	288,732	12.39	(73,927)	0
Northwest	30	3,079,486	250,840	8.15	29,825	0
TOTAL	169	20,194,835	2,119,605	10.50	70,398	0
SUBURBAN*						
Sunset Corridor	72	3,634,029	474,480	13.06	(47,877)	0
Central 217	35	1,840,105	305,519	16.60	24,515	0
Southern 217	36	1,144,392	176,468	15.42	(5,317)	0
Barbur Boulevard	24	492,659	75,067	15.24	2,207	0
Beav-Hillsdale/Sylvan	24	807,005	187,779	23.27	(6,975)	0
Central Beaverton	14	690,923	73,417	10.63	23,420	0
I-5 South	58	2,108,471	347,062	16.46	21,195	0
S Waterfront/Johns Landing	23	1,018,602	103,392	10.15	(8,804)	0
Kruse Way	32	2,321,570	332,269	14.31	5,758	0
Lake Oswego/West Linn	18	421,685	53,181	12.61	1,957	0
North/Northeast	25	897,741	106,099	11.82	5,471	41,000
Central 205	32	1,282,313	213,199	16.63	1,844	0
Southeast	19	392,792	44,415	11.31	8	0
TOTAL	412	17,052,287	2,492,347	14.62	17,402	41,000
Vancouver	126	4,674,586	529,243	11.32	(42,626)	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
Genesis Financial Solutions	The Atrium	72,574	Sunset Corridor
Smarsh	Pacific Center	47,640	CBD
Survey Monkey	US Bancorp Tower & Plaza	38,288	CBD

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Woodside Palisades Partners	Cascade Station I & II	\$30,000,000	North/Northeast
NFN Investments	Woodlark Building	\$6,850,000	CBD
Cal-Prop Realty	Columbia Shores Office Building	\$6,750,000	Vancouver

Source: CoStar

INDUSTRIAL/FLEX REPORT

Portland Metro Area

2Q14



Industrial vacancy continued its downward trajectory to another record low of 8.33% with positive absorption of 327,916 sf. The industrial market hasn't reported such numbers since Second Quarter 2001, legitimizing growing concerns for much needed development. With demand outpacing supply, especially for highly sought after distribution properties, the industrial safe haven in the North/Northeast submarket garnered the most activity for the quarter. At PDX Corporate Center East, Javelin Logistics signed a new deal for 51,078 sf and DHL Global Forwarding renewed its 80,850 sf. Apex Anodizing inked 40,500 sf at 7015 NE Columbia Blvd and Pathfinder Logistics leased 65,800 sf at Columbia Corporate Park I. In the Southwest Sunset submarket, Reser's Fine Foods recommitted to keep its headquarters in Beaverton at 15570 SW Jenkins Road, and opted to build a new 310,000 sf production and distribution center in Hillsboro as well.

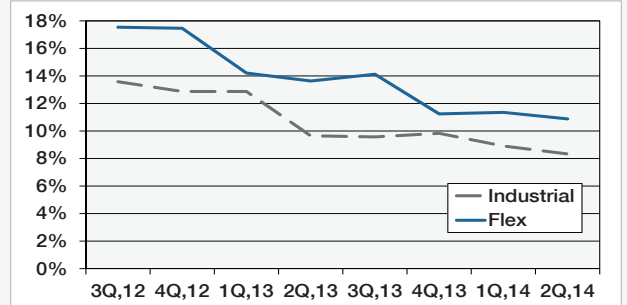
The 10.88% **flex** vacancy rate also benchmarked another record low since 2001. The Southwest 217 submarket had the most movement with positive absorption of 46,500 sf. At Nimbus Corporate Center, medical manufacturer Welch Allyn, Inc. took 33,904 sf and payroll service company Paychex leased 28,840 sf. At Tanasbourne Business Park in the Southwest Sunset submarket, Velocity Athletix, a cheerleading and tumbling gym, leased 10,284 sf and Apria Healthcare leased 6,253 sf.

