

4Q'14

Portland Metro Area Market Summaries



ECONOMIC REPORT

Portland Metro Area

National Highlights

Among the world's major economies, the United States had the strongest growth in 2014. The government announced that the U.S. economy grew at a rapid annual rate of 5% in the Third Quarter, which was the fastest pace in more than a decade. Such widespread growth precipitated Wall Street's record highs for both the Dow Jones Industrial and S&P 500 at year end. The labor market also greatly benefited. Employers hired nearly 3 million workers in 2014, which was the most since 1999. Fourth Quarter's unemployment rate steadied at 5.8%, a full percentage point lower than at 2014's start. Yet, for all the actual tightening in the job market, wage growth barely improved. The yearly trend in nominal hourly wage growth remained at about 2%, where it has been since 2010.

Starting in 2015, the Federal Reserve is expected to gradually raise interest rates to curb excessive borrowing; however, there is concern that this could stifle the economic momentum gained in 2014. Fed officials project the domestic economy to grow at a rate between 2.6% and 3% in 2015 and the unemployment rate to benchmark 5.2% or 5.3%.

For the past six years, inflation has been stabilized well below 2%. Yet, with labor market gains and current tumbling oil prices, inflation may actually decline in 2015. Lower oil prices also acted as a temporary financial stimulus during Fourth Quarter, leaving more immediate money in consumers' pockets. As a result, holiday shopping consumer optimism rose to an 8-year high.

Local Highlights

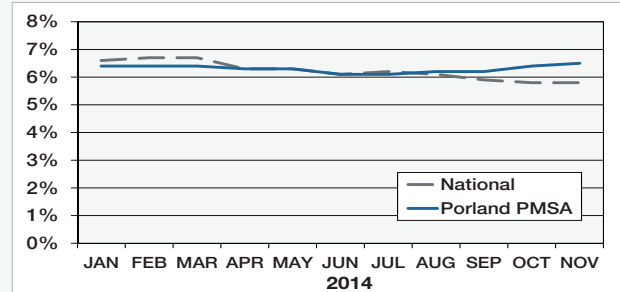
Oregon's minimum hourly wage is second highest in the nation at \$9.10 and will increase to \$9.25 on January 1 due to the state's laws requiring an annual adjustment tied to inflation. Oregonians can also expect another change in 2015 as voters passed Measure 91, which authorized the personal use and possession of marijuana starting on July 1, 2015.

The booming Portland housing market is forecasted to remain robust in 2015, despite the expected seasonal slump during the winter months. 685 homes sold in November, which was 6.4 % higher than the year previous. Motivated by the onslaught of millennial first-time buyers, builders are anxious to respond to the impending housing demand. Millennials are projected to become the largest demographic of home buyers within the next 5 years.

