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SUMMARY & EDITORIAL

ERIC FRUITS

In the May issue of the Quarterly, we noted that the economy was experiencing the "turbulence of a turnaround." Just a few short months later, we are still seeing many signs of turbulence, but relatively few signs of a turnaround.

Fannie Mae's second-quarter national housing survey shows that 64 percent of American homeowners and renters say the economy is on the wrong track. This is the most pessimistic view since the survey's inception in the first quarter of 2010. The National Association of Home Builders/Wells Fargo Housing Market Index came in at 15 out of 100, which is unchanged from July's reading. With the sector still facing weak consumer demand, competition from foreclosed homes, and tight lending standards.

On the upside, the Oregon *Daily Journal of Commerce* reports that online publication *Business Insider* ranked Bend, Oregon as number two in the country on its list of the best housing markets for the next five years. Using data from Fiserv and Moody's Analytics, the *Wall Street Journal* projects increasing home prices over the next two years in all the Oregon markets it surveyed (Figure 1).

As a bit of a side note, recent academic research has found that the addition of photos to an MLS listing increases the selling price of a home.[1] They also found that

[1] Benefield, J. D., Cain, C. L., and Johnson, K. H. (2011). On the relationship between property price, time-on-market, and photo depictions in a multiple listing service. *Journal of Real Estate Finance and Economics*, 43(3):401–422.

more photos are associated with higher selling prices. The authors urge agents to include the maximum number of photos allowed by the listing service.

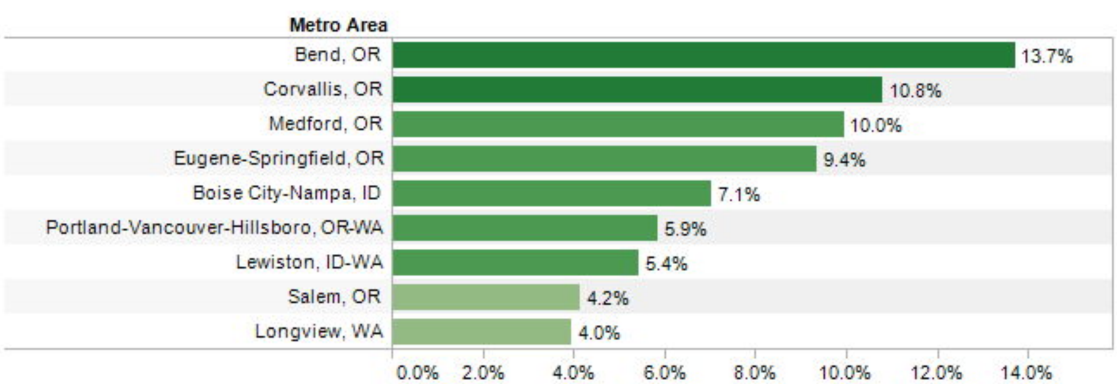
In another upside, record low mortgage interest rates are contributing to a recent spike in refinancing activity. **Steven Del Percio** provides this issue's feature article, describing some recent legal and land use developments in LEED design and construction. He reports that Oregon is home to the first case in which LEED certification issues are an key issue in an appeal of a property tax assessment.

With this issue, **Evan Abramowitz** joins the Quarterly as a Oregon Association of Realtors fellow, writing analysis on the multifamily and residential markets. He is also a broker at Joseph Bernard Investment Real Estate. We welcome him aboard and look forward to his reports.

David West continues to provide analysis of the office, retail, and industrial markets. This quarter, he reports on improvements—and some turbulence—in all three markets.

Figure 2 shows that the market has not seen this level of refinance activity since last year. Nevertheless, although refinance activity has picked up, it is still much lower than the levels seen during the refinance boom of 2002-03, and below the smaller refinance peaks in 2008 and 2009.

Figure 1: Forecasted change in home prices from the first quarter of 2012 to the first quarter of 2013



Source: Wall Street Journal / Fiserv and Moody's Analytics

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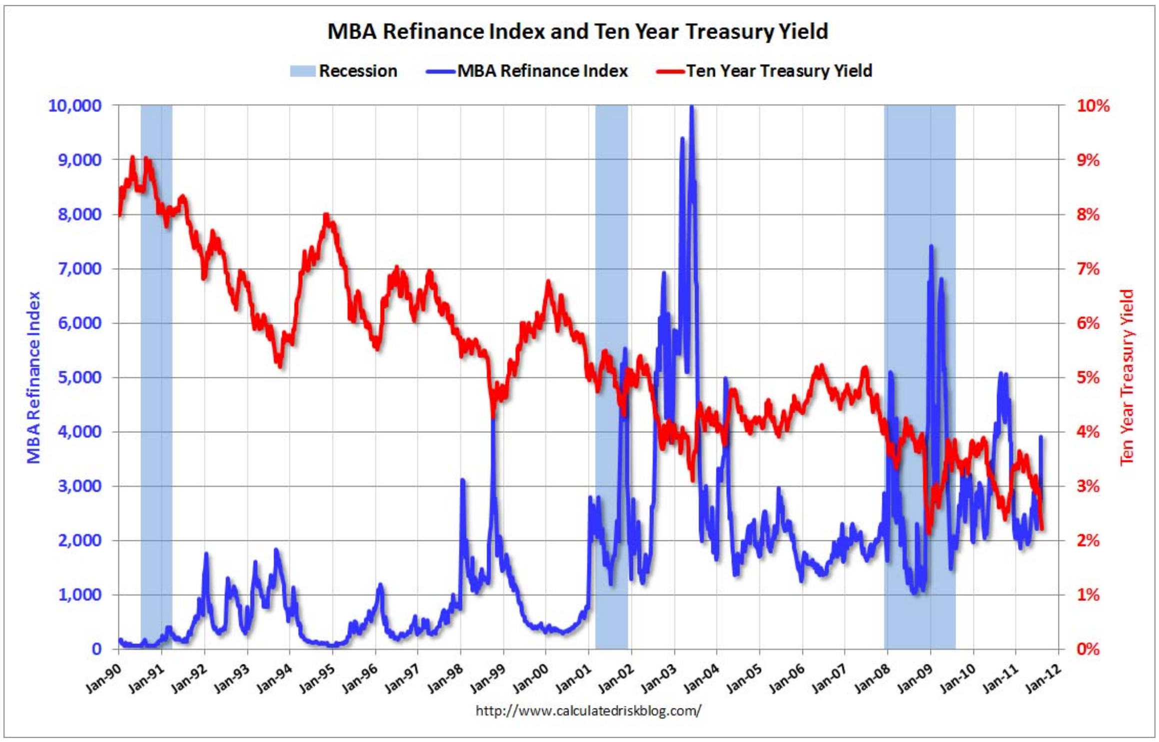
Figure 2: Mortgage Refinancing and Treasury Yield



Source: Calculated Risk / Mortgage Bankers Association

LEED CERTIFICATION, PROPERTY TAXES, AND LAND USE: SOME RECENT DEVELOPMENTS

STEPHEN T. DEL PERCIO

Arent Fox LLP

Over the past decade, "green building" concepts have moved from the frontiers toward the mainstream of building design and construction. Designed and marketed by the U.S. Green Building Council (USGBC), the LEED (Leadership in Energy and Environmental Design) green building rating system has become North America's de facto third-party assessment tool of a building's environmental impact. LEED ratings range from Certified to Silver then Gold and peak at Platinum.

Forty-five states, 442 localities, and 14 federal agencies and departments have incorporated LEED into legislation of various types, from tax credits and other financial incentives to certification mandates. Last November, USGBC announced that the total square footage of LEED-certified buildings had reached 1 billion globally, with an addition 6 billion square feet registered for certification.[1]

As the movement's grip on the real estate industry strengthens, commentators across the country have focused more and more on the legal risks arising out of green building. One corner of the law where the green building legal spotlight has yet to shine with much vigor is zoning and land use. But three legal opinions written to date in 2011, including one from the Oregon Tax Court, suggest that green building and—more particularly—LEED certification are beginning to intersect those areas in a significant fashion.

[1] LEED Certified green building projects reach one billion square feet (2010). *Buildings*, available at http://www.buildings.com/ArticleDetails/tabid/3321/ArticleID/11044/Default.aspx, retrieved August 11, 2010.

LEED CERTIFICATION MAY LEAD TO HIGHER PROPERTY VALUES AND HIGHER PROPERTY TAXES

Proponents of green building concepts argue that increased lease rates, lower operating costs, and, in turn, increased property values can overcome the higher design and construction costs associated with LEED certified construction. A recent Oregon Tax Court opinion is the first reported decision in which a property's pursuit of LEED certification and supporting green design features were used to buttress an argument that those features made real property worth more.[2]

Touted as the only privately funded LEED Silver-certified space anywhere in the State of Oregon, the 6-story, mixed-use Elements Building in downtown Corvallis, Oregon recently found its green design features and LEED certification status as major themes in a written Oregon Tax Court opinion.

In the proceeding, the recent purchaser and owner of the building challenged its assessed market value for property tax purposes. Although the building had lost tenants during the economic downturn, only one office floor was vacant at the time Benton County assessed the disputed valuation. But that tenant was Hewlett Packard. So the owner's property tax appraiser made an economic obsolescence adjustment (dropping the building's value, and corresponding property tax burden, by 52 percent) which the county assessor disputed.

In claiming that the building's green features made it more valuable, the county assessor testified that "the subject property was substantially progressed in the process to LEED Silver certification prior to completion of the project, however there is no evidence that the structure has been officially certified." He also identified the building's "green roof, efficient energy systems, and re-used materials throughout," and argued that "those features add value through efficient ventilation and heating and energy savings." In arguing for the lower valuation the owner simply claimed that the building "will never be [LEED] certified at any level."

It is also worth noting that the logic applied by a New York appellate court in 2009 was somewhat similar to the county assessor's argument that the Elements Building's green features made it inherently more valuable than a non-green building. In the New York case, the court required a construction lender to continue funding a developer's construction loan on the basis that the project's federal green bond financing was "revolutionary" and "unique."[3]

The *CLP Elements* opinion is important not for the result (the court held in favor of the county) but because it is the first reported judicial decision in which a property's pursuit of LEED certification and supporting green design features were used to advance an argument that those features make real property worth more. Al-

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[2] *CLP Elements LLC v. Benton County Assessor*, TC-MD 100662D, May 10, 2011.

[3] *Destiny USA Holdings, LLC v. Citigroup Global Markets Realty Corp.*, 889 N.Y.S.2d 793 (App. Div., 4th Dep't 2009).

though numerous studies have made the argument that green design features and LEED certification translate into higher asset values, they have been widely critiqued on the basis that many LEED-certified buildings have traded hands during the biggest real estate boom in modern history.[4] Thus, it has been argued that the higher prices may have been associated with the boom, rather than LEED design and building concepts. Regardless, *CLP Elements* suggests that courts will soon confront green building valuation arguments more frequently. In doing so, they should take a critical and objective view of the financial benefits of a property's green features and pursuit of LEED certification.

LEED CERTIFICATION AND CITY ZONING: MIXED MESSAGES

Green building has also intersected land use and zoning issues outside of the property tax arena. For example, the Superior Court of Connecticut recently denied an appeal from a decision of New Haven's zoning board that authorized a zoning amendment.[5] The amendment created a Planned Development District for the Yale School of Management's new Norman Foster-designed campus. The amendment has allowed Yale to proceed with the construction of a 230,000-square-foot, LEED Gold-hopeful building that is the centerpiece of the development. In analyzing the project's proposed green features, the court held that "[t]here would appear to be sufficient compliance with the environmental concerns of the Comprehensive Plan" and went on to uphold the zoning amendment in Yale's favor.

In another decision issued earlier this year, but across the border in Toronto, the Ontario Municipal Board rejected claims that a LEED project deserved a zoning variance to Toronto's Official Plan and the Ontario Planning Act on the basis that it promoted environmental sustainability in the spirit of the legislation.[6] Specifically, the Board considered arguments from the applicants that the "modernist" design for their proposed 3-story home at 7 Ashwood Crescent—for which they intended to seek LEED certification and would replace an existing bungalow—qualified for the variance on the basis that its proposed green features and third-party certification constituted "extenuating circumstances." The Board held that

> [t]here is simply no statutory authority for [third-party environmental certification labels] to sidestep land use planning requirements … "Certification by a private third party" is no substitute for a transparent and legally mandated public process, and no guarantee of good planning.

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[4] Del Percio, S. T. (2008). Head of Green Building Finance Consortium offers critique of recent CoStar study, *gbNYC*, available at http://www.greenbuildingsnyc.com/2008/06/09/head-of-green-building-finance-consortium-offers-critique-of-recent-costar-study/, retrieved August 12, 2011.

[5] *Tagliarini v. New Haven Board of Aldermen et al.*, 2011 WL 1288638 (Conn. Super., March 11, 2011).

[6] *In the Matter of Penelope McIver*, Ontario Municipal Board Case No. PL 100661 (Jan. 17, 2011).

Although these two decisions did not create any new precedential pieces of law, they do demonstrate that green building principles and LEED certification can—and will—play a major role in 21st century zoning and land use planning. Understanding the purposes and limitations of green design features and third-party certification systems like LEED will continue to be of critical import in the legal context not only for practitioners, but project teams and government officials as well. ■

Stephen T. Del Percio is an attorney in the construction and real estate group at Arent Fox LLP. He was one of the first ten attorneys in the U.S. to earn the LEED AP designation from U.S. Green Building Council. Mr. Del Percio is a frequent lecturer and author on the legal issues associated with green building, leasing, and policy issues.

RESIDENTIAL MARKET ANALYSIS

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National housing market statistics reflect slightly increasing median-existing home price for all housing types over the past year was $184,600 in June, up 0.6 percent annually from June 2010. However, median prices in the western United States have decreased by 6.70 percent from $269,000 to $250,900. Over the same period, the Portland metropolitan area experienced a decrease in median sales prices and sales volume. The median sales price of $230,700 has decreased 5 percent since June 2010 and the number of transactions in the metropolitan area decreased by 4.7 percent.

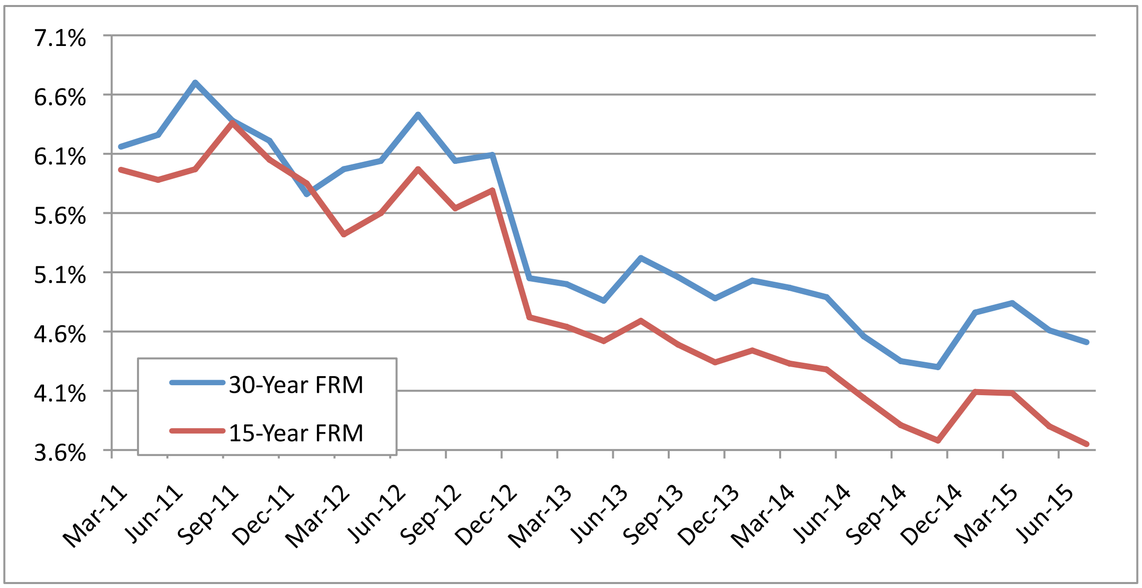
The National Association of Realtors reports the number of existing home sales decreased for the third straight month in June 2011 to a seasonally adjusted rate of 4.77 million homes sold nationally. This is the lowest number of sales since 1997. Last year 4.91 million homes were sold. In contrast, a healthy economy generates approximately 6 million homes per year.

The HousingPulse Distressed Property Index is one indicator of the health of the housing market. The index rose to 47.7 percent in April, meaning that nearly half of all housing sales are of distressed properties. HousingPulse projects that this trend will likely continue as the backlog of foreclosures and mortgage defaults make their way through the housing pipeline.

Campbell Surveys reports that first-time homebuyers made up a smaller proportion of the market this April at 35.7 percent compared with 44.4 percent in April 2010. On a positive note, investor activity increased from 18 percent in April

2010 to 23 percent in April 2011. When the supply of distressed properties exceeds the amount demanded by first-time buyers, there is an opportunity for investors to enter the market and buy damaged properties, renovate, and then try to sell the properties. Many owners are being forced to rent properties, as the supply exceeds demand for buyers wanting to enter housing market.

Figure 1: Single Family Mortgage Interest Rate



Source: Freddie Mac

Mortgage interest rates had been steadily decreasing since the first quarter of 2011. The national average commitment rate for a 30-year conventional, fixed-rate mortgage was 4.51 in June, down from 4.64 percent in May; the rate was 4.74 percent in July 2010 and has dropped to 4.39 percent in the first week in August.

First time home buyers constituted 31 percent of home purchases in June, down from 36 percent in May.

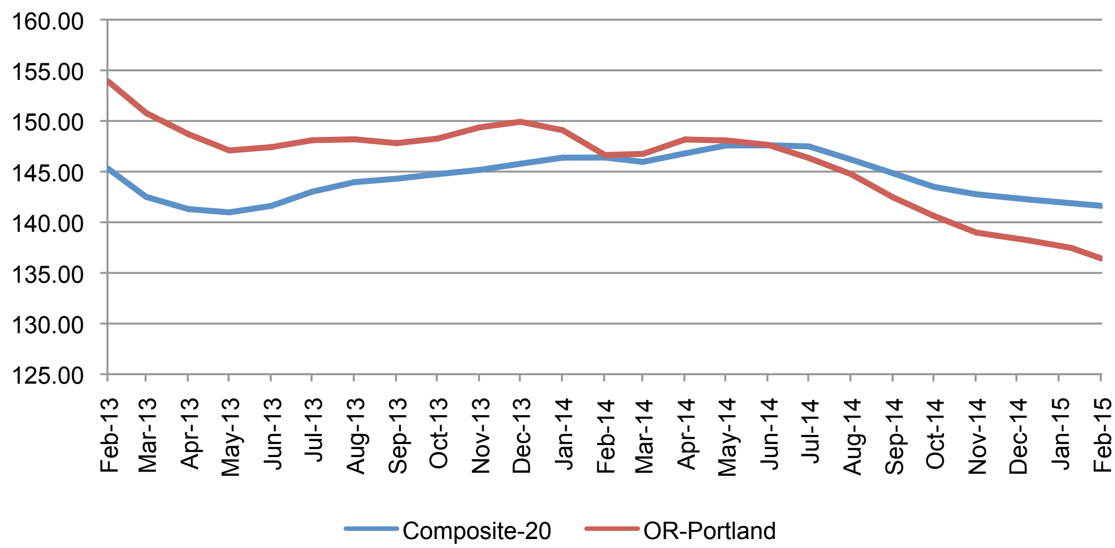
Table 1: Median Home Values of Existing Detached Homes

	U.S.	*West*	Portland Metro Area
June 2010 Median Sales Price	$183,500	$240,400	$242,800
March 2011 Median Sales Price	$184,600	$195,200	$230,700
% Change in Median Sales Price	-0.6%	9.5%	-5.00%
% Change in Number of Sales June 2010-June 2011	-7.4%	-2.6%	-4.7%

Source: National Association of Realtors

Standard & Poor's Case-Shiller Index for Portland was 134.5 in May 2011, an increase of 1.02 percent from the month before, and a year-over-year decrease of 9.1 percent. Case-Shiller's 20 city composite index is down 4.5 percent since last year at this time. The index data shows that in the major U.S. metropolitan cities, home prices increased slightly from the previous month but are still down over the past year.