Market Trends

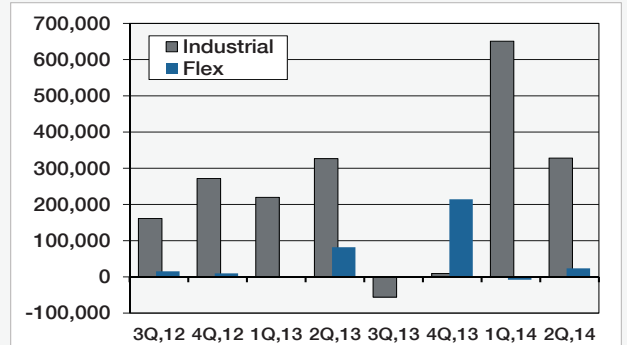
Motivated by the signs of another strong development cycle, eight more speculative industrial projects are in the works with low vacancy and rapid absorption projected to persist over the next 36 months. More than 2.5 million sf of additional space are expected to flood the market. Specht Development Inc. committed to build Interstate Crossroads, a 493,000 sf building located in the Northeast submarket, and New York Life Investment Management announced a 215,250 sf speculative warehouse in Gresham. Both projects broke ground in June. Majestic Realty Co., the country's largest developer of industrial land, purchased 75-acres from the Nike Foundation with plans for 11 buildings totaling 950,000 sf of industrial space.

The growing amount of speculative projects stresses the need for more modernized distribution space in the Portland-metro area, reprising a breed of industrial product that was last seen before the Great Recession. The cutting edge amenities of 2008 are now considered standard, catering to distribution tenants with higher clear heights, efficient space and low office buildout. New project construction will certainly leverage higher costs, but the market's need is far greater.

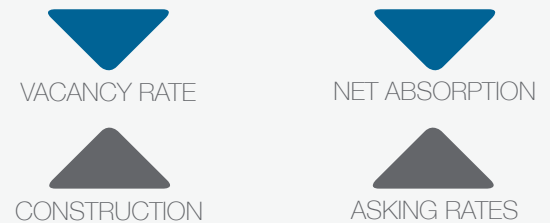
Vacancy Comparison (%)



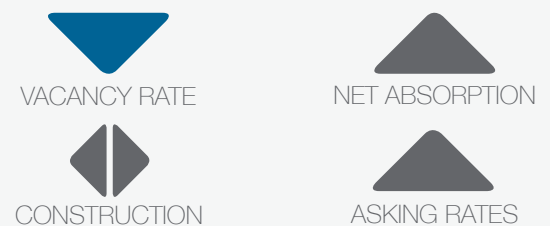
Absorption Comparison



Industrial Trends for 2Q14



Flex Trends for 2Q14



INDUSTRIAL/FLEX REPORT

2Q14

Portland Metro Area

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	2,213,091	10.68	107,729	521,200
Northwest		1,480,650	69,583	4.70	13,450	101,550
Southeast		6,518,856	521,670	8.00	(14,521)	0
Southwest 217		2,677,259	398,966	14.90	44,307	0
Southwest I-5		9,227,924	553,460	6.00	77,758	0
Southwest Sunset		2,139,033	179,265	8.38	(5,701)	358,870
Vancouver		8,348,699	321,306	3.85	104,894	70,000
TOTAL		51,116,868	4,257,341	8.33	327,916	1,051,620
FLEX*						
North/Northeast		608,274	67,860	11.16	(11,170)	0
Southeast		263,229	13,862	5.27	89	0
Southwest 217		2,693,459	404,639	15.02	46,500	0
Southwest I-5		1,041,743	52,678	5.06	(33,134)	0
Southwest Sunset		4,784,480	437,168	9.14	21,844	0
Vancouver		971,114	151,543	15.61	(690)	0
TOTAL		10,362,299	1,127,750	10.88	23,439	0