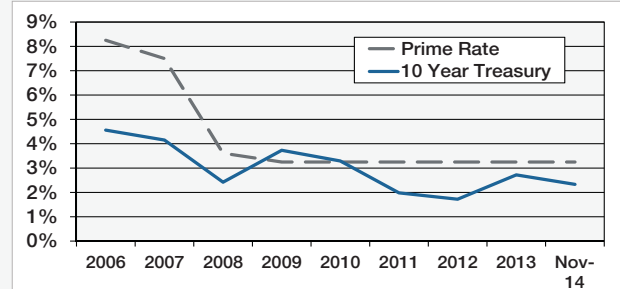
Trends for 4Q14



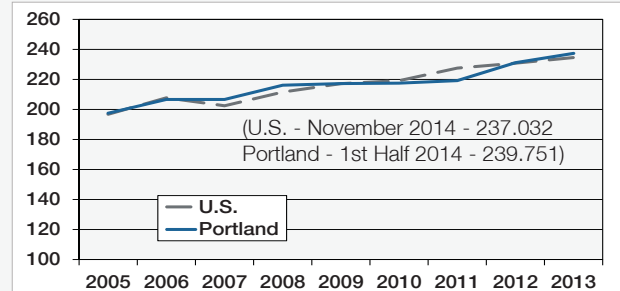
Unemployment Comparison



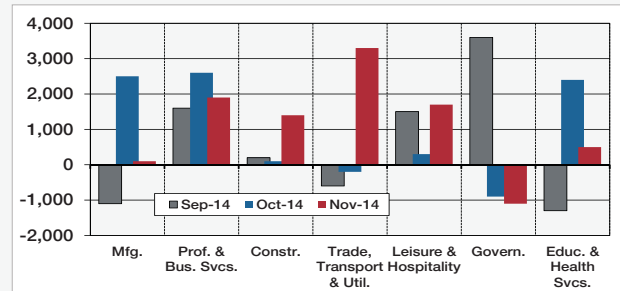
Prime Rates vs. 10-Year Treasury



Consumer Price Index



Oregon Monthly Job Gains



OFFICE REPORT

Portland Metro Area



Portland's **Central City** vacancy rate tumbled from 10.58% Third Quarter to 9.01% Fourth Quarter with 260,146 sf absorption. Such drastic drops in vacancy are often a sign of much needed new development. An additional 381,380 sf is currently under construction in the Central Business District and Northwest submarkets; however, such sharp increases in demand can risk outpacing the city's limited supply.

Tech movement was largely responsible for Fourth Quarter's activity. Aruba Networks leased 22,181 sf at Block 300 and Cvent also moved into their 14,000 sf space at the former government building. San Francisco-based engineering firm DoubleDutch is currently sharing space at NW 10th Avenue with expectations to grow in 2015. Another San Francisco-based firm, Airbnb, moved to Blagen Block in June, but officially opened its 27,024 sf Portland headquarters in December. Lattice Semiconductor Corporation, formerly headquartered in Hillsboro, signed a 23,680 sf lease at U.S. Bancorp Tower and will move in First Quarter 2015. Other significant activity included Health Share of Oregon's 16,721 sf lease at Broadway Plaza.

Suburban's vacancy rate decreased to 13.52% with 79,468 sf absorption. Nike filed expansion plans to add 1.3 million sf to its existing 2.2 million sf campus. With construction anticipated for early 2015, the development will include two new structures.

Vancouver's vacancy increased slightly to 11.92% with a negative 25,110 sf absorption. Pacific Continental Bank announced it will move into the new building at Sixth and Main in downtown Vancouver. The 3-story, 40,000 sf project breaks ground January 2015 and will deliver by 2016.

Fourth Quarter's robust activity undoubtedly stems from Portland's rapid ascension as America's next major tech market. Dubbed "the 18-hour city" by Urban Land Institute, institutional investors have flocked to the Portland's revitalized urban core, which offers seamless transition between housing, dining, retail and work.

Featured Deal



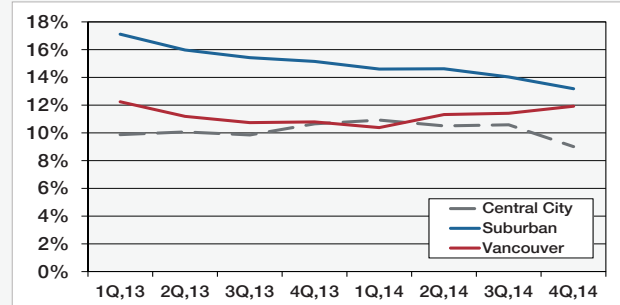
3- Property Portfolio Sale

The 83,145 sf, 3-property portfolio comprised of the Norton House, Captain Couch and Merchant Hotel Buildings has sold for

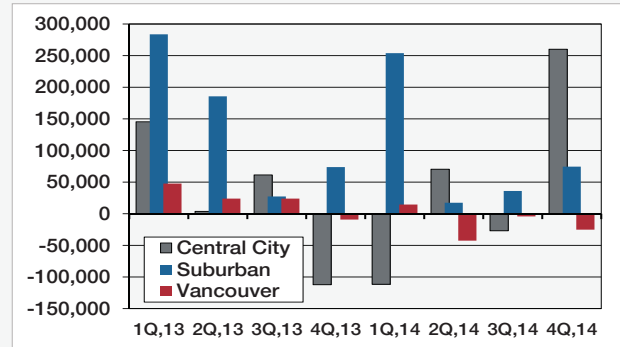
\$8 million. NAI NBS Senior Vice President MaryKay West and President Chris Johnson represented the seller, the Bill Naito Company.