Figure 2: Standard & Poor's Case-Shiller Index for Portland and Composite-20



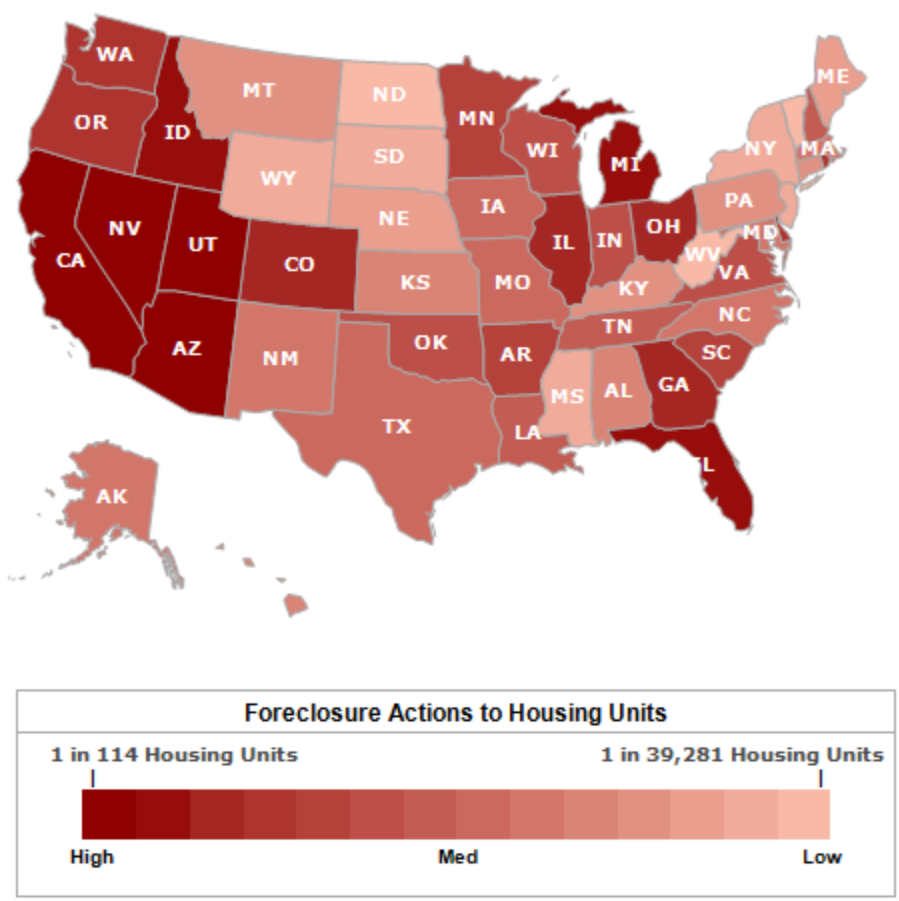
Of the 20 cities tracked by Case-Shiller, Washington D.C. was the only market to post a year over year gain at growth rate of 1.3 percent. Overall the two indices are back at summer 2003 levels. The 20-composite index was 139.87 in May 2011, and Portland was 134.50.

Data published by RealtyTrac, show 608,235 foreclosure filings for the second quarter 2011, down 11 percent from the previous quarter and a 32 percent decrease from the second quarter of 2010. The filing figures include default notices, schedule auctions and bank repossessions. Foreclosure filings were reported on 222,750 U.S. properties in the month of June 2011, an increase of 3.64 percent from the previous month but still down 29 percent from June 2010.

"It would be nice to report that foreclosure activity is dropping as a result of improvements in the economy or the housing market," said James J. Saccacio, chief executive officer of RealtyTrac. "Unfortunately, with unemployment rates inching back up, consumer confidence weak and home sales and prices continuing to languish, this doesn't appear to be the case." Saccacio also points out that processing and procedural delays are pushing foreclosures further and further out. He estimates that as many as one million foreclosure actions that should have taken place in 2011 will now happen in 2012 or later.

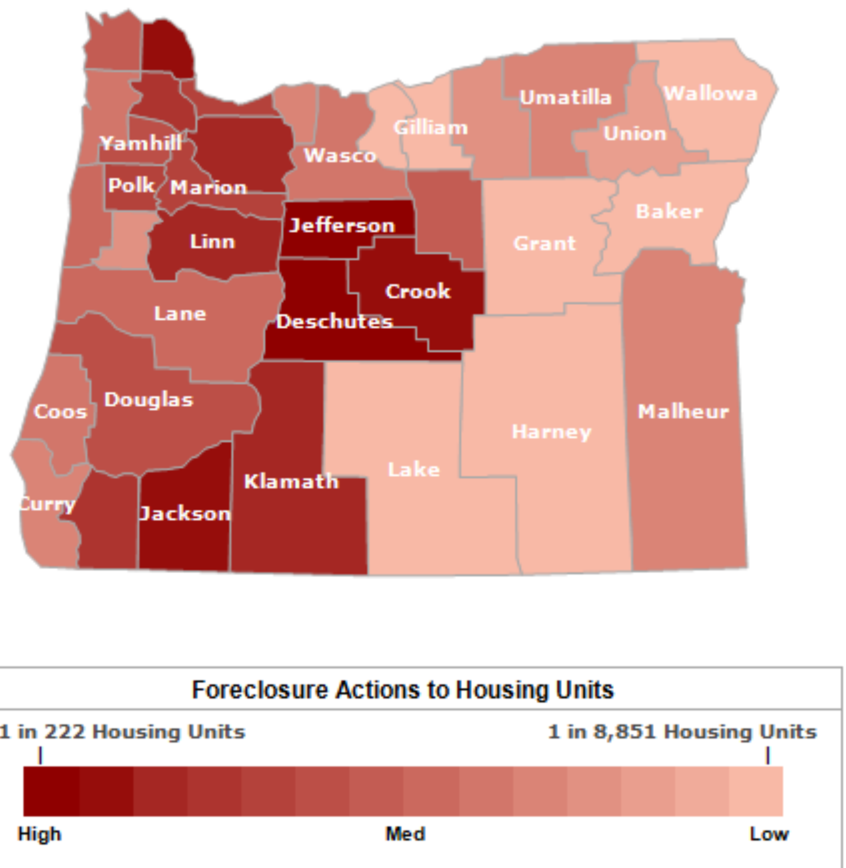
For the second quarter of 2011, Oregon reported 7,058 foreclosure fillings, a 20.75 percent decrease from the previous quarter and a 41.55 percent decrease from the previous year. In the U.S., one in every 583 homes received a foreclosure filling while one in every 612 homes in Oregon received a foreclosure filling during June 2011.

Figure 3: Foreclosure Rate Heat Map, June 2011



Source: RealtyTrac

Figure 4: Foreclosure Rate Heat Map-Oregon, June 2011



Source: RealtyTrac

According to RealtyTrac, the ten states that ranked the highest in foreclosure rates in the first quarter were Nevada, Arizona, California, Utah, Idaho, Georgia, Michigan, Florida, Colorado and Illinois. Of these states, Nevada posted the nation's highest state foreclosure rate, with one in every 114 housing units receiving a foreclosure filing. In Arizona one in every 205 housing units and in California one in every 248 housing units filed for foreclosure during June 2011.

Table 2: Building Permits Issued, Year to Date, in thousands

	Single Family			Multi Family		
	May-11	May-10	% Change	May-11	May-10	% Change
United States	167.2	202.2	-17%	65.0	53.4	22%
Oregon	2.04	2.69	-24%	0.84	0.37	125%
Portland-Vancouver-Beaverton OR-WA	1.27	1.65	-23%	0.61	0.25	147%
Salem OR	0.11	0.19	-43%	0.07	0.02	171%
Eugene-Springfield OR	0.16	0.23	-30%	0.03	0.01	125%
Bend OR	0.19	0.16	17%	0.00	0.01	-75%
Corvallis OR	0.01	0.02	-20%	0.13	0.02	639%
Medford OR	0.10	0.12	-17%	0.07	0.02	324%

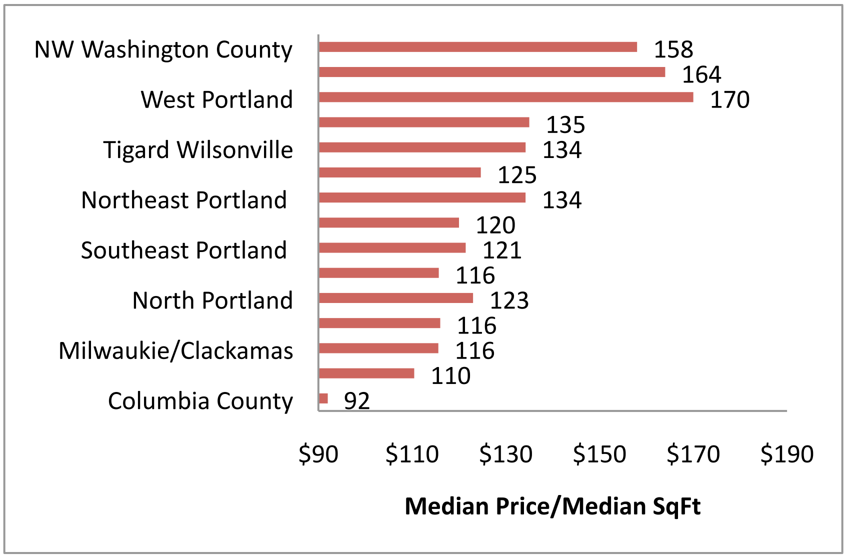
Source: National Association of Home Builders

PORTLAND

The number of Portland metropolitan area home sales decreased by 7.23 percent during the first quarter compared to the fourth quarter of 2010. This is a 3.85 percent increase from the first quarter of 2010 when there were 2805 transactions in the metropolitan area.

Median home prices for the first quarter were at $223,000, which represents a 5.91 percent decrease over the previous quarter and an 8.89 percent reduction annually. Sales price to original list price are coming closer together, with average sales taking place at 96.08 percent of the original list price. This is a 0.15 percent point decrease from the previous quarter which was 96.22 percent, and a 5.71 percent increase annually from 90.89 percent. Sellers in the Portland area have had their homes on the market for an average of 93 days before closing, reflecting a 9 day increase from 2009 and a 14 day increase from the previous quarter.

Figure 5: Single Family Price per Square Foot, New and Existing Detached Homes, Portland Sub Markets



Source: RMLS

Figure 6: Median Sales Price & Number of Transactions, Existing Detached Homes, Portland Metro (excluding Clark County, WA)

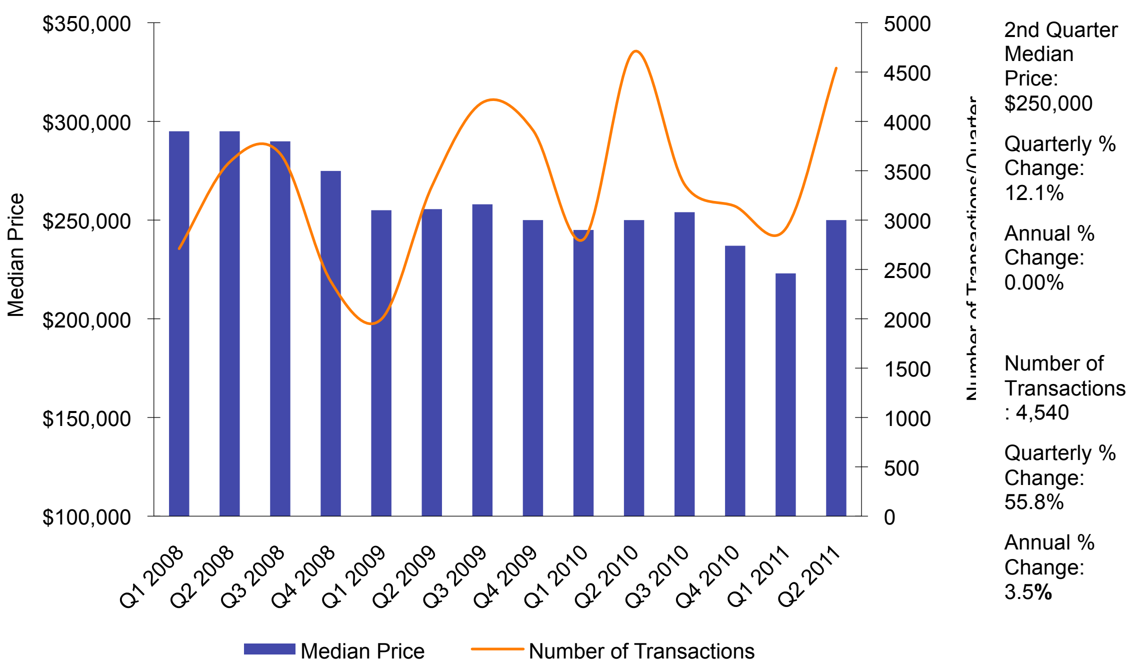


Figure 7: Sale Price/Original List Price& Average Days on Market, Existing Detached Homes, Portland Metro (excluding Clark County, WA)

2nd Quarter Sale/Original ratio: 96.76

Quarterly % Change: 0.71%

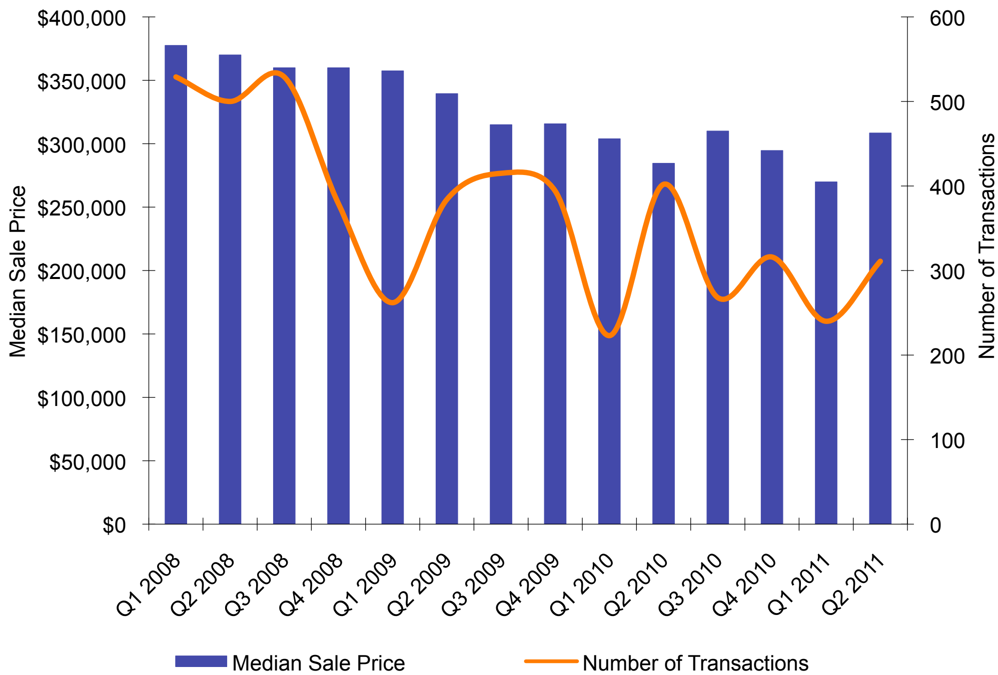
Annual % Change: 4.89%

Days on Market: 81

Quarterly % Change: -12.62%

Annual % Change: 14.46%

Figure 8: Median Sales Price & Number of Transactions, New Detached Homes, Portland Metro (excluding Clark County, WA)



2nd Quarter Median Price: $308,241

Quarterly % Change: 14.3%

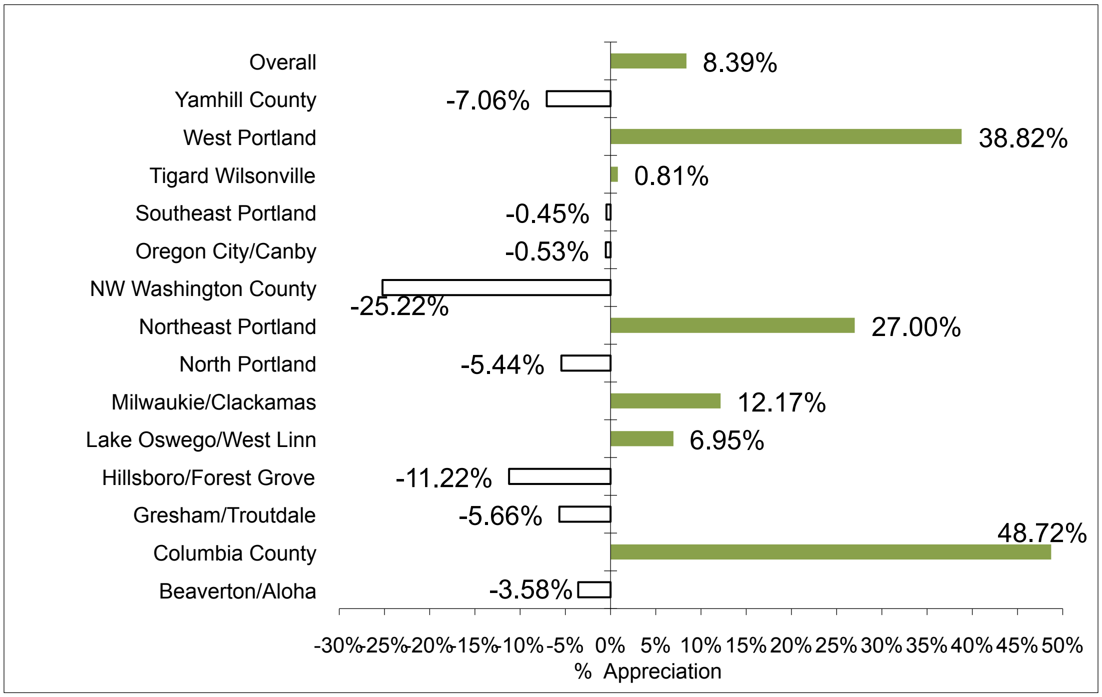
Annual % Change: 8.4%

Number of Transactions: 311

Quarterly % Change: 29.58%

Annual % Change: -22.64%

Figure 9: Appreciation Rates of Existing New Detached Homes from Q2 2010 to Q2 2011, Portland Sub-Markets



No clear trends emerge from an analysis of submarket price performance. The wide variation in from submarket to submarket likely reflects the relatively small number of sales and the idiosyncratic factors associated with each sale.

VANCOUVER

Vancouver's median home price was $183,486 producing in a quarterly increase of 2.51 percent but an year-over-year decrease of 4.68 percent in home values. The number of homes sold throughout the first quarter increased by over 49 percent to 756 from the first quarter of 2011, and a small decrease of 1.05 percent since second quarter 2010. Fifteen of the 16 submarkets increased the number of transactions, with only Downtown decreasing slightly. The largest numerical increases were in Evergreen, Cascade Park, N Hazel Dell, and Five Corners. The average number of days on the market decreased to 88 days. First quarter 2011 average number of days on the market was 102, while it was 81 during the second quarter of 2010.

