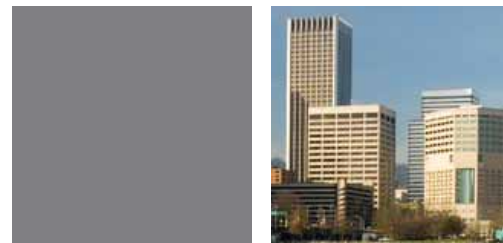


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TRENDS:

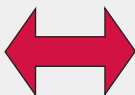
Vacancy Rate



Net Absorption



Construction



Asking Rents

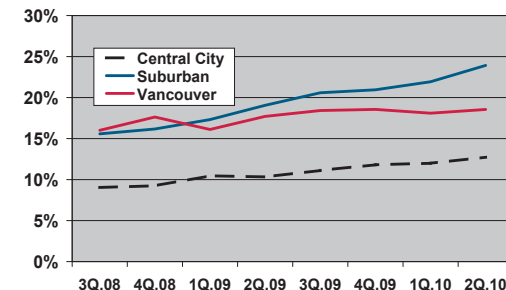


OVERVIEW

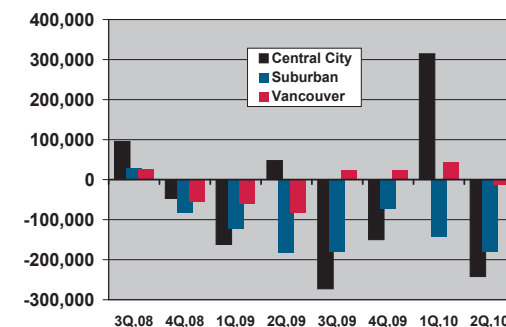
Central City office vacancy increased to 12.73% during the Second Quarter, with negative 242,145 sf absorbed. About 40,000 sf of this negative absorption was from multiple tenants leaving the historic Stevens Building. The Church of Scientology of Portland purchased it in 2008 and planned to inhabit the whole building, but it was found to be unsuitable for the organization and is for sale. This quarter the Church of Scientology bought downtown's historic Sherlock Building for \$6.4 million to serve as its new home. In a highly-anticipated decision, the Portland Development Commission opted to remain at its current location in Old Town (but in 10,000 fewer sf), rather than move to the stalled Park Avenue West, its other primary option. It is uncertain when construction will restart at Park Avenue West, as the project lacks financing. Active tenants downtown include alternative energy groups, who seek environmentally friendly buildings. Many tenants are also seeking moderately-priced Class A buildings with quality buildouts.

Suburban office vacancy rose about two percentage points to 23.92%, with negative absorption of 179,725 sf. This is the 7th consecutive quarter of negative absorption for the suburbs. Kruse Way saw the most significant increase in vacancy, from just under 23% last quarter to 29.36% during Second Quarter. Kruse Woods V had nearly 100,000 sf of negative absorption, as Northwest Evaluation Association vacated about 108,000 sf to move to the former Port of Portland building in Central City. However, Black & Veatch filled some of the space at Kruse Woods V, leasing about 25,000 sf. Vacancy in I-5 South rose significantly to 28.10%, but some large leases occurred, including State Farm's lease of nearly 24,000 sf at Fanno Creek Building B. Brokers are seeing a flight to quality in the suburban submarkets, with healthy activity in nicer buildings.

Vacancy Comparison (%)



Absorption Comparison (SF)



Vancouver vacancy rose slightly to 18.55%, with negative 11,634 sf absorbed. The most significant deal was the \$18.5 million sale of The Columbian Building to the City of Vancouver for its new city hall. The 118,000 sf building, previously listed at \$41.5 million, was turned over to Bank of America early this year after the Columbian Publishing Co. filed for bankruptcy.

Major Lease Transactions

Tenant:	Building:	Size (SF):	Submarket:
Columbia Sportswear Co.	Summit Building	24,489	Sunset
State Farm Mutual Automobile Insurance	Fanno Creek Building B	23,712	I-5 South
EURO RSCG Direct Response	Federal Reserve Building	14,467	Central Business District

Major Sale Transactions

Buyer:	Building:	Price:	Submarket:
City of Vancouver	Columbian Building	\$18,500,000	Vancouver
Church of Scientology of Portland	Sherlock Building	\$6,400,000	Central Business District
Rh Fund I LLC	11101-11109 NE 14th St.	\$2,790,098	Vancouver

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SUBMARKET	# BLDGS	INVENTORY (SF)	**TOTAL AVAILABLE (SF)	**% VACANT	**TOTAL NET ABSORPTION	UNDER CONSTRUCTION
CENTRAL CITY*						
Central Business District	123	14,944,574	1,894,858	12.68	(218,754)	351,000
Lloyd District/Central Eastside	22	2,321,201	223,589	9.63	(16,015)	0
Northwest	28	2,696,998	423,204	15.69	(7,376)	175,225
TOTAL	173	19,962,773	2,541,651	12.73	(242,145)	526,225
SUBURBAN*						
Sunset Corridor	67	3,709,629	952,421	25.67	272	14,431
Central 217	30	1,589,338	453,726	28.55	(22,059)	0
Southern 217	31	1,158,346	256,260	22.12	15,873	0
Barbur Boulevard	22	496,357	100,323	20.21	(1,748)	0
Beav-Hillsdale/Sylvan	22	712,526	127,080	17.84	(7,688)	0
Central Beaverton	13	682,033	140,266	20.57	(5,964)	0
I-5 South	60	2,074,273	582,904	28.10	14,901	0
SW Waterfront/Johns Lndg	25	1,060,941	183,878	17.33	9,923	0
Kruse Way	31	2,364,662	694,344	29.36	(137,870)	0
Lake Oswego/West Linn	20	468,752	85,306	18.20	(2,848)	0
North/Northeast	26	919,883	248,042	26.96	(11,565)	238,200
Central 205	35	1,318,388	214,791	16.29	(24,873)	0
Southeast	19	508,943	42,818	8.41	(6,079)	0
TOTAL	401	17,064,071	4,082,159	23.92	(179,725)	252,631
Vancouver	116	3,956,634	733,839	18.55	(11,634)	0

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

**Numbers only reflect direct space.

Featured Deals



State Farm Mutual Automobile Insurance Lease

State Farm Mutual Automobile Insurance leased 23,712 sf at Fanno Creek Building B, in Tigard. Fanno Creek delivered in 2008 and this is the first lease in Building B. Executive Vice President Chris Johnson, Vice President MaryKay West and Vice President John Medak represented the landlord.



CNA Insurance Lease

CNA Insurance leased 17,443 sf at Pacific Parkway Center on SW 68th Parkway in Tigard. Vice President Jennifer Medak, Vice President John Medak and Real Estate Broker Andrew Rosengarten represented the landlord, PacTrust. The NAI NBS team has taken the building from about 58% leased a year ago to 82% leased today.

The information supplied herein is from sources we deem reliable. It is provided without independent verification and without any representation, warranty or guarantee, expressed or implied as to its accuracy. NAI Norris, Beggs & Simpson accepts no responsibility should the information prove to be inaccurate or incomplete.