4Q14

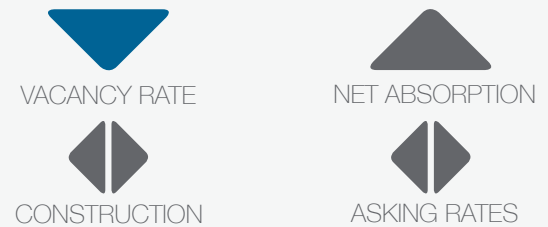
Vacancy Comparison (%)



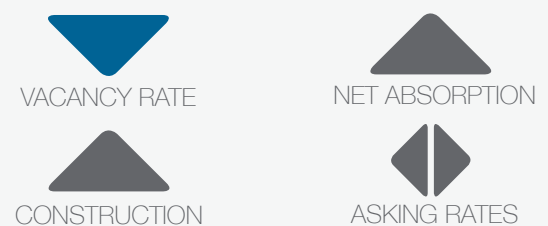
Absorption Comparison



Central City Trends for 4Q14



Suburban Trends for 4Q14



OFFICE REPORT

4Q14

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	1,306,380	8.84	229,073	221,380
Lloyd District/Central Eastside	21	2,330,633	274,109	11.76	8,320	0
Northwest	30	3,079,486	239,316	7.77	22,753	160,000
TOTAL	169	20,194,835	1,819,805	9.01	260,146	381,380
SUBURBAN*						
Sunset Corridor	72	3,634,029	285,982	7.87	92,323	0
Central 217	35	1,840,105	355,019	19.29	4,179	0
Southern 217	36	1,144,392	191,744	16.76	(14,022)	0
Barbur Boulevard	24	492,659	73,839	14.99	(1,831)	0
Beav-Hillsdale/Sylvan	24	807,005	173,734	21.53	(2,544)	0
Central Beaverton	14	690,923	79,857	11.56	(19,305)	0
I-5 South	58	2,108,471	298,817	14.17	12,606	0
S Waterfront/Johns Landing	23	1,018,602	94,920	9.32	(751)	0
Kruse Way	32	2,321,570	321,018	13.83	14,225	0
Lake Oswego/West Linn	18	421,685	49,327	11.70	(2,164)	0
North/Northeast	26	933,741	140,236	15.02	15,606	35,671
Central 205	32	1,282,313	199,158	15.53	(19,035)	0
Southeast	19	392,792	46,336	11.80	181	124,527
TOTAL	413	17,088,287	2,309,987	13.52	79,468	160,198
Vancouver	126	4,674,586	557,393	11.92	(25,110)	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
CLEARResult	First & Main Bldg	28,426 sf	CBD
Lattice Semiconductor Corp.	US Bancorp Tower & Plaza	23,680 sf	CBD
Aruba Networks	Block 300	22,181 sf	CBD

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Starwood Capital Operations, LLC	Cornell Oaks (25 Properties)	\$164,100,000	Sunset Corridor
New York Life	One Main Place	\$87,300,000	CBD
ScanlanKemperBard Companies	U.S. Historic National Bank Block	\$40,000,000	CBD

Source: CoStar

INDUSTRIAL/FLEX REPORT

Portland Metro Area



Benchmarking another historical low, Portland's **industrial** vacancy fell to 6.8% during Fourth Quarter with 1,012,124 sf absorbed. The quarter's major activity proved that demand for smaller "industrial lite" space has surpassed demand for large boxes of space. Bigger, and oftentimes more traditional industrial users, are opting for new projects to deliver while smaller tenants, typically flex users, are becoming more active in existing buildings. Supporting this trend, **flex** vacancy dropped slightly to 11.02%.

In addition to the 1.2 million sf of development underway, the North/North-east submarket also had the most leasing activity. Grocery Outlet leased 184,860 sf at Cascade Distribution Center. Saxo International moved into 136,401 sf at Building 4 Kelley Point Distribution Center. Gateway Express, an online shopping and shipping store, leased 60,840 sf at the newly delivered PDX Logistics Center Building 2. Another notable move was tech supplier Lam Research Corporation's 100,400 sf lease at 20551 SW Wildrose Place in the Southwest I-5 submarket.