Figure 10: Median Price and Annual Appreciation Existing Detached Homes, Vancouver

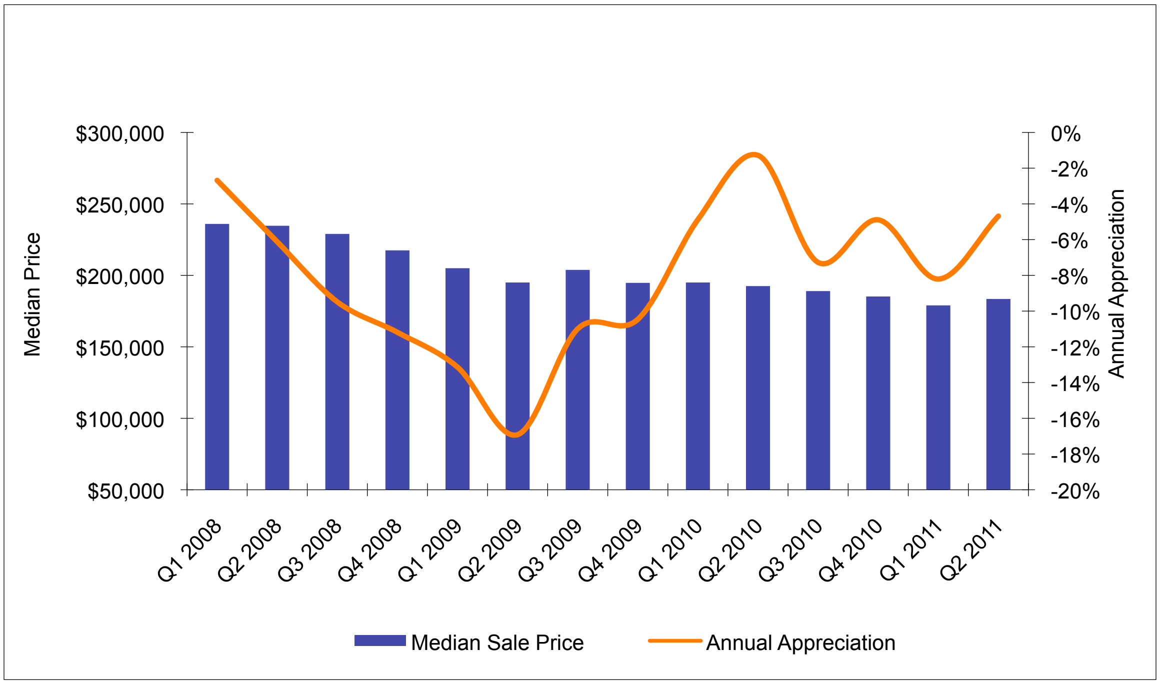


Figure 1: Average Days on Market and Number of Transactions Existing Detached Homes, Vancouver

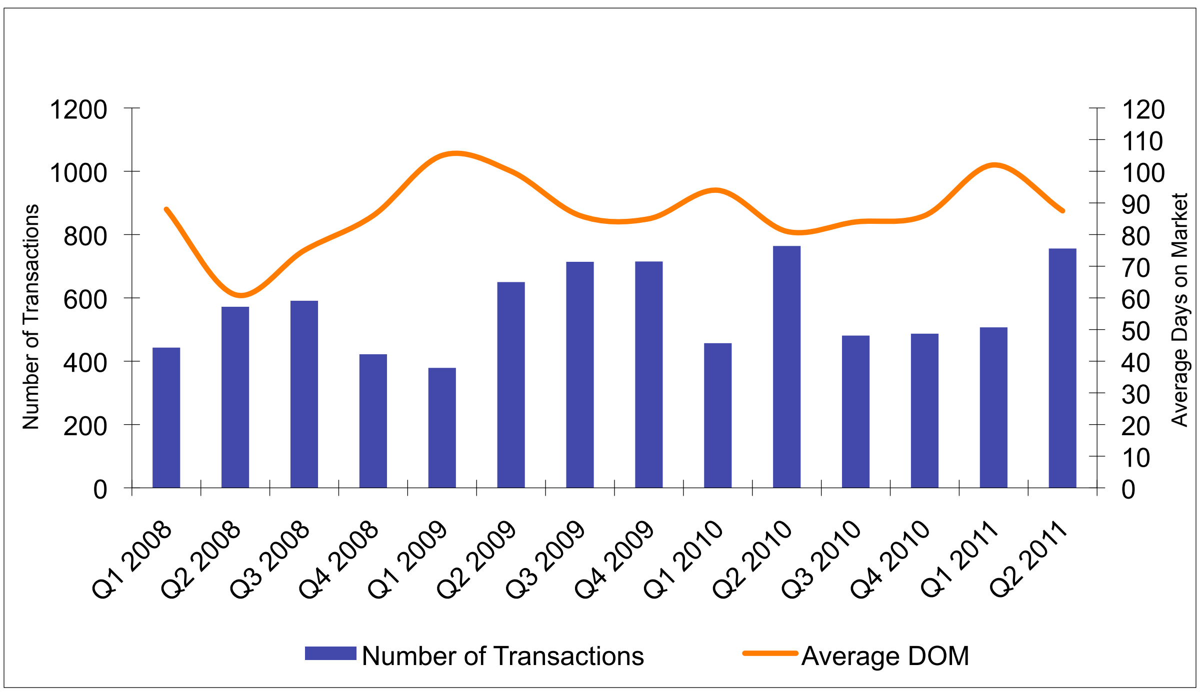


Figure 12: Median Price and Annual Appreciation Existing Detached Homes, Clark County (excluding Vancouver)

In the Clark County suburbs median home prices have increased to $235,702. This is a 4.20 percent increase from the previous quarter's median price, but a 1.79 percent decrease since last year.

The number of home transactions in Clark County's suburbs is up over 60 percent from the first quarter and down 15.28 percent annually. There were 586 transactions during the second quarter, a massive increase of over 60 percent from first quarter. The number of transactions increased in 14 of the 18 submarkets with the largest numerical increases occurring in Camas, Brush Prairie, Washougal, and Cowlitz County. The average number of day on the market decreased from 120 in the first quarter to 100, demonstrating the growing strength of this market.

Figure 23: Average Days on Market and Number of Transactions Existing Detached Homes Clark County (excluding Vancouver)

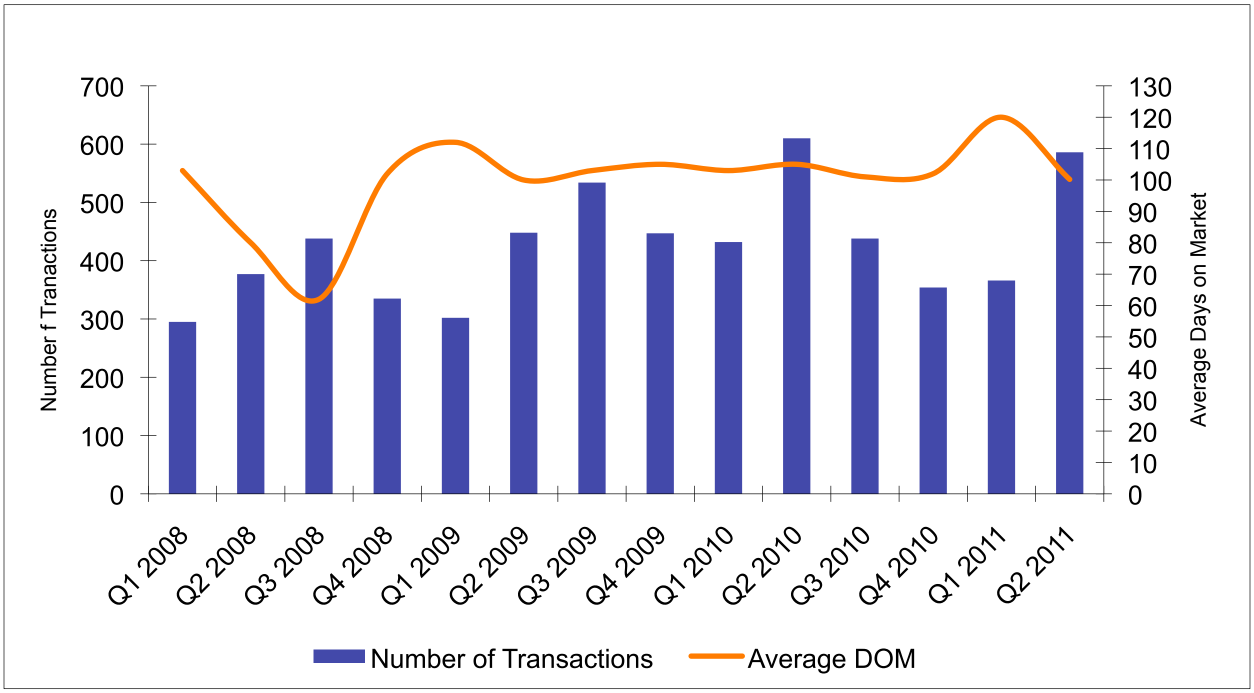
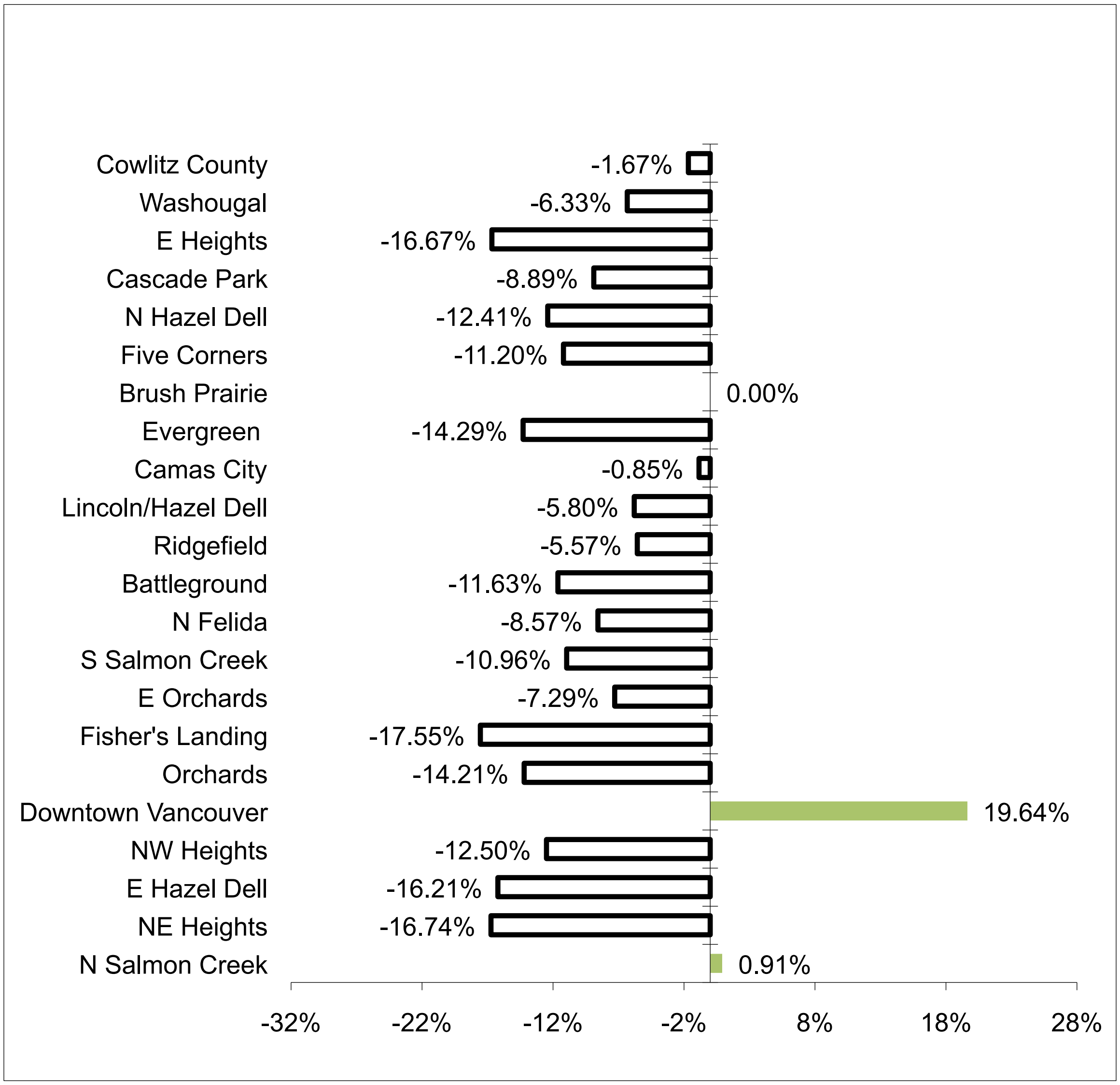


Figure 14: Appreciation Rates of Existing Detached Homes, Vancouver and Clark County Sub Market from Q2 2010 to Q2 2011



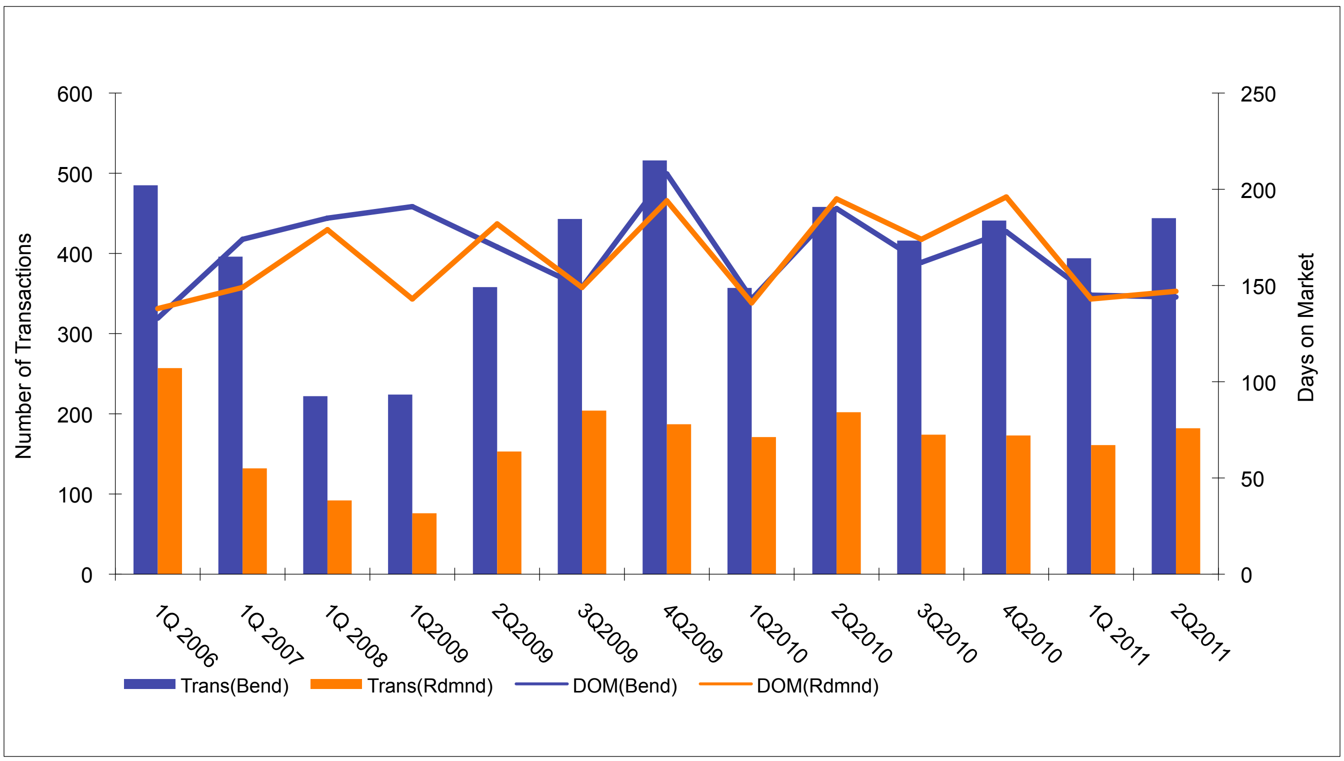
Of the submarkets where there were more than 15 transactions to make appreciation numbers informative, two Vancouver/Clark County submarkets experienced price appreciation for the year. The downtown Vancouver submarket posted the highest gains with an appreciation rate of 19.64 percent (based on 122 transactions for the year).

On the other hand, 20 submarkets saw a decline in prices. The Fishers Landing submarket had the highest quarterly depreciation rate at 17.55 percent (54 transactions) followed by NE Heights submarket at 16.74 percent (38 transactions) and E Heights at 16.67 percent (26 transactions).

CENTRAL OREGON

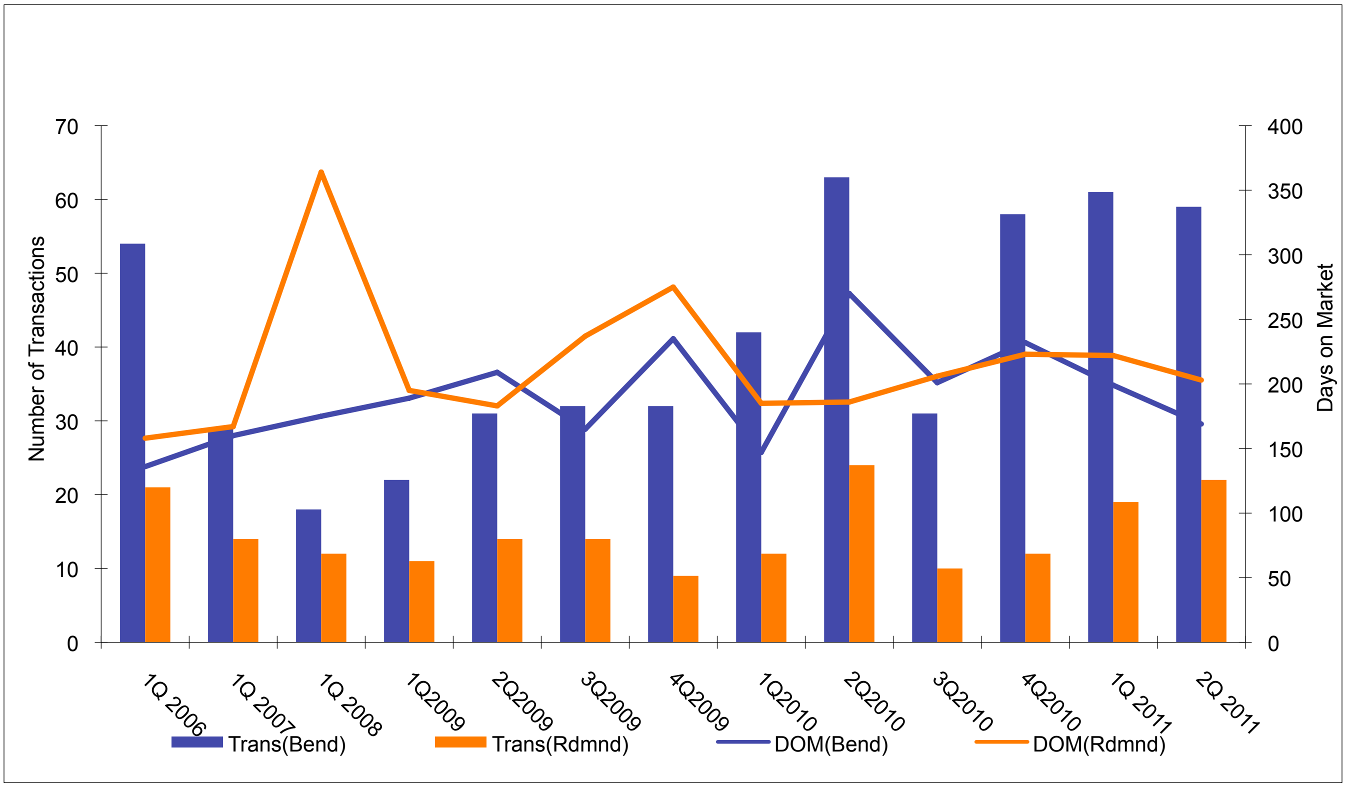
Both Bend and Redmond are experiencing increases from the previous quarter with respect to the number of homes sold less than one acres. Bend home sales less than one acre increased 12.7 percent to 444 and Redmond's increased 13.0 percent to 182. Sales volume for homes on 1-5 acres also increased 15.8 percent from 19 to 22 in Redmond and decreased slightly from 61 transactions in the first quarter of 2011 to 59 transactions during the second quarter of 2011 in Bend. For homes on less than one acre, the average number of days on market decreased slightly from 145 (in the first quarter 2011) to 144 (in the second quarter 2011) in Bend and increased slightly from 143 to 147 in Redmond. In Central Oregon's reports, the housing stock is separated by lot size, properties under one acre and those between one and five acres. Price per square foot data is provided to control for lot size between both categories.

Figure15: Number of Transactions and Days on the Market, Single Family Under 1 Acre, Bend and Redmond



Source: Central Oregon Association of Realtors

Figure 16: Number of Transactions and Days on the Market, Single Family 1-5 Acres, Bend and Redmond



The median home prices for the Bend market recovered strongly during the second quarter of 2011 after three quarters of steady declines, while the Redmond market continued to decline. The Bend market increased 12.9 percent to $198,250, while the Redmond decreased 10.3 percent to $107,250 from the previous quarter for homes less than one acre. The same trends prevailed on homes 1-5 acres as the Bend market increased 24.7 percent to $299,900, while the Redmond market dropped 16.4 percent to $208,950. Over the past year the Bend market increased slightly by 1.1 percent while the Redmond market decreased 13.9 percent for home sales under an acre. For sales 1-5 acres, Bend decreased 4.8 percent and Redmond has increased 6.5 percent since second quarter of 2010.

Price-per-square-foot numbers in Bend increased from the first quarter to the second quarter from $97/sq.ft to $108/sq.ft for homes under one acre and from $113/sq.ft to $148/sq.ft for homes with 1-5 acres. In Redmond, homes under one acre was decreased from $75/sq. ft to $68/sq.ft, while the price per square foot of 1-5 acre homes decreased slightly from $125/sq.ft to $123/sq.ft.