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Unisource Worldwide, Inc.	I-84 Industrial Center	228,900	North/Northeast
Seterus	Millikan Business Center	152,398	Southwest 217
DHL Global Forwarding	PDX Corporate Center East I /1	80,850	North/Northeast

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Core and Value Advisors, LLC	Airport Way Industrial Park	\$35,800,000	North/Northeast
Winkler Development Corporation	6864 N Cutter Circle	\$13,212,500	North/Northeast
Setzer Properties	6447 N Cutter Circle	\$9,500,000	North/Northeast

Source: CoStar

Featured Deals



6845 North Cutter Circle Sale

One of the largest cross-dock distribution centers in the Portland-Metro area at 96,077 sf sold for \$13,212,500 to Madrona Cutter, LLC and Gulsons Cutter, LLC. NAI NBS President Chris Johnson and Sr VPs MaryKay West and Michael Merino represented the seller, NATMI Truck Terminals, LLC.



Pieters Oregon Holding, IWC Lease

Cascade Business Center in Tigard gained tenant Pieters Oregon Holding, IWC with its 14,1463 sf lease. The company primarily operates in the management and enterprise of other companies. NAI NBS Sr VPs Scott MacLean and Michael Merino represented the lessor, BRE IPC Parcel Property Owner, LLC.

RETAIL REPORT

Portland Metro Area

2Q14



The **retail** vacancy rate increased marginally to 6.43% with 84,533 sf of positive absorption during Second Quarter. The concentration of activity was once again in the suburbs. In the Sunset Corridor submarket, auctioneer company Round'em Up Estate Auctions leased 10,475 sf at the Hillsboro Town Center. In the Southwest submarket, Firestone Complete Auto Care leased 6,702 sf at Tigard Marketplace, and Pacific Highway Retail gained Broadway Furniture with its 11,260 sf lease. Three tenants totaling 18,173 sf vacated Sunnyside Village in the Southeast/East Clackamas submarket.

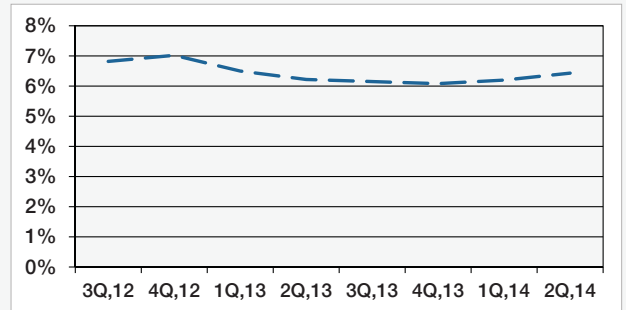
In Vancouver and Clark County, vacancy rose to 8.56% with 95,088 sf of positive absorption. Grocery stores continued to be a prime area of growth in the retail market during Second Quarter. Walmart was especially active in the metro-area in recent months with its grocery-centered neighborhood market concept. Mill Creek Town Center debuted its 154,000 sf Walmart in May, which was the largest transaction of the quarter, while another 145,000 sf Walmart at Parkway Village at Sherwood is slated to open early July. Hazel Dell Square also welcomed a new 12,000 sf Natural Grocers in June. Apart from grocers, smaller lease highlights also included the restaurant Taste of Sichuan's 7,192 sf location at Eastside Spectrum, and Party City's 11,000 sf deal at Hazel Dell Towne Center.