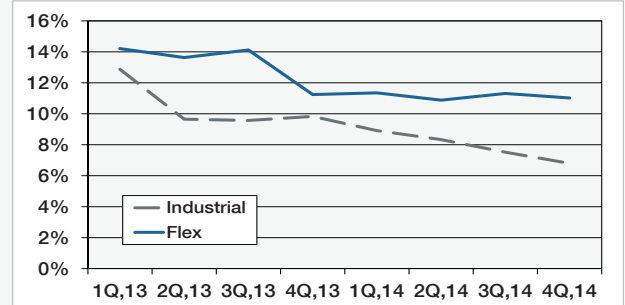
Once again, Vancouver had the quarter's lowest vacancy rate at 2.83%. It was announced that the Port of Vancouver USA's Centennial Industrial Park will gain a new steel mill. Maruichi Northwest bought 9.6 acres with the intent to invest more than \$30 million in land, facilities and equipment for a structural steel tubing mill. Construction is expected to start by Spring 2015.

Market Trends

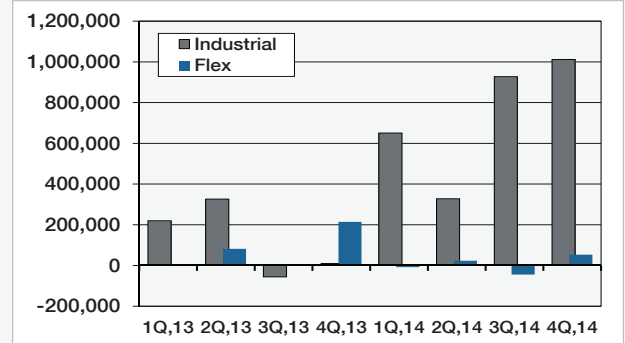
Despite fluctuating overseas markets, U.S. manufacturers exhibited healthy domestic growth during Fourth Quarter 2014, surpassing its pre-recession peak. The U.S. economy proved itself self-sustaining in its resistance against turmoil abroad as more Americans bought cars, electronics, furniture and other goods. Tumbling oil prices helped lower the costs of raw materials and energy, which boosted the value of the dollar against other major currencies. Though this could create competition for American exports in foreign trade, current struggling economies have lessened the demand for international sales, thereby giving U.S. manufacturers the advantage.

The Portland industrial market may need to ready itself for a new wave of warehouse users in the wake of Oregon's vote to legalize recreational marijuana. The contentious issue is at the forefront of 2015 due to recreational grow operations currently seeking space. As an example of what to expect, Colorado's recreational grow operations presently occupy in excess of 4 million sf of industrial space. Oregon can anticipate similar impact to both the industrial and retail markets. In response to the influx of this user, landlords may exercise caution in tenant selection, as grow operations require specific amenities like heavy power.

Vacancy Comparison (%)



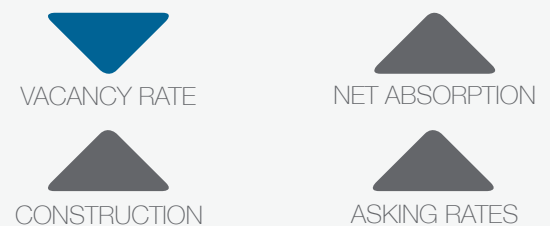
Absorption Comparison



Industrial Trends for 4Q14



Flex Trends for 4Q14



INDUSTRIAL/FLEX REPORT

Portland Metro Area

4Q14

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		21,215,647	1,863,273	8.78	646,001	1,236,399
Northwest		1,563,150	130,100	8.32	6,900	0
Southeast		6,518,856	265,409	4.07	131,250	0
Southwest 217		2,677,259	268,269	10.02	41,197	0
Southwest I-5		9,227,924	431,082	4.67	167,451	0
Southwest Sunset		2,497,903	349,984	14.01	21,005	0
Vancouver		8,413,699	237,854	2.83	(1,680)	27,500
TOTAL		52,114,438	3,545,971	6.80	1,012,124	1,263,899
FLEX*						
North/Northeast		608,274	52,631	8.65	(1,356)	0
Southeast		263,229	3,229	1.23	17,861	0
Southwest 217		2,693,459	415,664	15.43	(17,307)	0
Southwest I-5		1,041,743	48,053	4.61	10,070	180,245
Southwest Sunset		4,784,480	402,505	8.41	41,001	0
Vancouver		971,114	219,440	22.60	2,863	0
TOTAL		10,362,299	1,141,522	11.02	53,132	180,245