Figure 17: Median Single Family Price and $/SqFt Under 1 Acre, Bend and Redmond

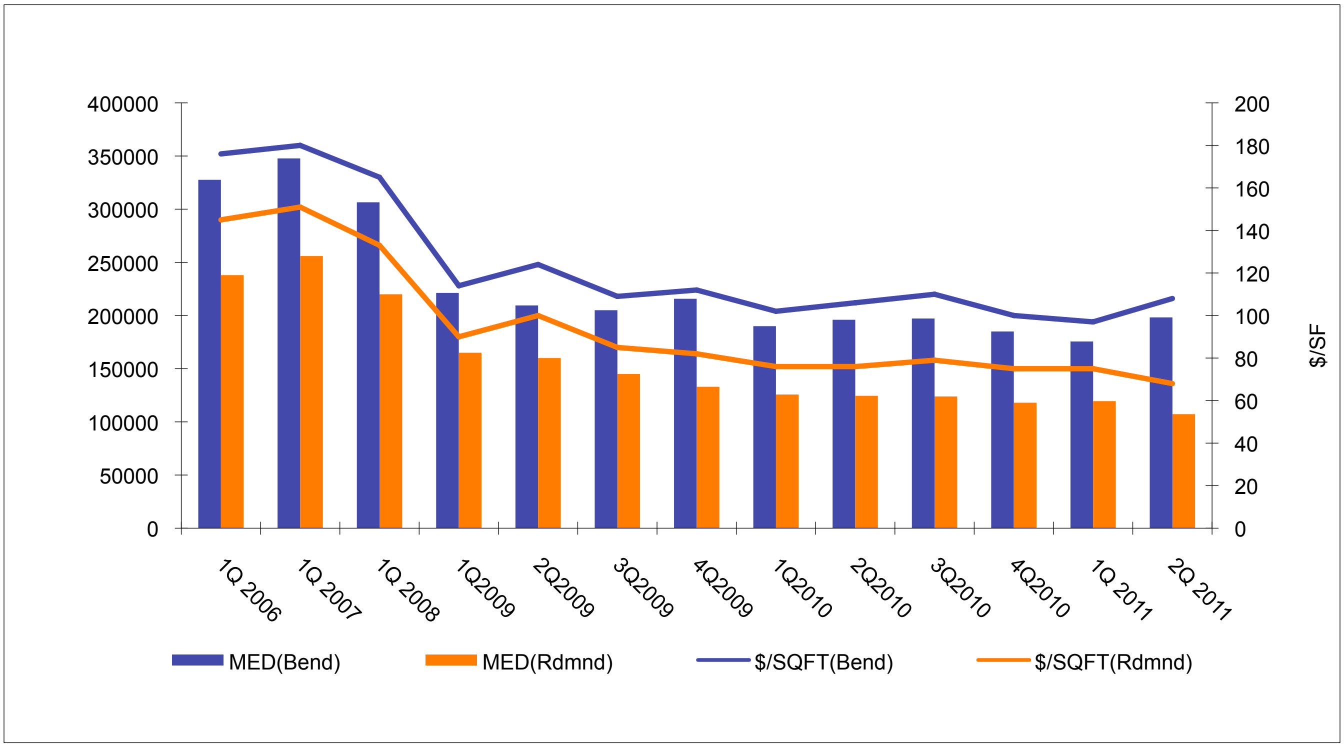
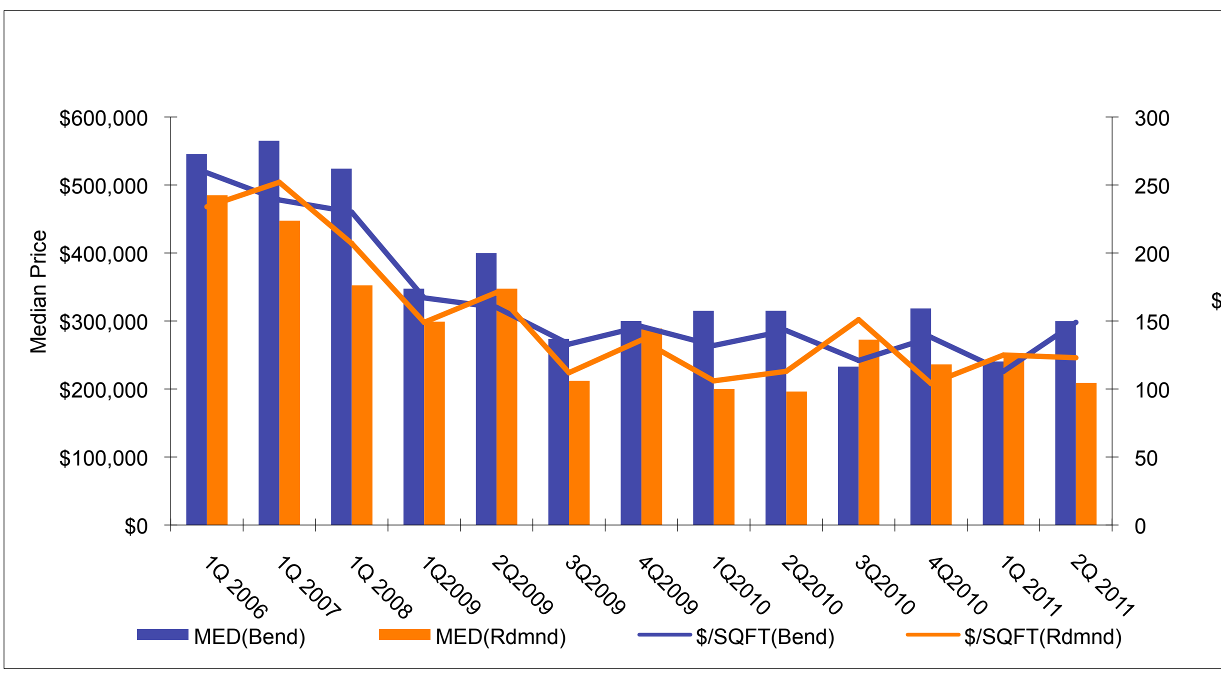


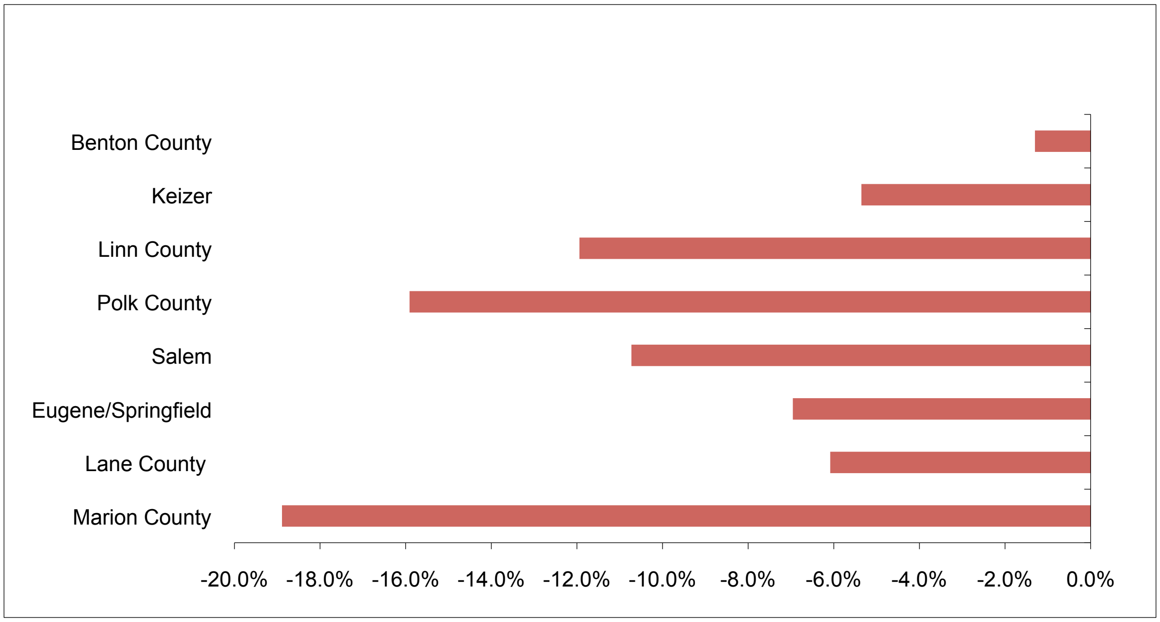
Figure 18: Median Single Family Price and $/SqFt, 1-5 Acres, Bend and Redmond



WILLAMETTE VALLEY

All Willamette Valley submarkets experienced annual depreciation on existing home prices. Marion County had the highest depreciation of 18.9 percent followed by Polk County with a 15.9 percent decrease.

Figure 19: Annual Appreciation Rates of Existing Detached Homes, Willamette Valley from Q2 2010 to Q2 2011

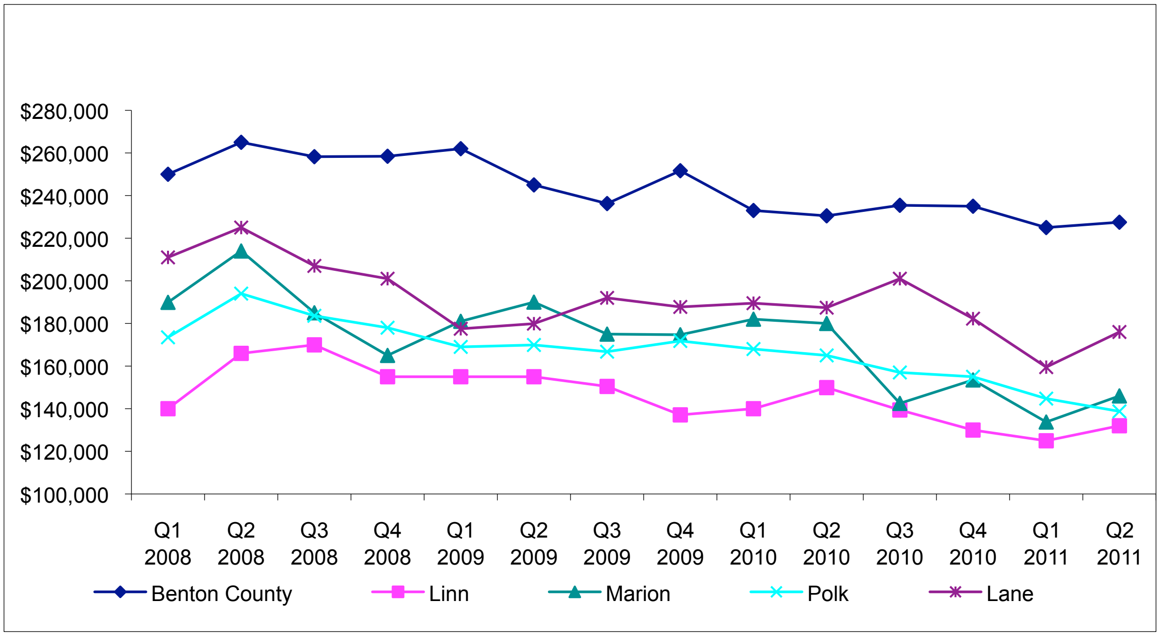


Source: Willamette Valley RMLS

The number of transactions over the past year decreased annually for all of these submarkets except Marion County where the number of transactions during the second quarter of 2011 increased 5.2 percent. The number of transactions in Marion County increased from 134 to 141.

The number of days on the market decreased annually for all submarkets. The largest change in number of days on the market on a percentage basis was the Benton Count submarket which decreased 33.1 percent from 127 in second quarter 2010 to 85 in second quarter 2011.

Figure 20: Median Sales Price Existing Detached Homes, Willamette Valley



SALEM

Salem's housing market again experienced annual depreciation while the number of days on the market increased. The median sale price increased slightly while the number of transactions increased from the first quarter of 2011.

Prices declined 10.73 percent from the previous year to $154,888. Meanwhile, the average number of days on market decreased to 119 from 170 in the first quarter of 2010.

The number of transactions decreased from the previous year from 505 to 394, but increased from the first quarter of 2011 from 336.

Figure 21: Median Sales Price and Annual Appreciation, Existing Homes, Salem

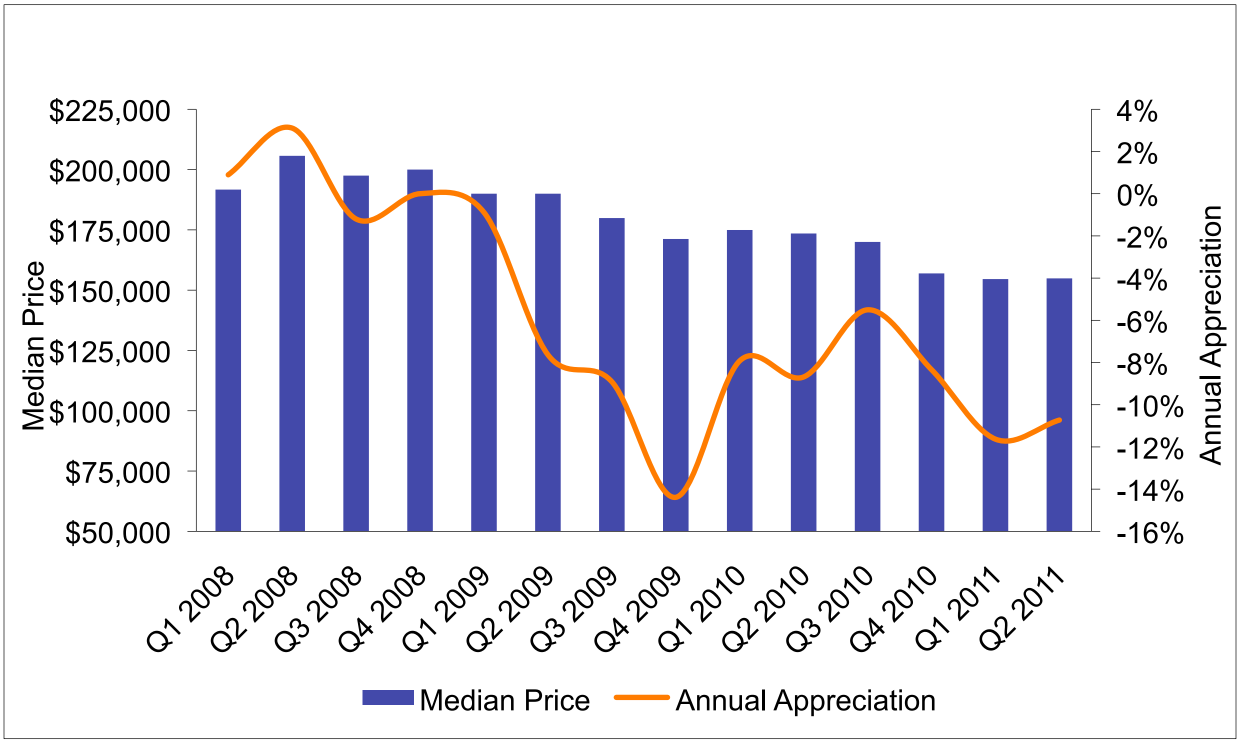
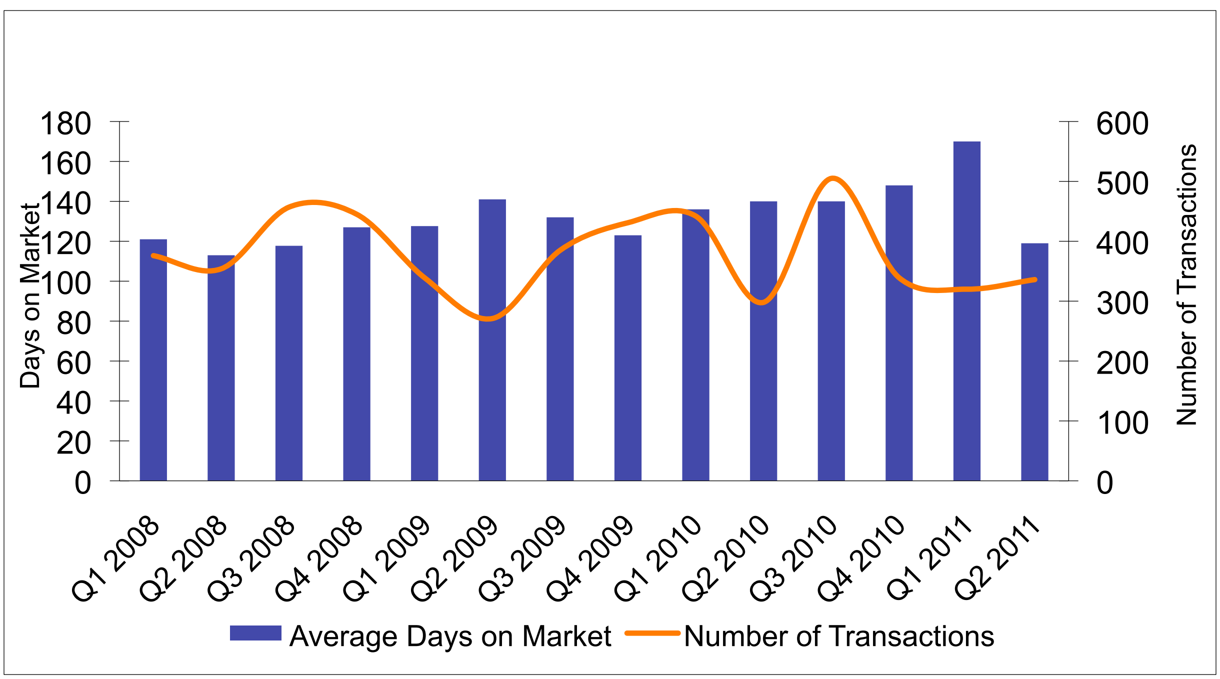


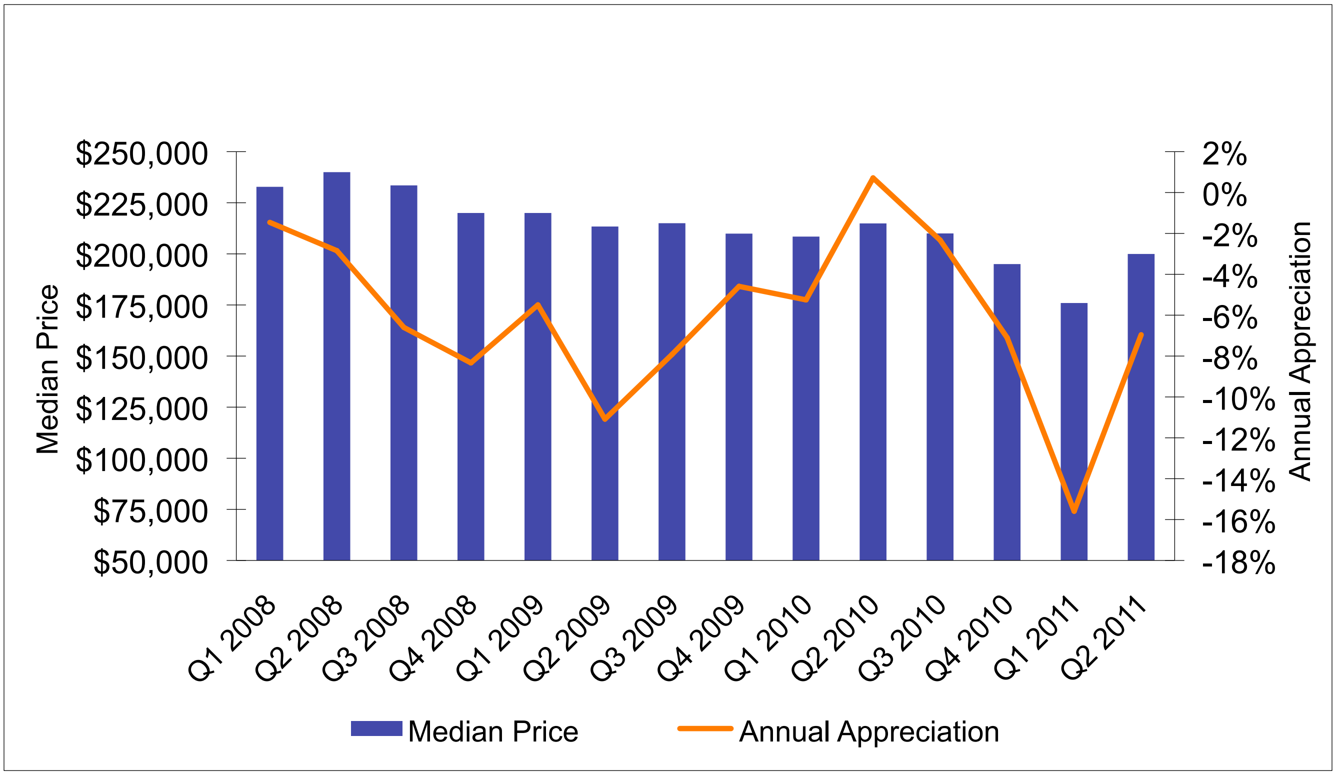
Figure 22: Average Days on Market and Number of Transactions, Existing Homes, Salem



EUGENE/SPRINGFIELD

Home prices in the Eugene/Springfield area increased 13.6 percent from the first quarter of 2011 to $199,950, after three consecutive quarters of declines. Annual appreciation improved to a 6.96 percent decline since the second quarter of 2010.