Noteworthy News

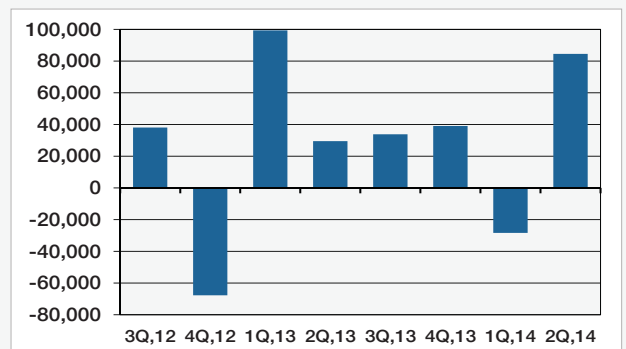
In June 2014, Americans were much more optimistic about the economy with consumers' confidence spiking to its highest level since January 2008. Though consumers spent cautiously in May despite stronger income growth, the economy was still shaking off the wintry cold setback from earlier in the year. Indeed, the economy contracted at a 2.9% annual rate in the First Quarter largely due to the disruptive weather that stalled normal spending. Yet, the delay was simply that, and commerce rebounded with momentum during Second Quarter, which pushed inflation to its highest level in 19 months. Higher inflation is a symptom of robust growth, and as the economy expands, prices adjust commensurately.

Second Quarter's boost in consumerism was reflected in the retail market with reported lower vacancies amongst high quality shopping centers. With national retail construction on standby until development is retriggered by consistent low vacancy rates, the competition over location is a good measure of the market's overall health. Nationwide reports confirmed that vacancies at shopping centers continued to drop, allowing retail landlords to raise rents at malls for the 13th consecutive quarter and at strip centers for the 11th. National retail expansion in shopping centers was led again by specialty grocers, which is locally evident by Walmart and Natural Grocers in Vancouver.

Vacancy Comparison (%)



Absorption Comparison



Trends for 2Q14


VACANCY RATE


NET ABSORPTION


CONSTRUCTION

RETAIL REPORT

Portland Metro Area

2Q14

Market Overview*

SUBMARKET	# BLDGS.	INVENTORY (SF)	TOTAL AVAILABLE (SF)	VACANCY(%)	TOTAL ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	40	5,720,985	587,357	10.27	(13,878)	0
Central City	58	2,264,344	131,114	5.79	(7,248)	39,455
Eastside	27	5,682,719	298,894	5.26	1,128	47,634
Southeast/East Clackamas	30	5,312,568	316,257	5.95	(20,094)	0
Southwest	97	11,579,900	520,029	4.49	26,256	191,418
Sunset Corridor	41	5,229,358	227,102	4.34	3,281	0
Vancouver	96	10,359,018	887,144	8.56	95,088	0
TOTAL	389	45,148,892	2,967,897	6.43	84,533	278,507

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

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Walmart	Parkway Village at Sherwood	145,000	Southwest
VillaSport	13900 SW Meridian St.	133,000	Southwest
Ferguson Enterprises	Home Stores on 18th	17,777	Central City

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Giustina Resources	Hazel Dell Square	\$27,650,000	Vancouver
Swickard Corporation	Mercedes Benz of Wilsonville	\$11,500,000	Southwest
Capstone Partners, LLC	New Seasons Market	\$10,178,000	Central City

Source: CoStar

Featured Deals



2200 St. John's Blvd. Sale

Bill's Chicken and Steak House in Vancouver was purchased by Ailian Ma for \$475,000. NAI NBS' Charlie Kleier, Principal and Pam Lindloff, Assoc. VP, represented the seller, Harry Alan & Calli M Teel Trustees. Ailian Ma plans to remodel the 7,700-sf venue and reopen it as a Chinese restaurant.



Glisan Center Sale

Glisan Center, a 38,700 sf retail strip mall sold for \$9,695,000 to John Miller. NAI NBS President Chris Johnson, Sr VP MaryKay West and VP Denis O'Neill represented the seller, Mark Madden. Glisan Center was built in 1947 and renovated in 2003. It currently features several tenants including Ace Hardware and State Farm Insurance.

MULTIFAMILY REPORT

Portland Metro Area

Portland's hot **multifamily** market cooled ever so slightly during Second Quarter with a 2.62% vacancy rate. However, rents, permits and construction all expectedly increased in preparation for the surge of new space over the next 18 months.