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Grocery Outlet	20016-20078 NE Sandy Blvd	184,860 sf	North/Northeast
Wymore Transfer Company	Columbia Commerce Center - Building C	73,928 sf	North/Northeast
International Paper Company	Riviera Building	60,000 sf	Southwest 217

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
Premier Press	5000-5130 N Basin Ave.	\$12,600,000	North/Northeast
Meriwether Partners, LLC	2850 NW 31st Ave. (2 properties)	\$10,150,000	Northwest
Marathon Real Estate Services, LLC	810-820 N Fremont St.	\$1,975,000	North/Northeast

Source: CoStar

Featured Deals



Tidland Corporate Center Sale

Jerry and Mary Sauer of Excavator Rental Services have purchased Tidland Corporate Center, a 64,000 sf industrial building and 6.03-acre campus, for \$3.3M. NAI NBS Vice President Garret Harper represented the buyers as well as the seller, Camas Holdings, LLC. Located in Camas, WA, Tidland Corporate Center has been a manufacturing site since the early 1950's.

HOUSE SPECIAL

House Special Lease

House Special, the commercial animation company founded by former Laika animators, leased 13,500 sf at the Bison Building. The Bison Building was built in 1941 during the industrial boom and is home to several creative tenants. NAI NBS Senior Vice President Scott MacLean represented the lessor, Schofield, LLC.

RETAIL REPORT

Portland Metro Area

4Q14



During Fourth Quarter, the **retail** vacancy rate dipped to 6.06% with 153,007 sf of absorption. Sunset Corridor and Southwest submarkets sported the lowest vacancies at 4.48% and 4.29% respectively. The Eastside submarket had the most activity with 51,814 sf absorption, which was mostly due to Grant Park Village's debut of its 34,341 sf New Seasons. In Southeast, Big 5 Sporting Goods moved into their 27,465 sf store at Canby Square Shopping Center.

Vancouver's retail vacancy rate dropped slightly to 8.05% with 24,762 sf of absorption. The long-stalled Walmart Supercenter at the Birtcher Business Center broke ground and the 203,000 sf project is expected to open by Third Quarter 2015. Salvation Army moved into their 20,000 sf store at Evergreen Plaza. In January 2015, Nordstrom will vacate its 71,000 sf space at the Vancouver Westfield Mall as well as its 150,00 sf store at Portland's Lloyd Center. However, plans concerning the future use of both spaces have yet to be disclosed.

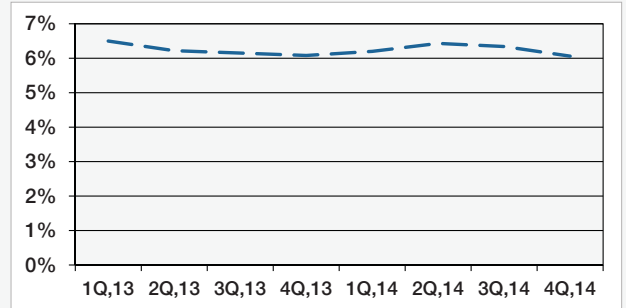
The 257,399 sf of current construction throughout the metro-area includes the highly anticipated Kruse Village in Lake Oswego, which is slated to deliver by January 2015. The six-building, 62,000 sf retail and restaurant destination will feature several tenants including Jimmy John's Gourmet Sandwiches, BurnCycle and Noodles & Company. North Williams neighborhood is also gaining a 4-building, 352,476 sf mixed-use project, of which 26,168 sf is retail, at the intersection of N. Williams and N. Mason. Projects like Kruse Village and N. Williams underscore the growing demand for more urban lifestyle centers with strategic tenant selection. Well-selected, active tenants drive foot traffic, which ultimately increase rents. Urban lifestyle centers are ideal solutions as more people opt to live, work and shop all within a 5-mile radius. As a result of this demand, Portland's retail market can expect landlords to become more focused on their tenant selection.