Figure 23: Median Price and Annual Appreciation Existing Detached Homes, Eugene/Springfield



Source: Willamette Valley RMLS

MULTIFAMILY MARKET ANALYSIS

Evan Abramowitz

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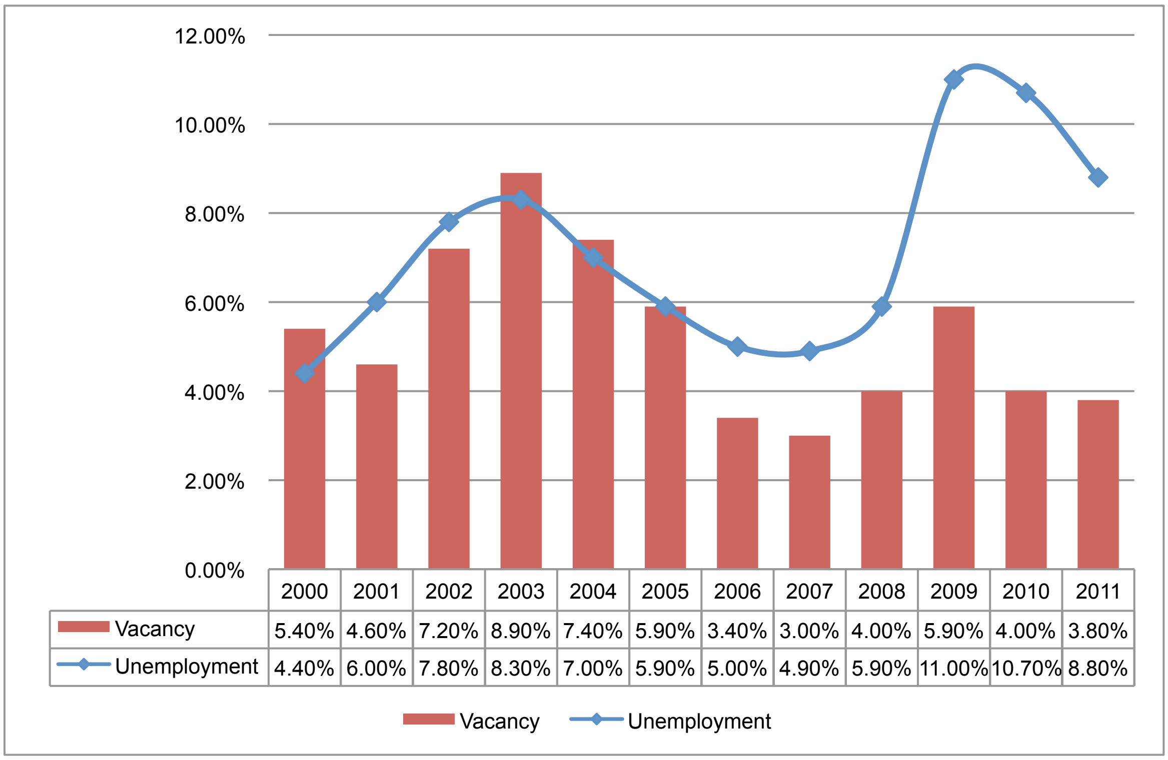
In contrast to the Portland residential market, the multifamily market in Portland is experiencing a bit of a boom. Portland's vacancy rate was 4.2 percent, at the end of 2010, which was the lowest vacancy rate in the US. Portland has been ranked among the top five cities in the nation and as high as second place for effective rent growth between March 2010 and March 2011. During this period, Portland rents increased an average of 9.92 percent, while the US increased 1.77 percent. Demand is strongly fueled by new residences in the 20-34 year old demographic and fewer buyers drawn to the single-family market.

On the supply side, there are few construction projects in the local pipeline and most are not expected to break ground until late 2012 or 2013, according to the Barry Report. Since 2008, multifamily building permits have decreased nearly 90 percent. Due to the lack of available supply to meet increasing demand, market conditions are projected to remain strong for property owners.

With more and more potential single-family buyers opting to rent instead of own, the demand for apartments is very promising. Nationally there are an estimated 77,600 apartment and condo units projected to come online in 2012, but according to the director of multifamily economics and market research for Fannie Mae, the supply is not sufficient to meet demand. The drop in the local vacancy rate reflects similar conditions in the national apartment market. Data released by MPF Research, a Carrollton, TX real estate research firm, showed that the U.S. apartment vacancy rate fell 0.8 percent to 5.8 percent in the second quarter of 2011.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Locally, the vacancy rate has been declining with the unemployment rate since 2009. In 2009 the vacancy rate was 5.9 percent and the unemployment rate was 11 percent and in 2011 the vacancy rate is 3.8 percent and the unemployment rate is 8.8 percent.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Vacancy	5.40%	4.60%	7.20%	8.90%	7.40%	5.90%	3.40%	3.00%	4.00%	5.90%	4.00%	3.80%
Unemployment	4.40%	6.00%	7.80%	8.30%	7.00%	5.90%	5.00%	4.90%	5.90%	11.00%	10.70%	8.80%

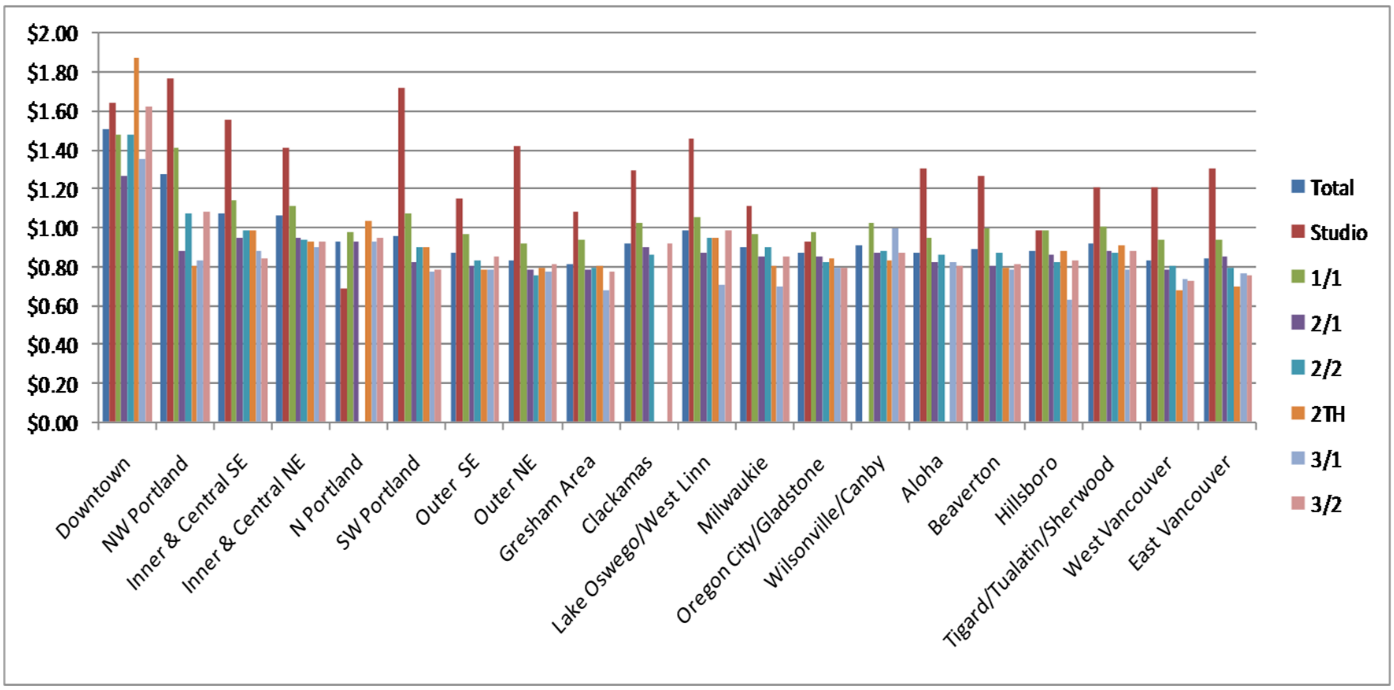
Decreased vacancy rates and increased rent have spiked interest in multifamily investment. The apartment market is still catching up to this increased demand which is driving rent rates. In addition, owners are raising rents to compensate for increasing operating expenses, notably property taxes and utilities. Nationwide rent revenue increased 2.4 percent from the first quarter of 2011, and a national annual effective rent gain of 4.9 percent for 2011 through the month of May. Reis, Inc. predicts apartment rents will jump 4.3 percent this year, marking the biggest annual increase in four years. MPF Research, which also monitors apartment rents, expects them to rise more than 5 percent this year.

These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. In the first quarter of 2011 Portland had an average vacancy rate of 3.8 percent. The highest overall vacancy submarket was 4.5 percent in Outer Northeast and NW Portland and the lowest was Oregon City / Gladstone at 2.3 percent. The highest vacancy rate was in Outer Northeast at

11.11 percent, while six submarkets reports no vacancies for studios. The highest vacancy rate for 1 BD, 1 BA was Outer Southeast at 5.28 percent, while the lowest was N Portland with no vacancies. For 2 BD, 1 BA the highest vacancy was N Portland at 6.01 percent and the lowest was Oregon City/Gladstone at 0.37 percent. Downtown Portland had no vacancies among 3 BD, 1 BA, but a 16.67 percent vacancy rate for 3 BD / 2 BA. This could be an indicator of families using less space, as Milwaukie, East Vancouver, West Vancouver, Wilsonville/Canby, and Outer Northeast reported 0 percent for 3 BD / 1BA and modest vacancy rates for the 3 BD / 2 BA units.

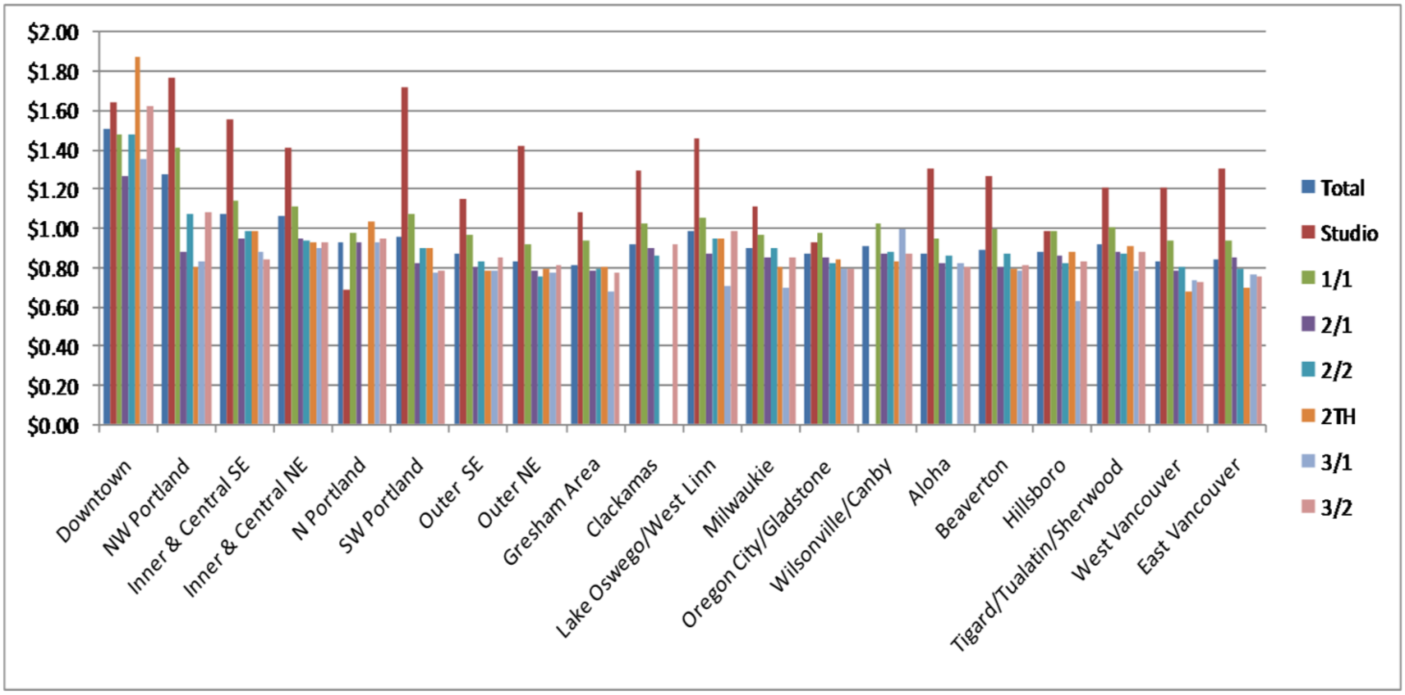
Figure 2: Vacancy Rates by Submarket 2011 Portland Metropolitan Area

Source: MMHA



The submarket with the highest overall rent/SF is downtown Portland with a $1.51 average, followed by NW Portland at $1.28. The lowest overall rent/SF is Gresham area, which includes Gresham, Troutdale, Fairview, and Wood Village at $0.81, followed by Outer Northeast and West Vancouver at $0.83. The highest rent/SF for studios was NW Portland at $1.77 and the lowest was N Portland at $0.69. The highest rent/SF for 1 BD, 1 BA was downtown at $1.48 and the lowest was Outer Northeast at $0.92. The highest rent/SF for 2 BD, 1 BA was downtown at $1.27 and the lowest was $0.78 in Gresham area, West Vancouver, and Outer Northeast.

Figure 3: Rent / SF by Submarket 2011 Portland Metropolitan Area



Source: MMHA

In this high demand market, investors are aggressively seeking quality, well-located properties. Several 100+ unit, Class A, institutional quality properties traded in the second quarter of 2011, at below-market cap rates. These major sales transactions included One Jefferson Parkway ($51 million) in Lake Oswego, Tanasbourne Terrace ($38 million) and Club at Tanasbourne ($31 million) in Hillsboro, and Kearney Plaza ($36 million) in downtown Portland. Institutional buyers aggressively pursued core close-in properties in the second quarter, and are paying a premium.

Figure 4: Major Sales Transactions, 2nd Quarter, 2011, Portland Metropolitan Area

Q2 2011 Major Sale Transactions					
Building	**Buyer**	**Price**	**Units**	**Price/Unit**	**Submarkets**
Tanasbourne Terrace	Martin Van Ardenne	$ 69,400,000	725	$ 95,724	Hillsboro
One Jefferson Parkway	Pat Calihan	$ 51,200,000	342	$ 149,707	Lake Oswego
Kearney Plaza	JP Morgan Asset Management	$ 36,875,000	132	$ 279,356	NW Portland
Kempton Downs	HPR Kempton Downs LLC	$ 22,550,000	278	$ 81,115	Gresham/Troutdale

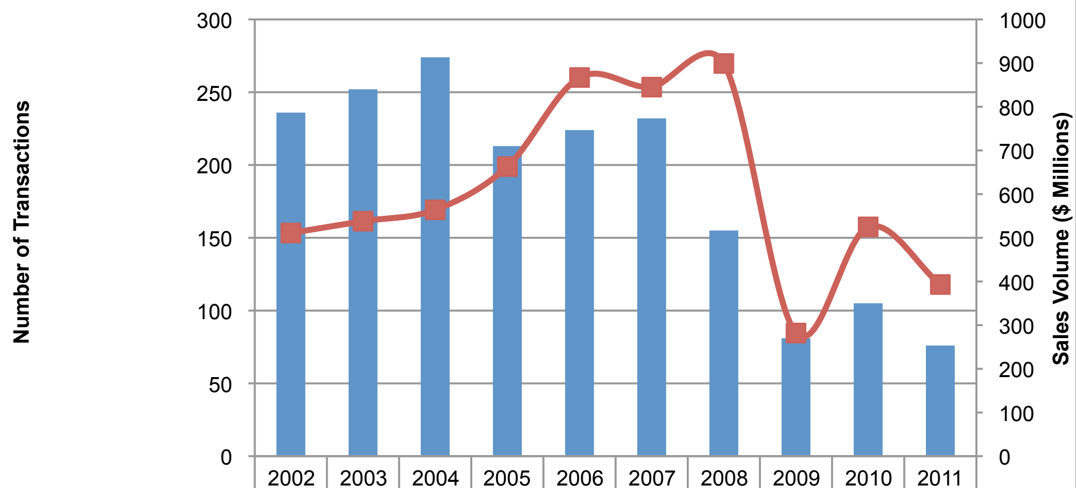
Source: Costar

In Portland, approximately 70 percent of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the $50,000-$80,000 per unit range depending on rents, location, condition, and other factors.

There were 33 multifamily transactions completed in the second quarter, up from 28 in the first quarter. There were 2,255 units transacted in the second quarter, nearly twice as many units as the 1,158 in the first quarter. The second quarter has had over five times the sales volume as first quarter with over $516 million up from $91 million.

The number of transactions and sales volume has rebounded nicely since 2009. Based on the numbers through July, the year 2011 is poised to surpass 2010 in number of transactions and total sales volume. The current year is on track to approach the high activity years of 2006-2008 in terms of sales volume. Financing for multifamily properties is becoming easier as Fannie Mae and Freddie Mac join with major banks, regional banks and life insurance companies as a good source for development financing. Banks are generally lending at 70 percent loan to value for qualified buyers of apartments. The buyer's history of owning apartments, credit rating, proof of income, and net worth are criteria that the bank considers when determining the number of dollars to loan.

Figure 5: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, June 2011 Year to Date



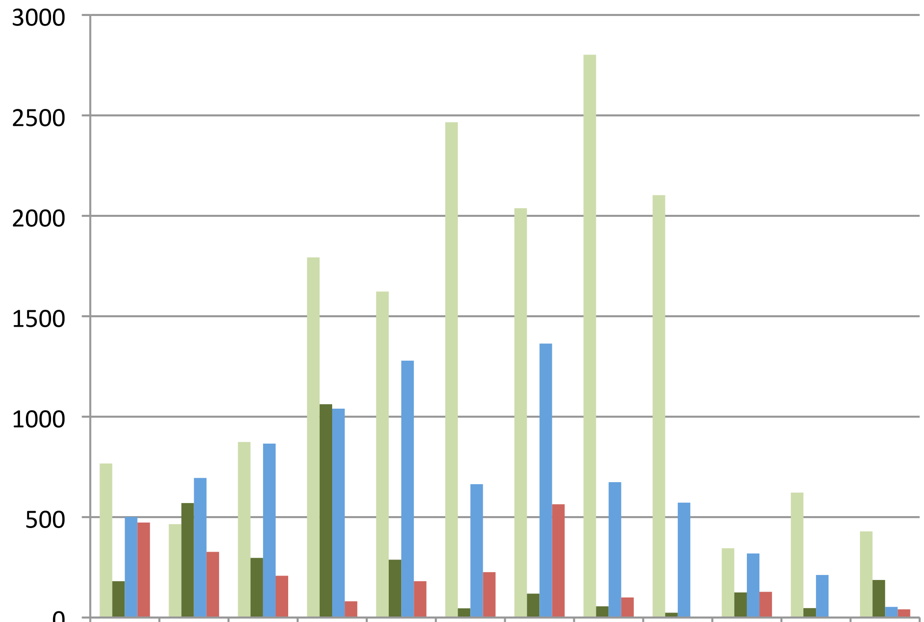
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Transactions	236	252	274	213	224	232	155	81	105	76
Sales Volume	511	538	564	663	867	845	899	282	525	393

Source: The Barry Apartment Report

Through the first six months of 2011, multifamily building permits are on pace to exceed 2010 levels within the City of Portland. Most of the new permits have been built in Portland and Multnomah County year to date. Over three times as many permits have been issued in Multnomah County excluding Portland (187) from 2010, and these areas are on track for highest number since 2003. For the 2011 year to date, a total of 429 building permits have been issued in the City of Portland. In the City of Portland, the number of permits is on pace to be the highest since 2008, but remains significantly below 2003-2008. Washington County has had 53 multifamily permits issued, which is well below the norm of the past ten years. Clackamas County has 41 units issued so far this year, a significant increase from 2010 when only 5 units were permitted. One of the larger projects that very recently broke ground is the first phase of Brenchley Estates in Wilsonville. The first phase of the development will consist of 363 residential units with 324 rental units among 15 buildings.

Factors contributing to the current lag in new construction include the weak economy, difficulty obtaining financing, and the current gap between replacement cost and market value. In light of the current low 2.69 percent vacancy rate in the metropolitan region and lack of new construction, many knowledgeable multifamily brokers and investors are predicting a shortage in apartments by 2012. This shortage will be felt first within the urban core and later in the suburbs, where there is slightly more inventory.

Figure 6: Multifamily Building Permits Issued, June 2011 Year to Date



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 YTD
City of Portland	767	465	874	1793	1623	2466	2038	2802	2103	345	622	429
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	187
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	53
Clackamas County	473	327	208	81	181	226	564	100	0	128	5	41

Owners and investors are positioning their portfolios for the sharp rent increases projected by most multifamily experts in late 2012. The number of transactions is on pace to increase approximately 30 percent from 2010. Buyers are active in the Portland metro market taking advantage of low interest rates and the strong performance of many properties. Apartment owners are evaluating their investment strategies and many are beginning to recognize that in this market with low-interest rates and low vacancy, they may have an opportunity to build more wealth by selling their current building and leveraging the equity to acquire better properties with superior location, condition, and / or more units.

OFFICE MARKET ANALYSIS:

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The second quarter brought some signs of a slowing recovery in the office market. Weak, but steady absorption numbers along with a dearth of new delivery kept most key indicators stable through the first half of the year. Even so, encouraging signs have emerged locally, as unemployment in the Portland metro outpaced national growth to hit its lowest point in 29 months (8.8 percent, seasonally adjusted), and the region added jobs at a modest but steady pace through the first six months of 2011. Oregon's Office of Economic Analysis projects job growth above a 2.5 percent annual rate through 2012.