With consistent low vacancy rates and rising rents, Portland poised itself as a main attraction for out-of-state investors, especially since the metro area offers more affordable opportunities than other cities. Evidence to this fact was Second Quarter's \$63 million sale of One Jefferson, a 347-unit apartment complex in Lake Oswego, which is also the city's largest 2014 transaction to date. Construction began on Block 143, the new 199-unit development at 3850 SW Moody in South Waterfront. New proposals included developer Mack Urban's 281-unit building at 3700 SW River Parkway, as well as Guardian Real Estate's planned 166-units at the former Willamette Athletic Club on SW Landing Drive. After purchasing the OAME property last year, Security Properties unveiled plans for its 268-unit complex with 25,000 sf of mixed space in North Williams.

Market Trends

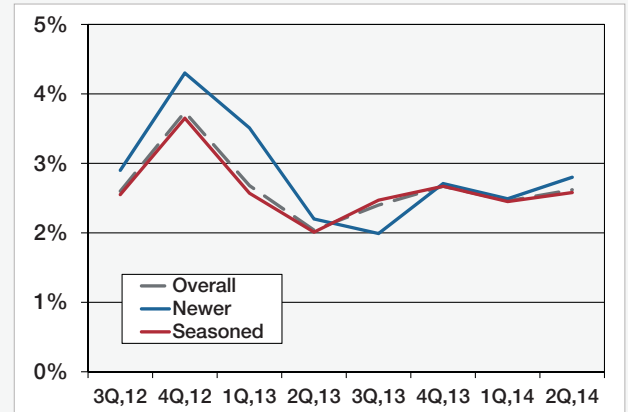
With 2014 halfway over, Portland's multifamily market is now estimated to gain an excess of 14,000 new apartment units by the end of 2015. Multnomah County was ranked as one of the top markets for renting to millennials in June 2014 by RealtyTrac, which reported a 41% change in the population from 2007 to 2013. However, millennials are not alone in the pursuit of close-in living. More baby boomers are downsizing for urban options. As such, these two major demographics face-off in direct competition over the same product, pushing rates higher and stalling suburbia's single-family home market.

Concern for possible market oversaturation has since scaled back with Second Quarter's data. Rental apartments were the first to rebound after the Great Recession, and ever since then the market's staying power has been targeted for much debate. Even in 2011, analysts predicted a sharp tapering off to an anticipated resurrection of the single-family housing market with improved home prices. Yet that failed to happen, and in today's market, that prediction is even more outstretched. Home prices in the 20 largest metropolitan areas soared an enormous 12.4% between March 2013 and March 2014 according to the S&P/Case-Shiller Home Price Indices. As such, the multifamily market is readied to cater to the deferring homebuyer.

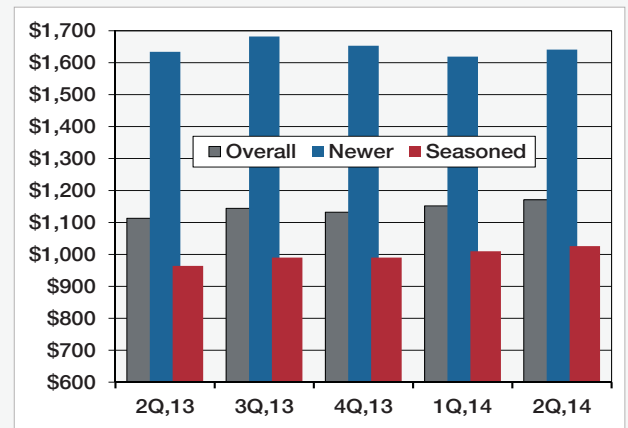
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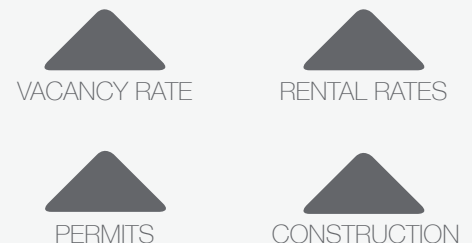
Vacancy Comparison (%)