Noteworthy News

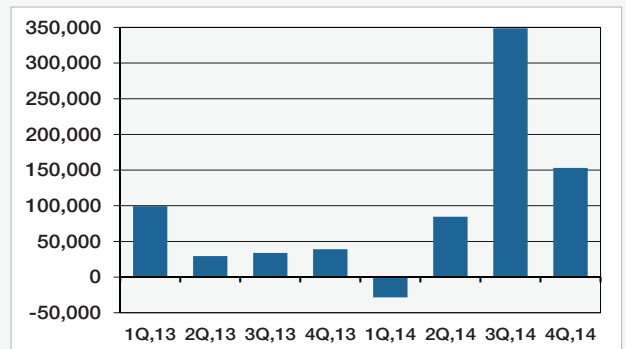
Lower gas prices acted as a short-term financial stimulus to the U.S. economy, which serendipitously coincided with the holiday shopping season. Black Friday's slow start was misleading as its results were more a reflection of shifting spending habits than reducing spending habits. By December, U.S. consumer sentiment had soared to an 8-year high. As such, Americans were more lenient with their money. Retailers, ranging from big ticket purchases to everyday items, greatly benefited from the boost in consumer optimism. Cars, furniture and electronics garnered the most demand.

Fourth Quarter also marked the biggest hiring increase in more than a decade. The combination of job security and the lowest gas prices in over four years seemed to persuade households that the country's economic health will be sustained heading into 2015.

Vacancy Comparison (%)



Absorption Comparison



Trends for 4Q14



RETAIL REPORT

Portland Metro Area

4Q14

Market Overview*

SUBMARKET	# BLDGS.	INVENTORY (SF)	TOTAL AVAILABLE (SF)	VACANCY(%)	TOTAL ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	40	5,720,985	544,702	9.52	23,839	0
Central City	58	2,264,344	132,974	5.87	(6,479)	39,455
Eastside	28	5,730,353	297,425	5.19	51,814	26,168
Southeast/East Clackamas	30	5,312,568	267,110	5.03	42,310	0
Southwest	99	11,989,219	514,656	4.29	6,254	156,774
Sunset Corridor	42	5,251,147	235,320	4.48	10,507	25,000
Vancouver	96	10,359,018	833,585	8.05	24,762	10,002
TOTAL	393	46,627,643	2,825,772	6.06	153,007	257,399

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

Significant Lease Transactions

TENANT	BUILDING	SIZE	SUBMARKET
Wilco Farmers	162nd Place	40,354 sf	Vancouver
Ace Hardware	14718 SE Sunnyside Rd	12,000 sf	Southeast/Clackamas
Speed's Auto Services & Tire Factory	120 SE Clay St	11,880 sf	Eastside

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	SUBMARKET
The Macerich Company (5 props.)	9301-9799 SW Washington Square Rd.	\$1,890,000,000	Southwest
Family Buys Trust (4 properties)	Sunnyside 205	\$17,525,000	Southeast/Clackamas
Beardsley Building Development	Merchant Hotel Building	\$8,000,000	Central City

Source: CoStar

Featured Deals



Logan's Market Lease

Logan's Market has leased approximately 42,000 sf at Nolan Town Center (NTC). NAI NBS Chief Operating Officer H. Roger Qualman was the court-appointed receiver representing the property. The Pennbrook Company represented the tenant. Located in Redmond, Oregon, NTC is a Class-A multi-tenant shopping center.



Battle Ground Village Buildings A & B - Sale

Battle Ground Village's Buildings A and B, a combined 17,068 sf, sold for \$942,500. The destination shopping center is located in Battle Ground, Washington. Principal and Director of Vancouver Production Charlie Kleier, CCIM and Associate Vice President Pam Lindloff represented the seller, RHH, LLC.

MULTIFAMILY REPORT

Portland Metro Area

Portland's **multifamily** market steadied its momentum Fourth Quarter, increasing its vacancy rate to 2.79%. The average rent for a 2-bedroom, 1-bathroom apartment bumped up to \$1,030. Rental rates, permits and construction also increased.