Clouds on the economic horizon both locally and nationally continue to include high energy prices, the tapering off of federal stimulus funds, and a tight credit market. The Commerce Department reported a drop in consumer spending in June, the first since September 2009. Paired with revised GDP numbers which suggest that the economy grew at an annual rate below 1 percent, double-dip concerns have become more pronounced. The University of Oregon's Index of Economic Indicators, which examines state employment, building permits, consumer confidence and other indicators, slipped for the third month in a row in June, a further sign of weakness.[1] Tim Duy, Oregon Economic Forum Director suggests, however, that double-dip is not imminent, as "the downward trend of the past three months falls short of the more severe declines that typically precede recessions."

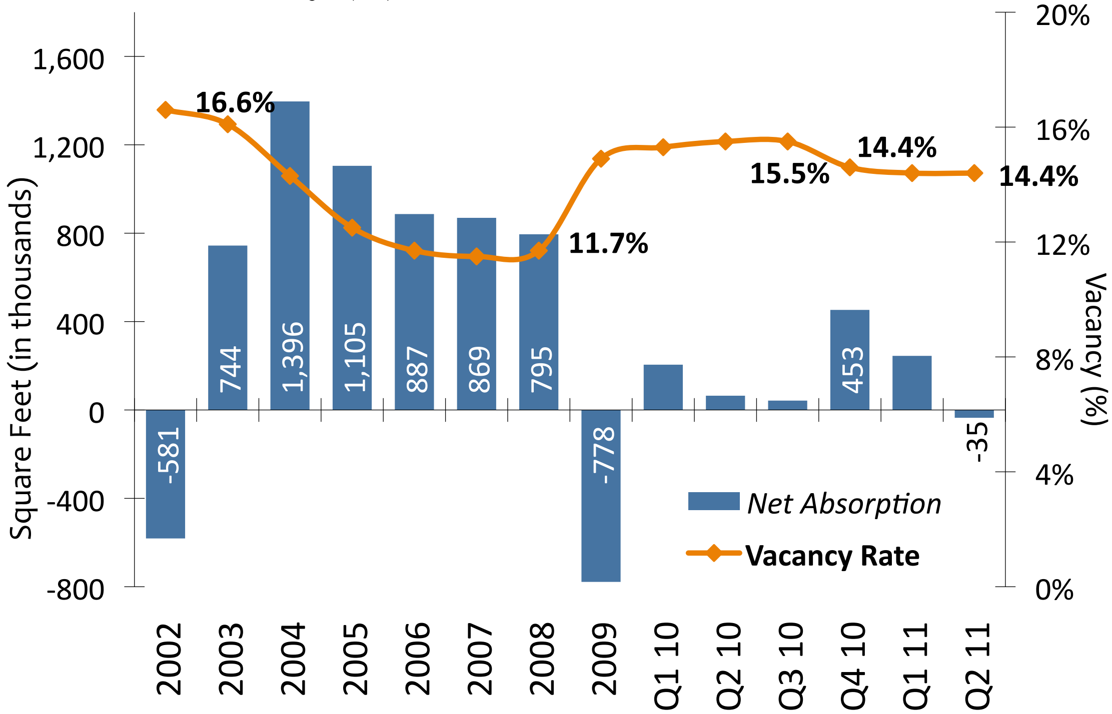
[1] Read, Richard. " University of Oregon economic index slips for third month in a row" Oregonian, August 10, 2011.

Table 1: Office Market Vacancies and Asking Rents, Q2, 2011

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	15.1%	13.3%	14.4%	18.1%	14.8%
Previous Quarter	15.1%	13.9%	14.4%	18.0%	14.8%
Second Quarter 2010	-	-	15.3%	18.0%	16.7%
Second Quarter 2009	12.8%	13.5%	12.6%	14.7%	13.2%
CBD & Downtown Vacancy	9.7%	9.6%	9.5%	12.8%	9.7%
Previous Quarter	9.5%	9.7%	9.6%	12.4%	9.7%
Second Quarter 2010	-	17.7%	10.4%	12.0%	12.0%
Second Quarter 2009	8.0%	10.2%	8.3%	10.5%	9.3%
CBD Class A Vacancy	-	-	6.2%	9.2%	7.7%
Previous Quarter	-	-	6.3%	8.5%	7.4%
Second Quarter 2010	-	-	8.0%	7.9%	8.0%
Second Quarter 2009	5.5%	8.3%	6.5%	6.2%	6.3%
CBD Class A Asking Rents	-	$24.54	$25.47	N/A	$25.01
Previous Quarter	-	$25.22	$26.04	N/A	$25.63
Second Quarter 2010	-	-	$25.88	N/A	$25.88
Second Quarter 2009	$26.89	$27.62	$27.02	N/A	$27.02
Suburban Vacancy	20.5%	17.0%	17.4%	23.9%	19.0%
Previous Quarter	20.3%	18.1%	17.2%	24.1%	19.2%
Second Quarter 2010	-	-	18.9%	21.9%	20.4%
Second Quarter 2009	17.2%	16.7%	15.7%	17.1%	16.9%
Suburban Class A Vacancy	N/A	-	22.7%	-	22.7%
Previous Quarter	N/A	-	23.1%	-	23.1%
Second Quarter 2010	N/A	-	24.4%	24.2%	24.3%
Second Quarter 2009	N/A	18.3%	17.3%	17.5%	17.5%
Suburb Class A Asking Rent	N/A	$23.17	$22.22	N/A	$22.70
Previous Quarter	N/A	$22.90	$22.33	N/A	$22.62
Second Quarter 2010	N/A	-	$22.98	N/A	$22.98
Second Quarter 2009	N/A	$22.95	$23.20	N/A	$23.08

Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, and Norris Beggs & Simpson Quarterly Reports

Figure 1: Overall Net Absorption (SqFt) and Vacancy (%) for Portland Office Market



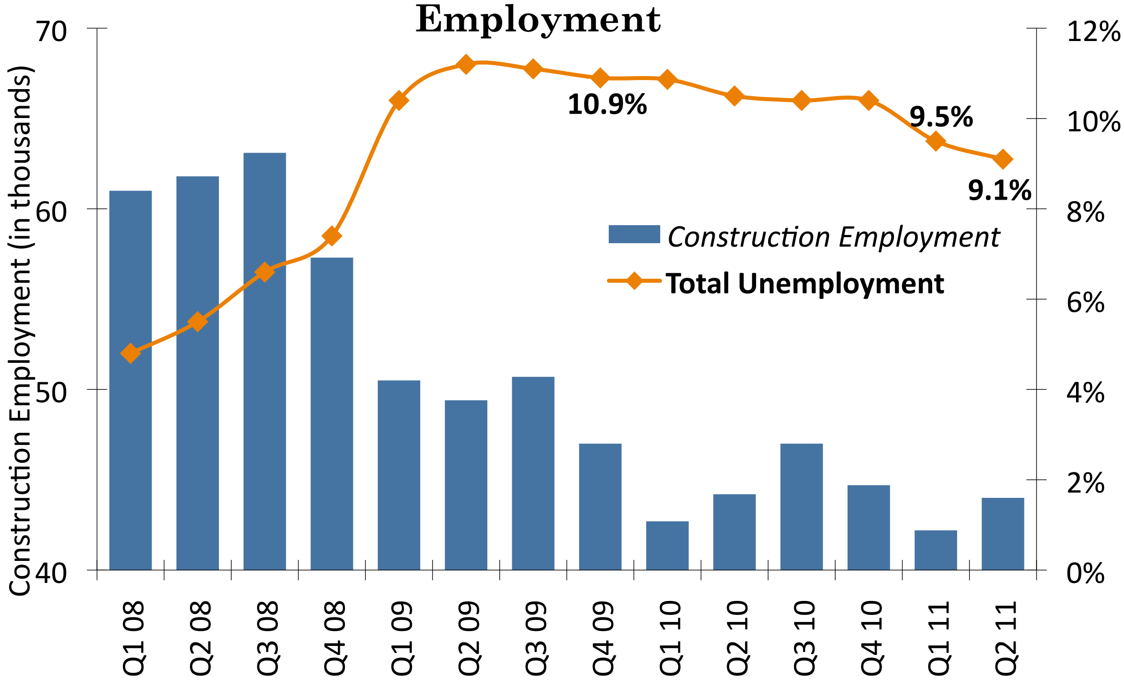
Source: Grubb & Ellis, Office Quarterly Reports

METRO PORTLAND TRENDS

Marketwide numbers show few dramatic shifts, with Grubb & Ellis holding vacancy still at 14.4 percent, despite the first negative quarter of net absorption reported since 2009, though minimal at 35,000 square feet. Only Cushman & Wakefield showed an overall vacancy adjustment greater than 0.1 percent, dropping 60 basis points to 13.3 percent. While quarterly absorption was negative according to most reports, rolling 12 month averages remain positive across brokerages. Notably, brokerages report no new delivery across submarkets for the third consecutive quarter.

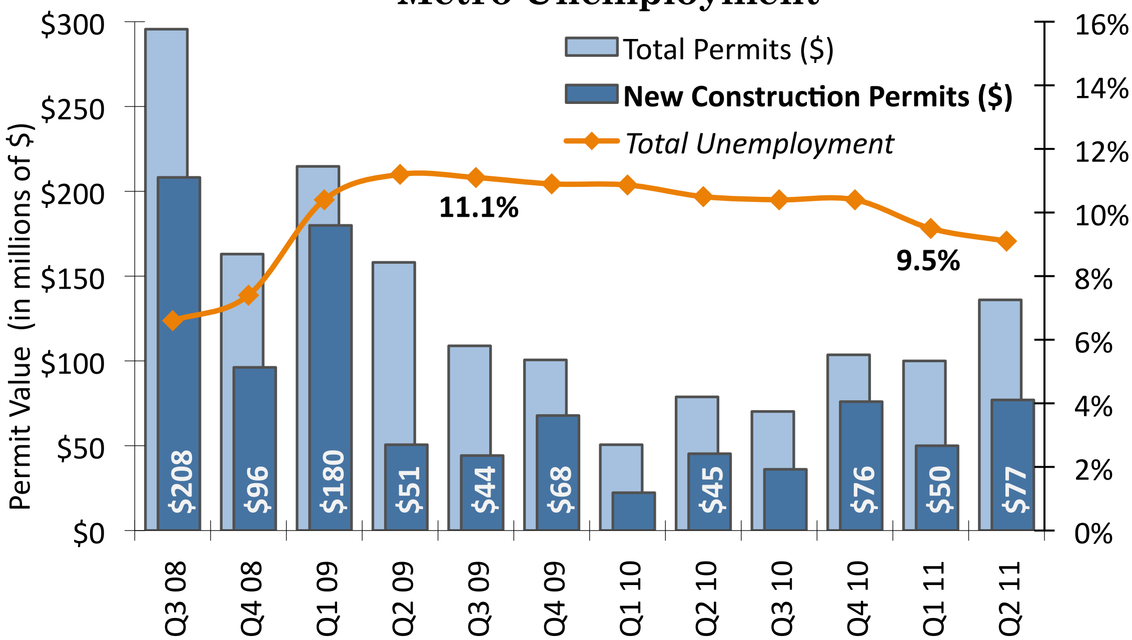
This lack of construction has played a role in the stabilization of vacancy numbers across classes and submarkets, but particularly with respect to Class A properties. While the region has seen some construction activity through the spring and early summer, most has been dedicated to institutional, government and residential uses. Grubb & Ellis reports 384,000 square feet under construction across classes, most of which are build-to-suit projects, and well over half of the space is downtown Class A category. Absorption of this new inventory will be key to monitor in future reports.

Figure 2: Unemployment & Construction Employment

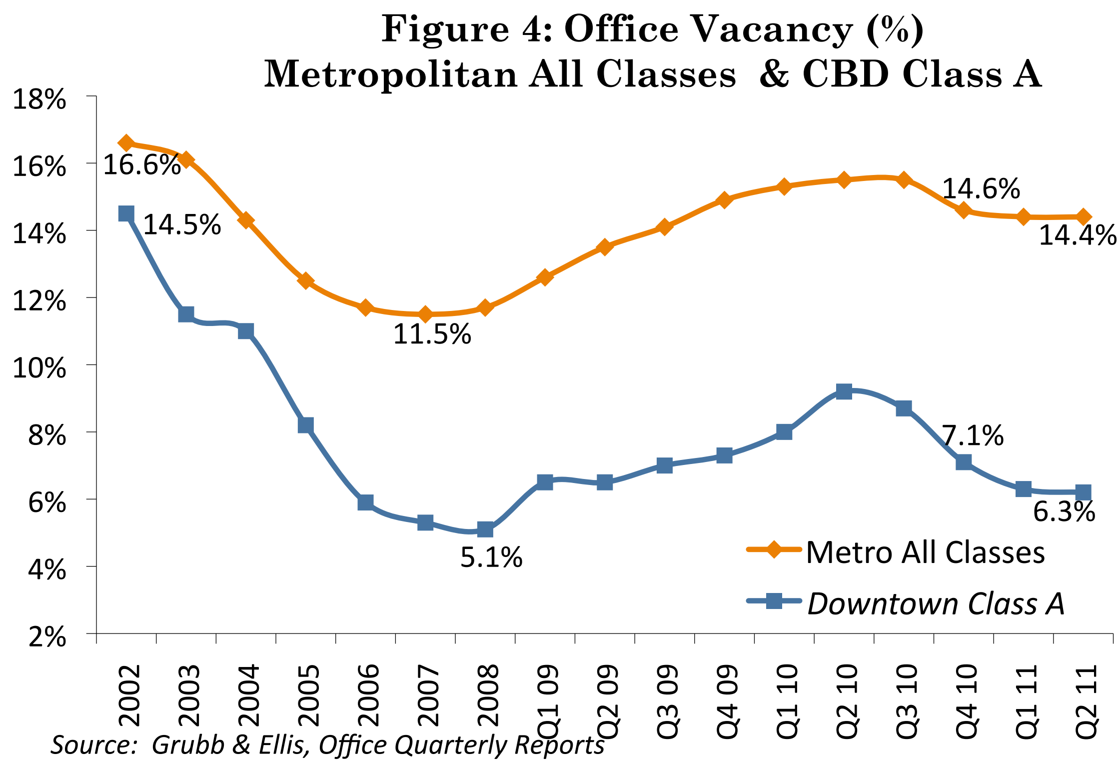


Source: Oregon Employment Department

Figure 3: Portland Construction Permits & Metro Unemployment



Source: Portland Development Services and Oregon Employment Department



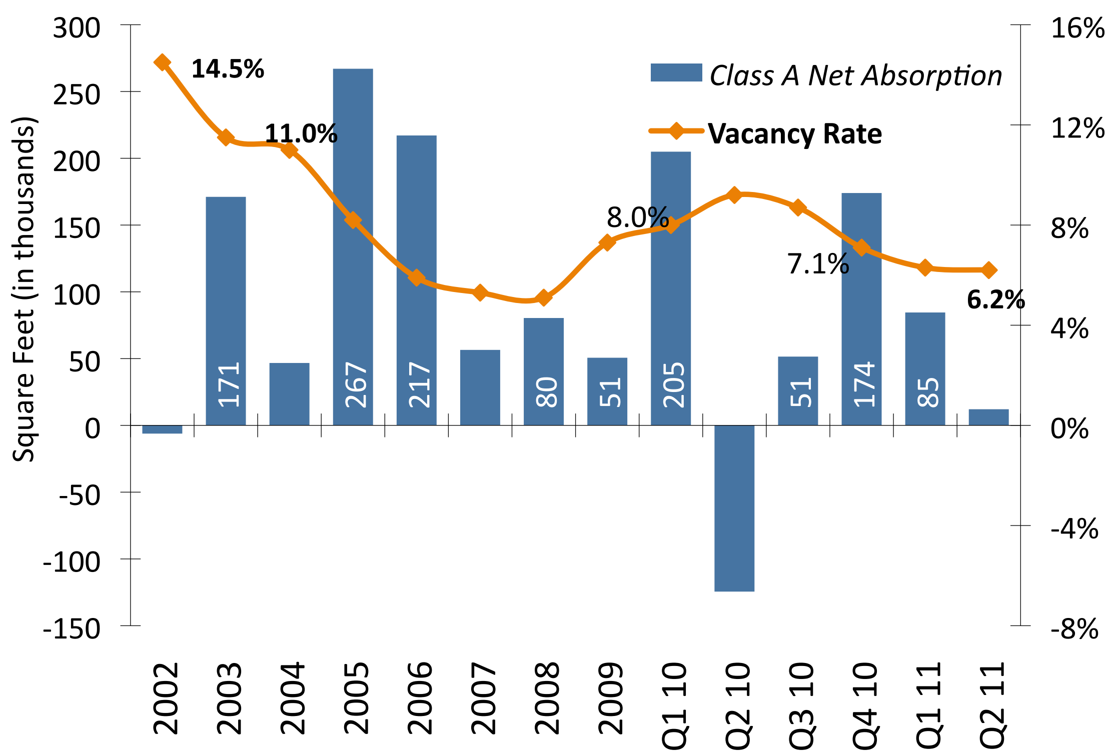
Source: Grubb & Ellis, Office Quarterly Reports

While the downtown Class A market space continues to be tight, Norris, Beggs, & Simpson report a 70 basis point jump in vacancy to 9.2 percent, the first dramatic report of a rise in vacancy since 2009. This runs contrary to other reports, which suggest continued strong demand for downtown Class A space with no expected weakening in the coming year. Grubb & Ellis report a drop in CDB Class A vacancy to 6.2 percent, which with marketwide vacancy numbers at 14.4 percent, the 8.2 percent gap between the two represents the greatest downtown/suburban gap in more than ten years (Figure 4) continuing to widen at a steady pace each quarter. This continued disproportionate demand for high end downtown space helps to explain the growing pipeline of projects in this category discussed previously.

While Class A asking rents have remained stubborn over the past year, Grubb & Ellis forecasts an imminent shift to a "landlord's market" with rents gradually rising and fewer concessions available for new tenants, contrary to trends in suburban submarkets. Grubb & Ellis also suggest that Class A rent numbers may be skewed due to the low availability of high quality Class A space, leading lower quality Class A inventory to dominate recent transactions. According to Norris, Beggs, & Simpson reporting, the most leasing activity was seen in Class B, which saw strong positive absorption across submarkets while other classes saw little movement.

While suburban submarkets continue to struggle for absorption, vacancy numbers appear to hold steady across brokerages, likely due as well to minimal construction activity in the past year. Grubb & Ellis report suburban vacancy jumping 20 basis points to 17.4 percent, while the median across the four brokerages suggests a 20 basis point decline in vacancy to 19.0 percent. In line with recent trends, Class A suburban properties saw greater improvement than other classes in suburban markets (down 40 basis points to 22.7 percent), but maintain higher vacancy than other classes (22.7 to 17.4, according to Grubb & Ellis). This perceived lack of demand for Class A suburban properties is the inverse of CBD trends, which have favored Class A in vacancy for some time. Despite strong first quarter gains in suburban absorption, the suburbs lost over 59,000 square feet in the second quarter.

Figure 5: Class A Net Absorption (SqFt) & Vacancy (%) for the Central Business District



Source: Grubb & Ellis, Office Quarterly Reports

Table 2: Total Vacancy for Select Suburban Submarkets

Submarket	Market Size (SqFt)	2Q 10 Vacancy	3Q 10 Vacancy	4Q 10 Vacancy	1Q 11 Vacancy	2Q 11 Vacancy
Wash. Square/Kruse Way	6,189,173	21.7%	21.2%	19.7%	19.2%	20.7%
Sunset Corridor	4,321,964	27.6%	29.3%	25.5%	24.5%	24.6%
SW/Beaverton/Slyvan	3,530,939	17.3%	17.0%	17.0%	16.3%	16.1%
Eastside	2,855,826	7.6%	8.2%	8.6%	10.6%	9.0%
Johns Landing/ Barber Blvd.	1,759,396	14.4%	16.8%	17.7%	15.7%	14.2%
Tualatin/Wilsonville	1,676,855	36.1%	34.0%	32.0%	32.5%	33.1%

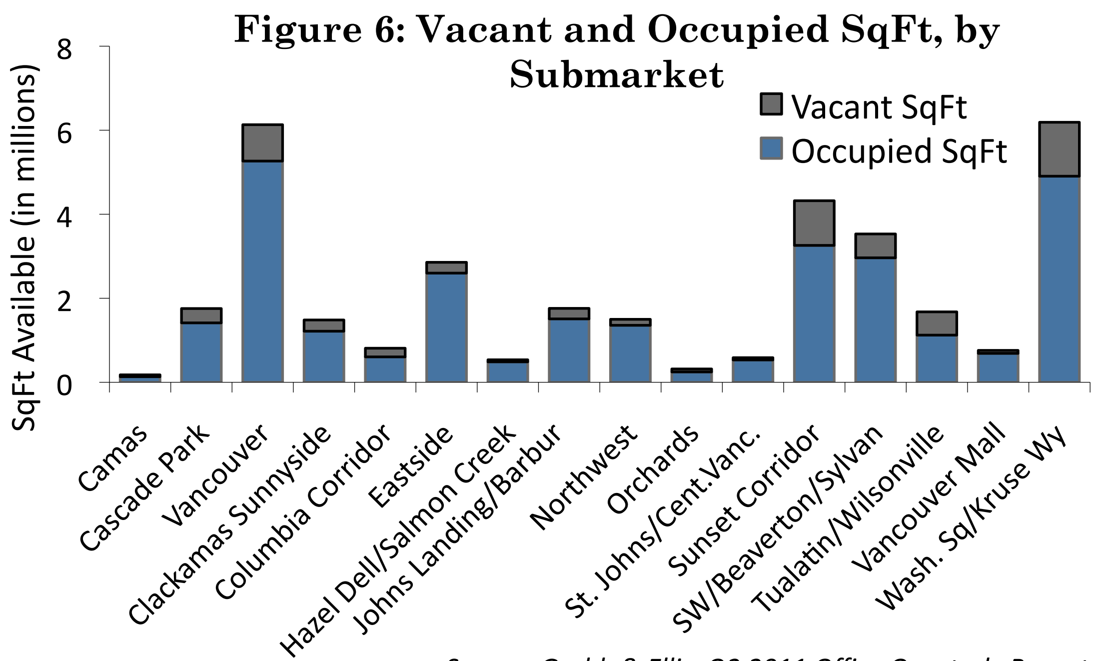
Source: Grubb & Ellis, Q2 2011 Statistics

Rankings of vacancy by submarket from Grubb and Ellis numbers (Table 3) show few dramatic shifts from the first quarter. Tualatin/Wilsonville remains at the top of the list, climbing 50 basis points to an alarming 33.1 percent vacancy. Despite positive absorption in the past year, the major submarkets of Sunset Corridor & Washington Square/Kruse Way remain renter's markets at over 20 percent vacancy. The Eastside submarket dropped 160 basis points to hit 9 percent, making for the lowest vacancy of any submarket (including CBD). St John's/Central Vancouver also made strong gains in vacancy, dropping 110 basis points to 9.2 percent.