Rental Rate Comparison



Trends for 2Q14



MULTIFAMILY REPORT

2Q14

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	\$1,697 (\$2.11)	\$1,552 (\$1.76)	\$2,671 (\$2.13)	\$2,827 (\$1.82)	3.66
Southeast Portland	\$1,053 (\$1.61)	\$917 (\$1.05)	\$1,157 (\$1.13)	\$1,194 (\$1.01)	2.43
North/Northeast Portland	\$1,378 (\$1.83)	\$982 (\$1.12)	\$1,927 (\$1.70)	\$1,116 (\$1.00)	3.14
Southwest Portland	\$941 (\$1.42)	\$966 (\$1.16)	\$1,356 (\$1.33)	\$1,344 (\$1.11)	1.65
Gresham/Troutdale	\$779 (\$1.13)	\$856 (\$1.00)	\$933 (\$0.94)	\$1,065 (\$0.92)	1.70
Lake Oswego/West Linn	\$1,013 (\$1.36)	\$1,068 (\$1.18)	\$1,294 (\$1.18)	\$1,533 (\$1.16)	2.73
Wilsonville	\$919 (\$1.27)	\$1,030 (\$1.10)	\$1,174 (\$1.14)	\$1,307 (\$1.10)	3.67
Tigard/Tualatin	\$854 (\$1.26)	\$941 (\$1.11)	\$1,095 (\$1.10)	\$1,287 (\$1.11)	2.33
Beaverton/Aloha	\$889 (\$1.29)	\$988 (\$1.12)	\$1,122 (\$1.14)	\$1,320 (\$1.12)	2.88
Hillsboro	\$978 (\$1.31)	\$1,053 (\$1.14)	\$1,240 (\$1.14)	\$1,453 (\$1.13)	2.74
Clackamas/Or Cty/MLwk	\$863 (\$1.27)	\$1,015 (\$1.13)	\$1,045 (\$1.05)	\$1,337 (\$1.08)	2.77
Vancouver	\$811 (\$1.13)	\$892 (\$0.97)	\$1,037 (\$0.97)	\$1,153 (\$0.94)	2.05
TOTAL	\$1,095 (\$1.50)	\$1,001 (\$1.12)	\$1,378 (\$1.27)	\$1,340 (\$1.08)	2.62

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	UNITS	SUBMARKET
Friedkin Realty Management Group	One Jefferson Parkway	\$63,000,000	347	Lake Oswego/West Linn
Green Leaf Partners	Green Leaf Monterey	\$51,250,000	390	Clackamas/Or Cty/MLwk
Hamilton Zanze & Company	Beef Bend Court Apartments	\$13,100,000	120	Tigard/Tualatin
Summit Real Estate Management, Inc.	Trailside	\$10,050,000	120	Gresham/Troutdale
Gerding Edlen Development, Inc.	Reserve at Ashbrook	\$7,128,000	43	Tigard/Tualatin
BRIDGE Housing Corporation	Woodland Park	\$6,850,000	111	Southeast Portland
Waldman Management Group, Inc.	Brackney Estates	\$5,900,000	39	Beaverton/Aloha

Source: CoStar

Featured Deals



Sovereign Hotel Sale

The Oregon Historical Society (OHS) sold the 52,379 sf Sovereign Hotel to the Randall Investment Group. NAI NBS Sr VP Robert Black negotiated the transaction. For over two years, the OHS searched for a local philanthropic enthusiast to serve as a partner in the restoration and active maintenance of the property.



Windows on MLK Sale

Windows on MLK, an 11,322 sf residential building with ground floor retail located at 116 NE 6th Ave., sold for \$1.55M. NAI NBS Sr VP Robert Black represented the seller, Windows on MLK, LLC. Lynn Kaplan Latta was the buyer.

NAI Norris, Beggs
& Simpson

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Suite 200
Portland OR 97204
503 223 7181

700 Washington Street
Suite 608
Vancouver WA 98660
360 852 9600

600 University Street
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