Portland is estimated to add 112,000 new units over the next 20 years, and is currently on track to have 7,000 permits for new projects by the end of 2014. This includes the Portland Bureau of Development Services' approval of another micro-housing project in the Hollywood District. The city's streak of record-breaking low vacancy rates is expected to plateau as these projects deliver and will predictably increase in the new construction's aftermath.

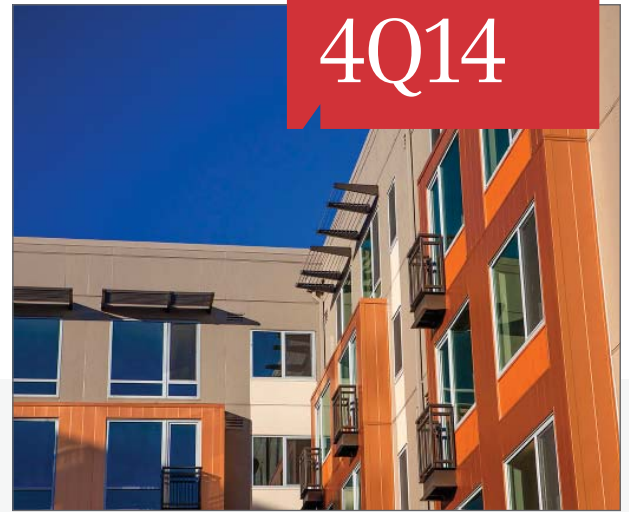
Market Trends

Since jobs are the primary driver behind the multifamily market's growth, Portland's tightening office market is a positive sign for sustained market strength. Many major tech firms have discovered Portland's deep talent pool and comparatively low cost of living. According to RealtyTrac, a real estate data firm, Portland renters spend about 31 percent of their income to rent a 3-bedroom apartment. This is a sharp contrast in comparison to San Francisco or Seattle, which demands in excess of 40 percent of the area's median income to rent. As a result, the city's become a start-up mecca and attraction for in-migration, especially for millennials.

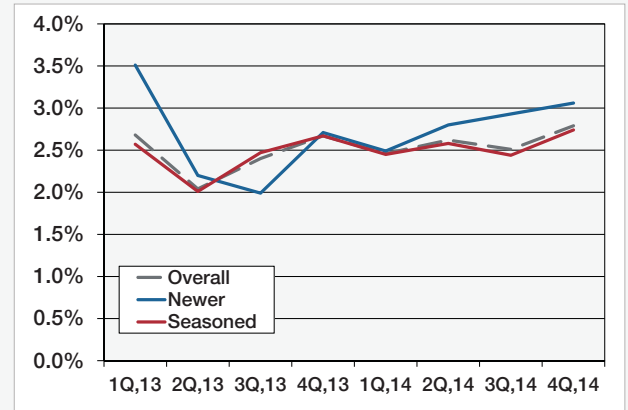
Now at the tail-end of 2014, institutional developers continue to flood the market, motivated by Portland's high rent, high occupancy and low cap rates driven by enormous capital. With the bulk of today's land sales concentrated in Multnomah County, Portland has approximately 26,000 new units in the current pipeline. The ambitious hunt for quality close-in and urban sites has impacted land values tremendously, bumping prices to \$150-300/sf in the CBD. Such premium values haven't been seen since the last condominium boom in 2007. In the Eastside, sales comps in the North Williams neighborhood once traded at \$30-50/sf, but today the numbers have ballooned to \$80+/sf.

With evidence of a robust and healthy market on every street corner, there's no better indication that Portland's multifamily market is in its prime. Land values are at record highs and until the market peaks, prices will continue to climb.

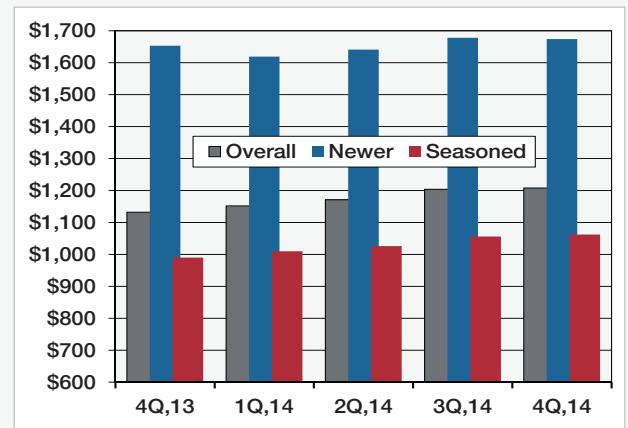
4Q14



Vacancy Comparison (%)