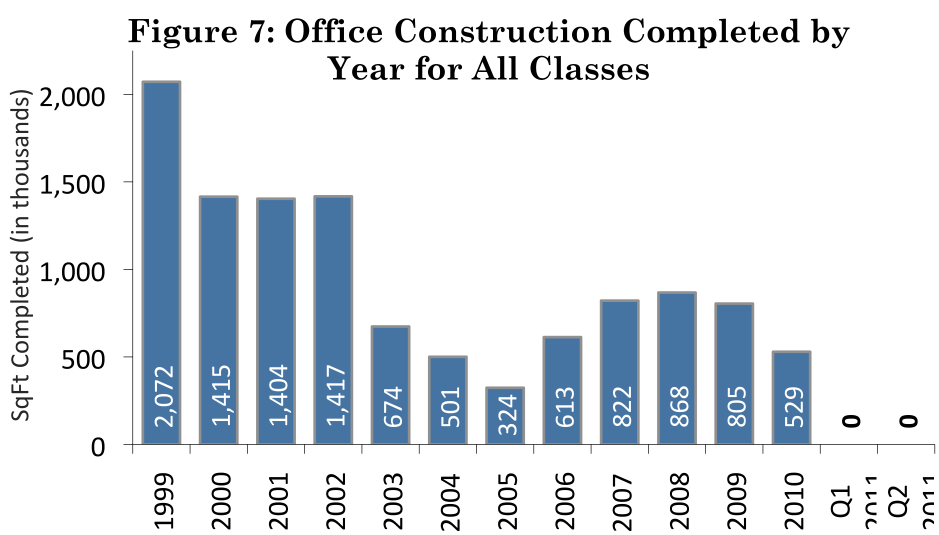
Table 3: Suburban Office Submarkets, Ranked by Vacancy Rate

Submarket	2Q 11 Vacancy
Tualatin/Wilsonville	33.1%
Columbia Corridor	25.4%
Camas	25.3%
Sunset Corridor	24.6%
Orchards	22.3%
Wash. Sq/Kruse Wy	20.7%
Cascade Park	19.4%
Clackamas Sunnyside	18.0%
SW/Beaverton/Sylvan	16.1%
Johns Landing/Barbur Blvd	14.2%
Vancouver	14.1%
Northwest	9.5%
Vancouver Mall	9.3%
St. Johns/Cent.Vanc.	9.2%
Hazel Dell/Salmon Creek	9.2%
Eastside	9.0%

Source: Grubb & Ellis Office Report, Q2 201



Source: Grubb & Ellis, Q2 2011 Office Quarterly Report



Source: Grubb & Ellis, Office Quarterly Reports

Notable lease transactions include no new leases greater than 100,000 square feet, with the greatest activity taking place in Vancouver at Columbia Tech Center where Lionbridge and PeaceHealth committed to a combined 105,000 square feet. Stairmaster also expanded its space in Vancouver to accommodate 100 new employees. Reports of a pickup in institutional investments were highlighted by the purchase of a 600,000 square foot portfolio of six office buildings in the Lloyd District by American Assets Trust. Purchased for $92 million from Ashforth Pacific Inc, this is the fund's second major Portland investment after the acquisition of the First & Main building in the first quarter.[2]

Table 4: Major Lease Transactions, 2nd Quarter, 2011

Lessee	Property	Submarket	Size (SqFt)
PeaceHealth	Columbia Tech Center	Vancouver	70,000
Lionbridge	Columbia Tech Center	Vancouver	34,496
Energy Trust	Lincoln Building	Portland	34,161
Metro Public Defenders	Kress Building	Portland	28,024
Ebay	5th Avenue Building	Portland	28,024
Stairmaster (Core LLC)	4400 Building	Vancouver	26,349
REAL Academy	Flying Rhino Building	NW Portland	26,000

Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, and Norris Beggs & Simpson Q2 2011

WRAPUP

Indicators continue to paint a mixed picture moving forward, with the second quarter of 2011 bringing increased signs of a stalled recovery. Absorption has tapered off in recent months, and vacancies have slowed in their movement, likely due to large corrections in the construction pipeline across classes and submarkets. While asking rent data is inconsistent across brokerages, mixed results show indecision in a market that is trying to find some footing. Watching the absorption of inventory that is currently under construction will be important in the coming reports, though indications for downtown Class A properties continue to be very strong.

[2] Culverwell, Wendy. "American Assets closes on Lloyd portfolio" Portland Business Journal, July 5, 2011.

RETAIL MARKET ANALYSIS:

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The recovery continues to be slow and halting for the Portland retail market. Employment growth is stagnating and worsened by languishing housing prices, poor income growth, and sluggish growth in GDP. These factors have combined to slow progress in consumer confidence and retail sales, and have led many to worry about the imminence of a national double-dip recession. Locally, however, signs are more positive, with an unemployment rate dropping to 8.8 percent in June, falling below both national and state numbers. State projections have Portland's economy continuing to grow at over 2.5 percent for both 2011 and 2012.

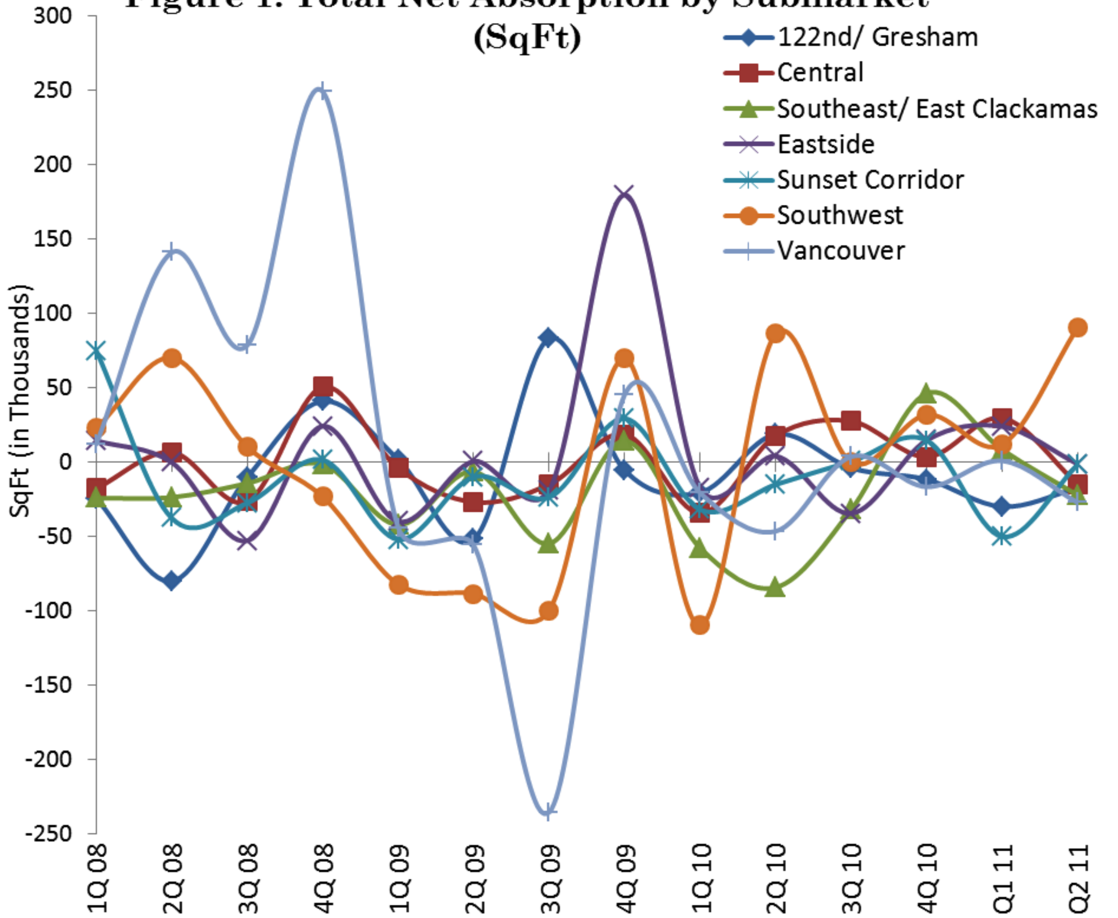
Table 1: Major Retail Lease Transactions, 2nd Quarter, 2011

Tenant	Property	SqFt	Submarket
Sports Authority	Cedar Hills Crossing	55,557	Southwest
Fisherman's Marine	Cascade Boulevard Center	25,646	Southwest
DSW	1981 NW 185th Ave	20,000	Sunset Corr.

*Source: Oregonian, Portland Business Journal, and Q2 2011 Reports from Norris Beggs Simpson and Kidder Matthews

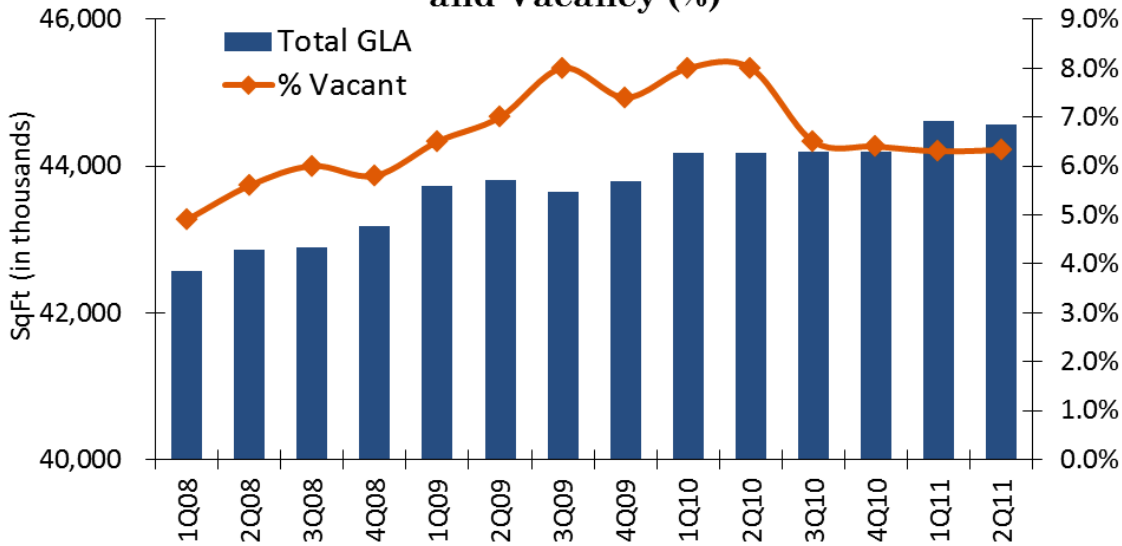
Norris, Beggs and Simpson report that retail vacancy remained stable in the second quarter, holding at 6.3 percent alongside a positive but negligible net absorption of 4,000 square feet. This coincides with Kidder Matthews reports of steady 5.9 percent vacancy in the metro area, though Kidder Matthews reports a more robust absorption of 436,000 square feet following a net loss of 302,000 square feet in the first quarter. Cushman & Wakefield report a decline in vacancy from 6.2 percent in the first quarter to 5.8 percent in the second, with net absorption similar to Kidder Matthews at 395,000. The Gresham submarket carries the highest vacancy rate, according to Norris, Begg & Simpson, at 8.9 percent, and the Eastside carries the lowest at 3.6 percent. Southwest has seen the highest levels of activity in the past two quarters, with 90,000 square feet of absorption and 375,000 square feet under construction in the second quarter. Vacancy in Southwest dropped 80 basis points in the second quarter to 4.4 percent

Figure 1: Total Net Absorption by Submarket (SqFt)



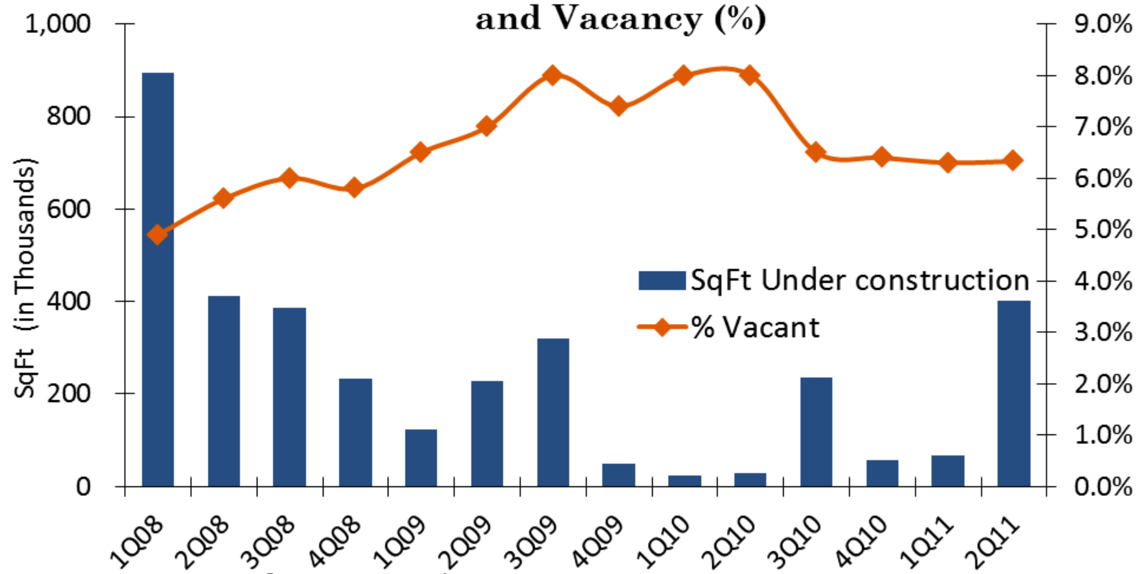
Source: Norris, Beggs, & Simpson Retail Reports

Figure 2: Total Gross Leasable Area (GLA) and Vacancy (%)



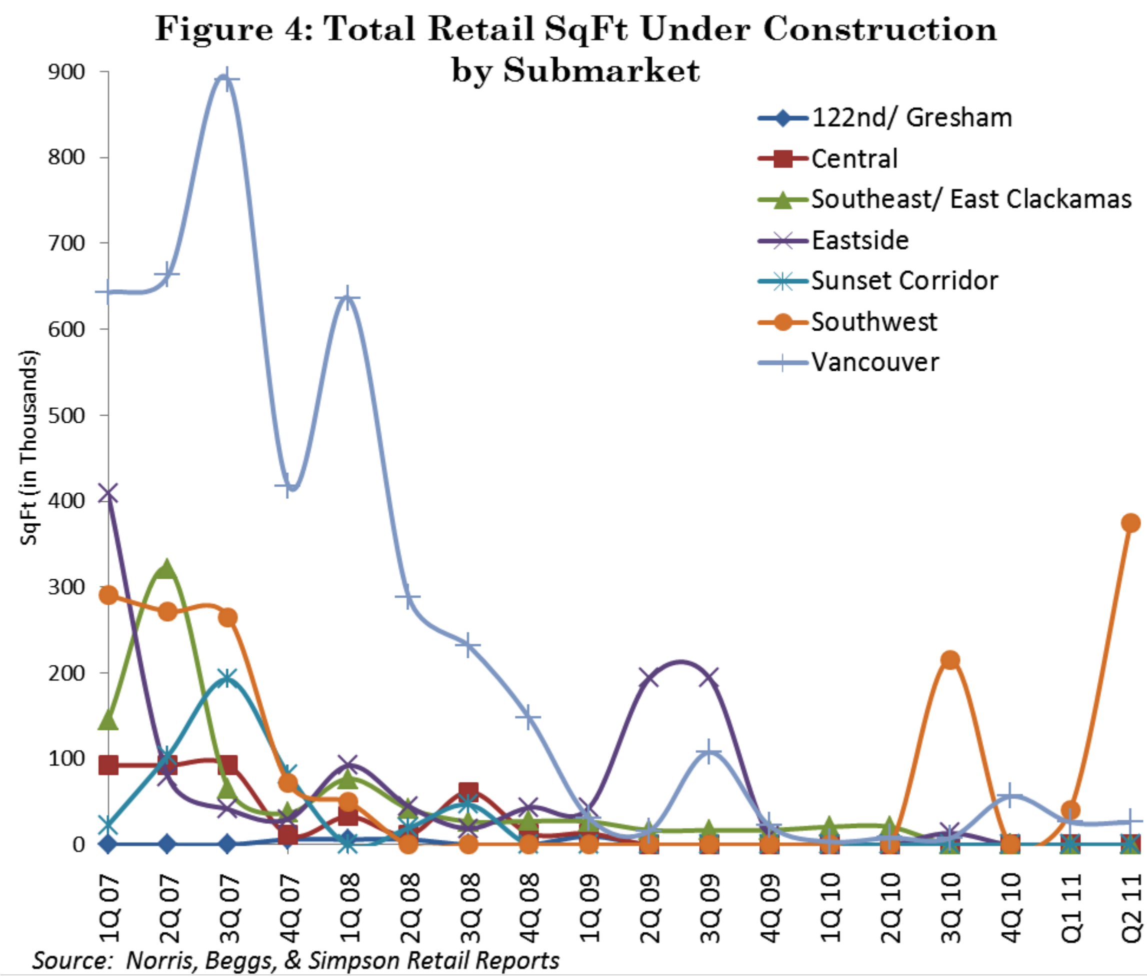
Source: Norris, Beggs, & Simpson Retail Reports

Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)



Source: Norris, Beggs, & Simpson Retail Reports

Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at $16.45/square foot (triple net), a rate that has been steadily dropping since a peak of $18.14 in Q4 2008, and is down nearly $0.50 from the first quarter. Kidder Matthews' forecast suggests that that this rate will stabilize through the coming year based on strong pre-lease levels in new projects and those under construction. While Kidder Matthews expects rents to cease their decline through the coming year, there is no expectation of gains "any time soon". [1]



[1] Kidder Matthews "Real Estate Market Review: Portland, Vancouver and Surrounding Areas, Q2 2010

Despite extremely low levels of retail construction nationally in 2011, two major grocery store-anchored strip malls are set to open in the Portland metro region this year. First, Wilsonville Old Town Square, opened in July, surrounds a new Fred Meyer store and includes a McMenamin's restaurant and a range of other eateries and attractions. Also, Progress Ridge in Beaverton, which will anchored by New Seasons and include a luxury theater (Cinetopia), high end bowling alley (Big Al's) and a set of bars, restaurants and service businesses is set to open within the year. These ambitious projects, both developed by Tualatin's Gramor Development are in striking contrast to national retail building trends. Taken together, the two Portland strip mall developments constitute 460,000 square feet of new retail. According to numbers compiled by Reis and reported by the Oregonian, only 721,000 square feet of "new community shopping centers and strip malls" were developed in the first half of 2011 in the US as a whole.[2] Gramor has carefully positioned these strip malls as mixed-use attractions, with incorporated eateries, entertainment businesses, themed construction (Wilsonville Old town Square was built with a pioneer theme), and housing in the hopes of following a new model to retail success in an otherwise difficult market. Gramor is also involved in development efforts for the Boise-Cascade site along the Vancouver waterfront.[3] The 35 acre site has been proposed for a ten year development effort that would include over 1 million square feet of commercial space. While work has begun on basic road improvements, the many developers involved have expressed some hesitancy over a "billion dollar" multi-use project in such a volatile and uncertain market. Little progress on the site is expected in the near future.