Rental Rate Comparison



Trends for 4Q14

VACANCY RATE

RENTAL RATES

PERMITS

CONSTRUCTION

MULTIFAMILY REPORT

4Q14

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	\$1,732 (\$2.16)	\$1,548 (\$1.74)	\$2,716 (\$2.20)	\$2,984 (\$1.93)	3.36
Southeast Portland	\$1,066 (\$1.63)	\$932 (\$1.06)	\$1,125 (\$1.14)	\$1,269 (\$1.08)	2.95
North/Northeast Portland	\$1,398 (\$1.86)	\$1,031 (\$1.17)	\$1,945 (\$1.71)	\$1,146 (\$1.02)	2.52
Southwest Portland	\$953 (\$1.44)	\$1,003 (\$1.20)	\$1,347 (\$1.32)	\$1,365 (\$1.12)	1.92
Gresham/Troutdale	\$811 (\$1.17)	\$886 (\$1.04)	\$975 (\$0.98)	\$1,136 (\$0.98)	1.88
Lake Oswego/West Linn	\$1,081 (\$1.45)	\$1,202 (\$1.33)	\$1,459 (\$1.32)	\$1,636 (\$1.23)	2.29
Wilsonville	\$963 (\$1.33)	\$1,077 (\$1.15)	\$1,214 (\$1.19)	\$1,369 (\$1.15)	2.89
Tigard/Tualatin	\$887 (\$1.31)	\$976 (\$1.15)	\$1,133 (\$1.13)	\$1,304 (\$1.13)	3.34
Beaverton/Aloha	\$929 (\$1.35)	\$1,027 (\$1.16)	\$1,165 (\$1.19)	\$1,362 (\$1.17)	3.16
Hillsboro	\$1,001 (\$1.37)	\$1,070 (\$1.16)	\$1,284 (\$1.18)	\$1,431 (\$1.12)	3.13
Clackamas/Or Cty/Mlwk	\$881 (\$1.29)	\$1,008 (\$1.13)	\$1,077 (\$1.08)	\$1,342 (\$1.10)	3.17
Vancouver	\$849 (\$1.19)	\$924 (\$1.00)	\$1,080 (\$1.01)	\$1,200 (\$0.98)	2.17
TOTAL	\$1,126 (\$1.54)	\$1,030 (\$1.16)	\$1,421 (\$1.31)	\$1,381 (\$1.12)	2.79

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

Significant Sales Transactions

BUYER	BUILDING	PRICE	UNITS	SUBMARKET
Unknown	Harrison Tower Apartments	\$53,000,000	185	Southwest Portland
DiNapoli Capital Partners	Honeyman Hardware Lofts	\$37,050,000	100	Downtown Portland
Unknown	The Hillcrest Apartments	\$3,600,000	33	Tigard/Tualatin
Unknown	Driftwood Terrace	\$2,350,000	33	Clackamas/OR City/Milwaukie
Unknown	Brentwood Apartments	\$2,175,000	22	North/Northeast Portland
Unknown	Sarah Friendly-Lauer Building	\$1,550,000	6	North/Northeast Portland
Andrew Todd Peceimer	Clarendon Terrace Apartments	\$1,520,000	25	North/Northeast Portland

Source: CoStar

Featured Deals



Overland Warehouse Co. Sale

The Overland Warehouse Company (OWC) building, a 30,000 sf property located at 205-219 NW 4th Avenue, has sold for \$1.64M. NAI Norris, Beggs & Simpson Senior Vice President Robert Black represented the buyer, Will Sing, LLC, in its purchase of the historical building.



The Sovereign Under Renovation

Randall Investment Group has purchased the historic Sovereign Hotel building from the Oregon Historical Society. The 9-story, mixed-use building contains 4 stories of office space and 44 apartments. NBS Multifamily Management will manage the property.

NAI Norris, Beggs
& Simpson

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Suite 200
Portland OR 97204
503 223 7181

700 Washington Street
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