A string of box store development sites are also being considered locally, as Walmart continues its planning of 17 new Portland stores and Target eyes both space in Jantzen Beach as well as space in the downtown Galleria. Many of the Walmart and Target stores reportedly being considered are significantly smaller than their traditional format, as they adopt an urban approach to retailing. The Daily Journal of Commerce reports that the Galleria location for Target is expected to use approximately 60,000 square feet, as compared with Target's more typical 125,000 square foot store.[4]

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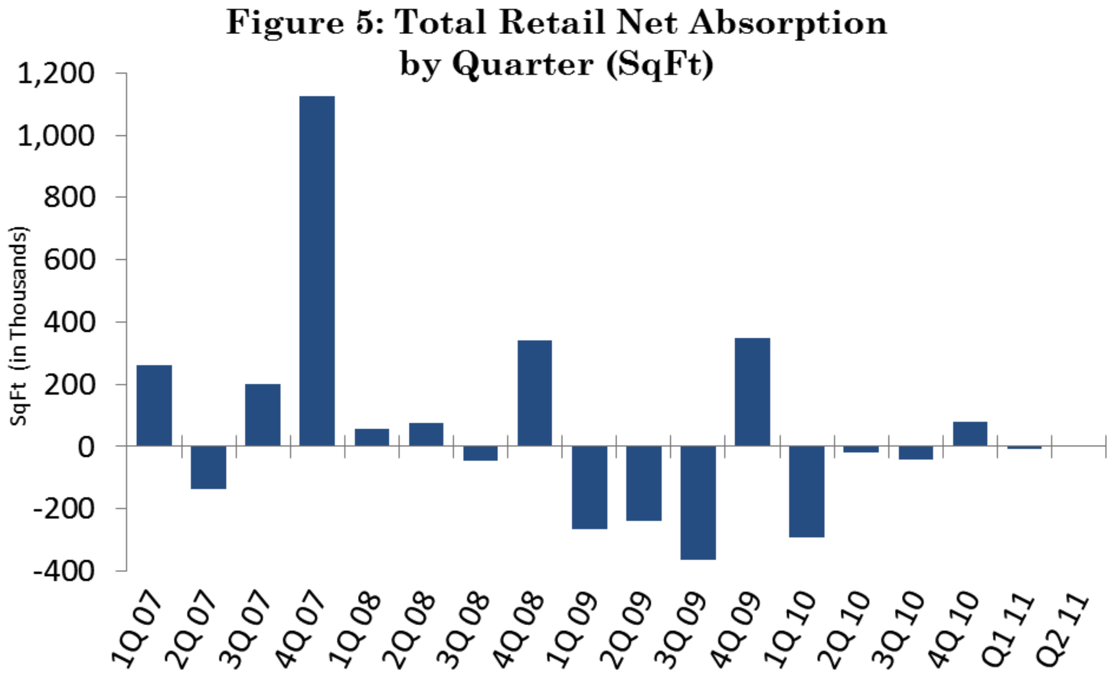
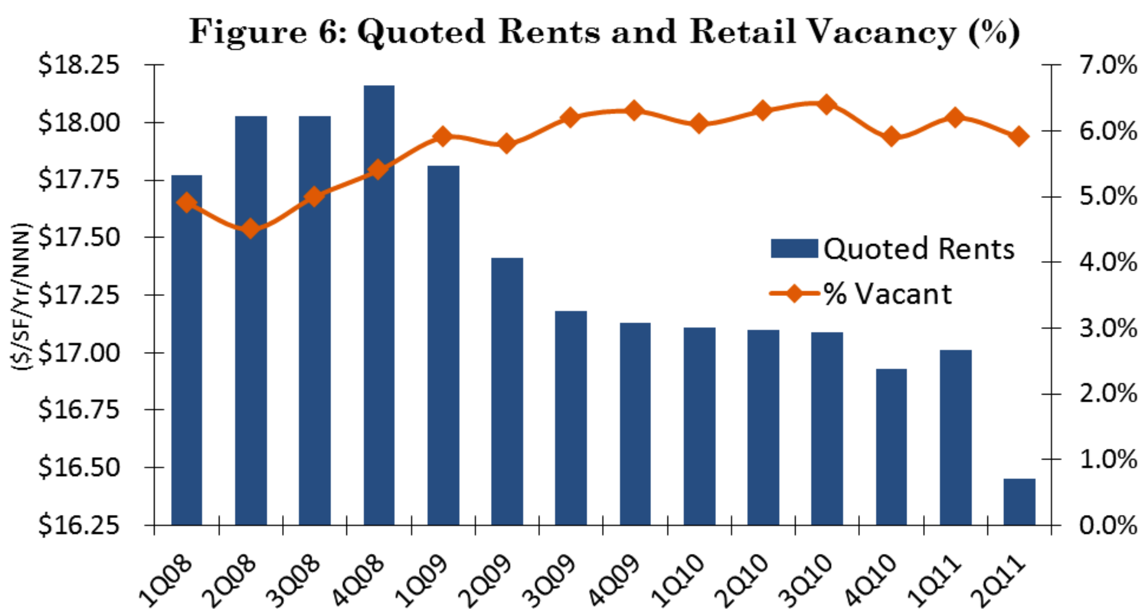
[2] Gunderson, Laura. "Two new Portland area shopping centers may provide glimpse into the future", *The Oregonian*, July 23, 2011.

[3] Bjork, Nick. "Undefined Vancouver waterfront has some developers timid", *Oregon Daily Journal of Commerce*, April 26, 2011.

[4] Bjork, Nick. "Target gets serious about downtown Galleria space", *Oregon Daily Journal of Commerce*, April 27, 2011.



Source: *Norris, Beggs, & Simpson Retail Reports*



Source: *Kidder Matthews Quarterly Reports*

INDUSTRIAL MARKET ANALYSIS:

DAVID WEST

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Indicators suggest that the slow recovery for the industrial market in Portland continues, though most measurements show little change from the first quarter of 2011. Local unemployment dropped to a seasonally adjusted 8.8 percent in June, and the Bureau of Labor Statistics reports a 1.3 percent annual growth rate in manufacturing jobs. While this constitutes moderate growth by the most optimistic of standards, the numbers are just strong enough to categorize Portland's industrial market as being in recovery. Positive signs also include Port of Portland's reported 20 percent increase in shipping volume in the first half of 2011, and an Oregon Office of Economic Analysis forecast of 2.5 percent annual growth in jobs over the next two years.

The second quarter did represent a return to positive absorption, with 315,000 square feet reported by Grubb & Ellis. This quarter puts the industrial market just barely in positive territory for the year after a loss of 120,000 square foot in the first quarter. This absorption was barely enough to push Grubb & Ellis' reported vacancy down 10 basis points to 8.8 percent. The improved vacancy rate was boosted by very modest product delivery over the past three quarters. After no new industrial inventory hit the market in either the fourth quarter of 2010 or the first quarter of 2011, the second quarter saw a relatively modest 71,000 square feet of new construction. This compares with a 10 year quarterly average of just under 600,000 square feet of new delivery.

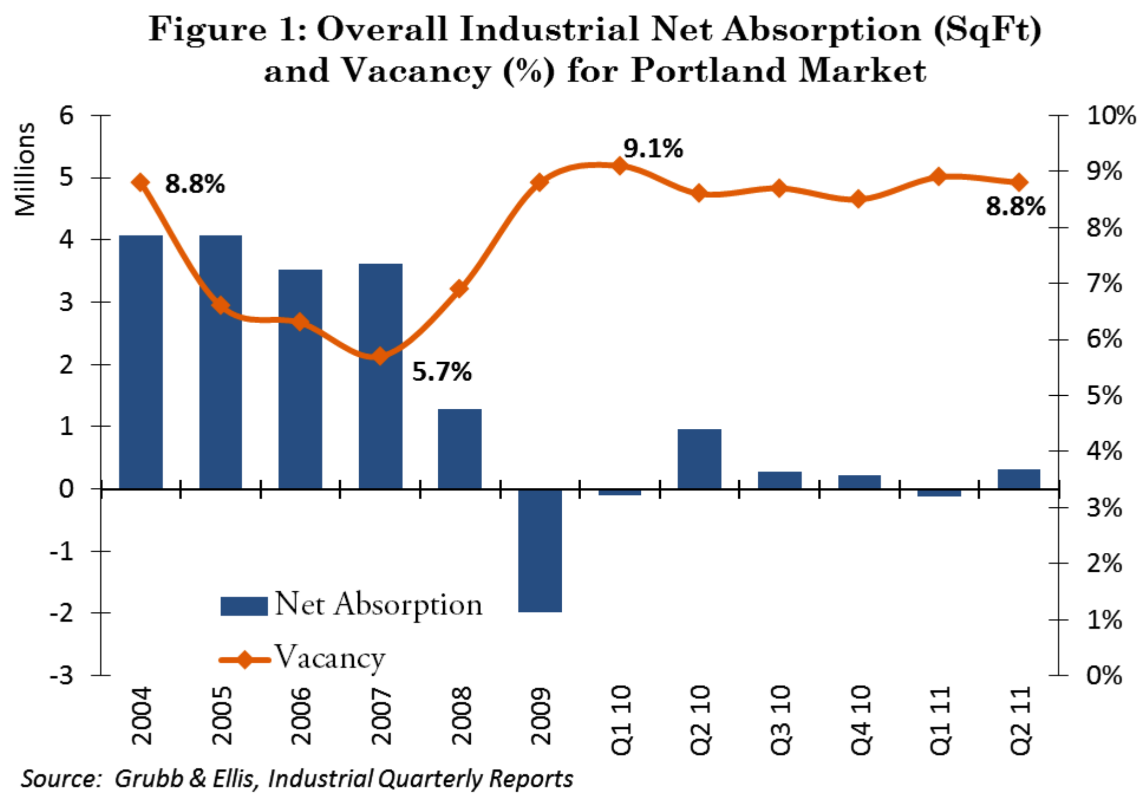
Table 1: Industrial Market Vacancies and Asking Rents, Q2, 2011

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.2%	6.8%	8.8%	16.1%	8.4%	8.4%
Previous Quarter	8.1%	7.1%	8.9%	15.9%	8.5%	8.4%
Second Quarter 2010	-	8.6%	8.6%	15.2%	8.4%	8.5%
Second Quarter 2009	8.1%	8.0%	8.5%	13.9%	8.3%	8.3%
Warehouse/Distribution	-	-	10.9%	N/A	N/A	10.9%
Previous Quarter	-	-	10.5%	N/A	N/A	10.5%
Second Quarter 2010	-	10.0%	8.5%	N/A	N/A	9.3%
Second Quarter 2009	N/A	7.7%	8.6%	N/A	N/A	8.2%
R&D/Flex Vacancy	12.2%	-	9.8%	18.3%	N/A	12.2%
Previous Quarter	12.1%	-	10.7%	17.8%	N/A	12.1%
Second Quarter 2010	-	10.0%	8.8%	18.2%	N/A	10.0%
Second Quarter 2009	N/A	9.6%	7.9%	15.1%	N/A	9.6%
Asking Monthly Shell Rates	$0.38	N/A	$0.40	N/A	$0.43	$0.40
Previous Quarter	$0.38	N/A	$0.41	N/A	$0.44	$0.41
Second Quarter 2010	$0.38	N/A	41.0%	N/A	$0.45	$0.41
Second Quarter 2009	$0.40	N/A	41.0%	N/A	$0.48	$0.41
Asking Monthly Flex Rates	$0.78	N/A	$0.69	N/A	N/A	$0.74
Previous Quarter	$0.78	N/A	$0.69	N/A	N/A	$0.74
Second Quarter 2010	$0.81	N/A	77.0%	N/A	N/A	$0.79
Second Quarter 2009	$0.93	N/A	$0.80	N/A	N/A	$0.87

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, and Kidder Matthews Quarterly Reports

The median vacancy between the five brokerages considered in this analysis remained steady at 8.4 percent in the second quarter. Among the five brokerages, three reported a drop in vacancy, and two reported a rise from the first quarter, but none made an adjustment greater than 30 basis points, leading to a sense that the market is treading water.

Norris, Beggs & Simpson reports vacancy rates in a different range, at 16.1 percent, up 20 basis points from the first quarter. They also report R&D/Flex vacancy rates jumping from 17.8 percent to 18.3 percent with negative 48,000 square feet of absorption. Norris, Beggs & Simpson vacancy rates for R&D/Flex have been steadily climbing since late 2008, when the category bottomed out at 13.2 percent vacancy.



Grubb & Ellis showed a strong drop in vacancy in the R&D/Flex category, down 90 basis points to 9.8 percent, offsetting a 40 basis point jump to 10.9 percent vacancy for warehouse/distribution. Swan Island posted the lowest submarket vacancy at 5.2 percent (down from 5.8 percent in the first quarter) while the 217 Corridor in Beaverton & the I-5 South Corridor carry the highest, both above at 12 percent. While submarket vacancies varied across reports, these particular geographies were consistent in each.

Sunset Corridor had the highest overall absorption value of all Grubb & Ellis submarkets, adding 263,000 square feet, with three major transactions listed in Table 2, pushing overall vacancy down 60 basis points to 9.7 percent.

Clark County also posted strong absorption at 234,000 square feet, much of which is attributable to the Sapa Group's 142,000 square foot lease from the Port of Vancouver. Cushman & Wakefield reports the Rivergate District in North Portland as having the highest overall net absorption (161,806 square feet), highlighted by a 156,000 square feet lease by OIA Global Logistics at the Bybee Lakes Logistic Center. Despite this significant absorption, a rise in vacancy of 50 basis points to 9.8 percent was reported.

Rivergate currently awaits the opening of the 413,700 square foot Subaru distribution facility, training center and regional office next to Port of Portland's Terminal 6 between N. Marine Drive and the Columbia River. This facility will replace Subaru's 175,000 square foot facility at 158th Commerce Park and was called "the largest built-to-suit transaction in Portland in a decade"[1] by the Portland Business Journal. Multi-Employer Property Trust (MEPT) holds a 55-year master lease on the land from the Port of Portland, and has contracted with Trammel Crow for development. The facility is expected to open in October.

In North Portland a $340 million, 400,000 square foot solar manufacturing facility being proposed by SoloPower, expected to employ 200-500 people. Siting is still being considered and a plan for construction has yet to be announced.

Table 2: Major Industrial Transactions, 2nd Quarter, 2011

Tenant	Property	(Sq. Ft.)	Submarket
Washington Mgmt Company	19606 NE San Rafael St	812,240	Gresham
ABS Capital Management	21515 NW Evergreen Pkwy	302,000	Hillsboro
Grand & Benedicts Liquidators	2300 Se Beta St	207,615	Milwaukie
Evergreen Data Center LLC	21515 NW Evergreen Pkwy	176,800	Hillsboro
OIA Global Logistics	Bybee Lake Logistics Center	156,000	Rivergate
Sapa Group	Port of Vancouver	142,800	Vancouver
Radisys	5445 NE Dawson Creek	99,898	Hillsboro
Watumull Properties Corp.	6850 NE Campus Dr	83,414	Hillsboro
Bridgeport Distribution	Oregon Business Park III	69,737	Tigard
Bakemark	Rockwood Corporate Center	46,400	Gresham

**Source: NAI Norris Beggs & Simpson, CB Richard Ellis, Kidder Matthews and Cushman & Wakefield, Industrial Quarterly Reports, Q2 2011*

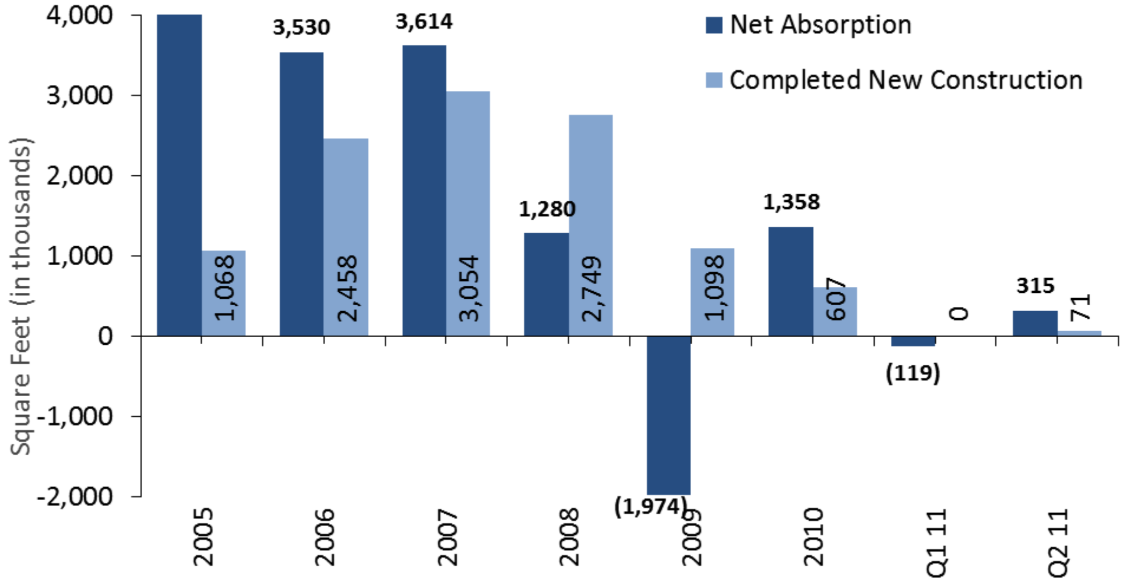
In mid-January, the City of Portland's hotly debated North Reach River Plan was remanded by the State of Oregon Land Use Board of Appeals back to the City Council based on an appeal filed by an industry group, the Working Waterfront Coalition.[2] Addressing the industrial banks of the Willamette River between the Broadway Bridge and the Columbia River, the plan's provisions included strong environmental restrictions through the zoning code, adoption of a new and detailed natural resource inventory, and various development requirements focused around creating a vegetative buffer between the river and industrial development on its banks. LUBA's remand of the plan to the City required, in part, a thorough Economic Opportunities Analysis, a step that Chief Planner Joe Zehnder has recently suggested will not be taken immediately and likely not take place until the comprehensive planning process.[3] This is expected to postpone any provisions of the plan from going into effect until 2013, at the earliest.

[1] Culverwell, Wendy. " Subaru inks blockbuster deal at Rivergate", *Portland Business Journal*, January 6, 2011

[2] Redden, Jim. "LUBA sends River Plan back to City Council", *Portland Tribune*, January 24, 2011.

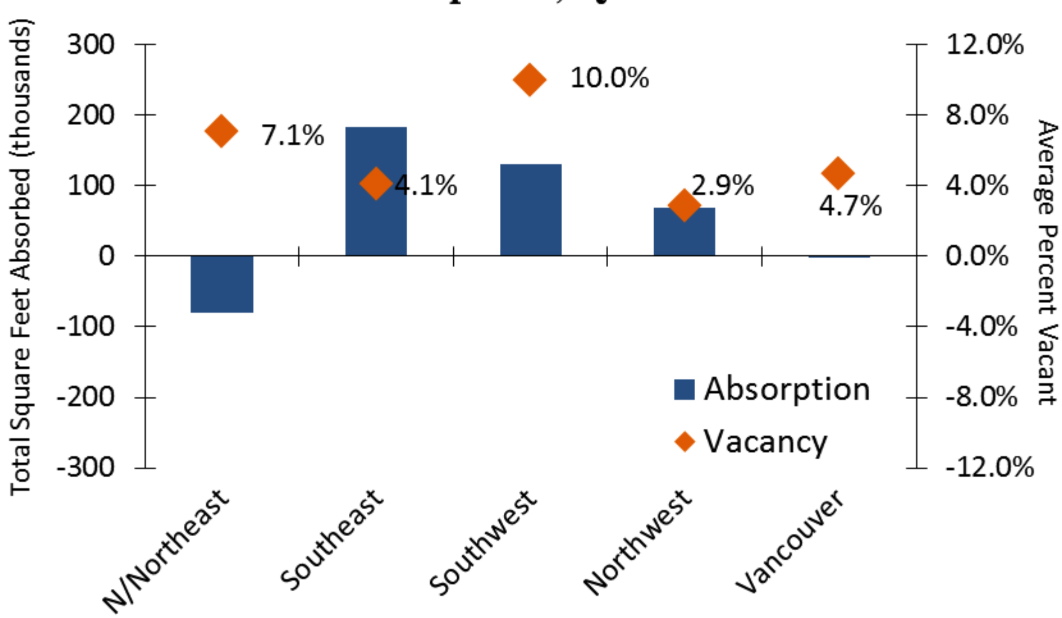
[3] Bjork. Nick. "City of Portland delays River Plan two years", *Oregon Daily Journal of Commerce*, June 30, 2011.

Figure 2: Industrial Absorption and New Construction (SqFt)



Source: Grubb & Ellis, Industrial Quarterly Reports

Figure 3: Submarket Vacancy and Overall Absorption, Q2 2011



Source: Cushman and Wakefield, Q2 2011 Industrial Quarterly Report