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CENTER FOR REAL ESTATE

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CONTENTS

SUMMARY AND EDITORIAL

With the uncertainty surrounding the US and Oregon economies, we tend to focus on projections of where we are going in the future. In this issue of the Real Estate Quarterly Report, we will take a look back to the past to the history of city planning in Portland. Based on his keynote presentation at the Urban Land Institute's Oregon Young Leaders Group Cascadia Regional Conference, **Chet Orloff** provides a comprehensive and visually rich look at the birth, the growth, and future of Portland's urban environment.

As noted in the past few issues, our economy is in the middle of a turbulent turnaround. The question is now seems to be: Which way are we turning? The Oregon Office of Economic Analysis relies, in part, on IHS Global Insight to form its forecasts of the Oregon economy. Global Insight projects growth—but weak growth—over the next year. At the same time, Global Insight assigns a 40 percent probability of recession. In contrast, economists surveyed by the Wall Street Journal in November, on average, gave 1-in-4 odds that the U.S. will experience a recession in the next 12 months, down from a 1-in-3 chance they projected in September. At the same time, the most recent forecast from the Economist Intelligence Unit places a "very high probability" on the chance that the global economy falls into recession.

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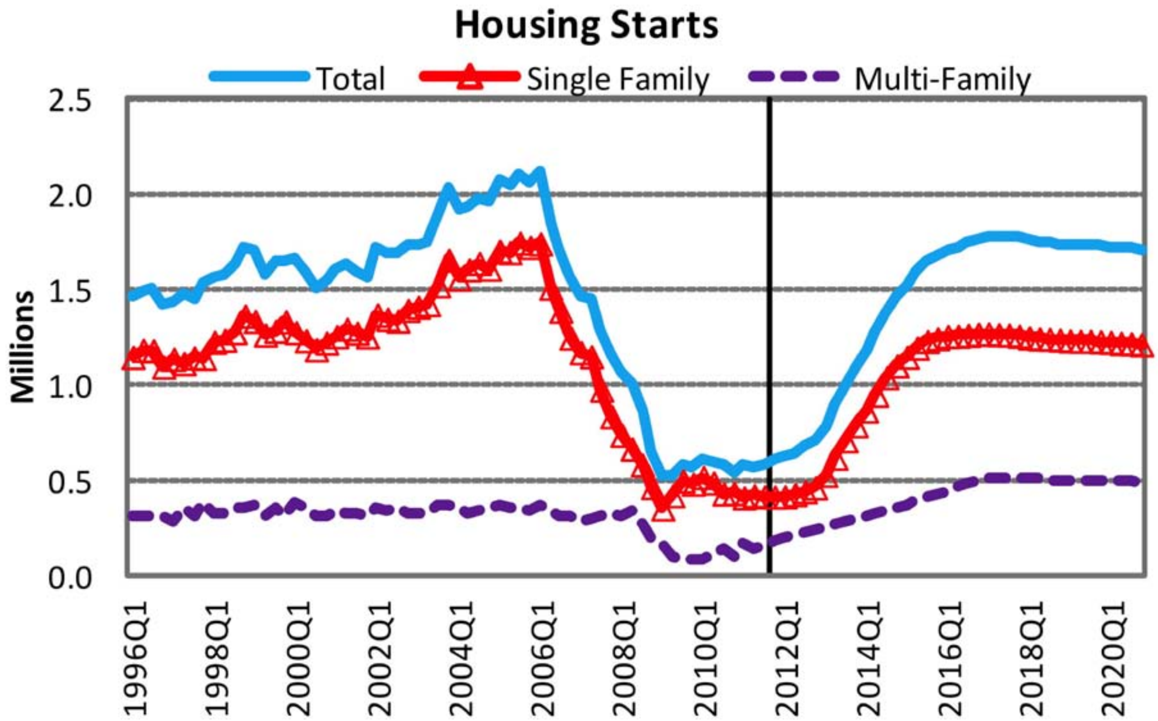
Economists at the State of Oregon report that credit markets are easing, but consumers and businesses still have difficulty getting loans. The figure below from the Wall Street Journal highlights this difficulty. For example, five years ago few borrowers with a credit score below 637 got prime mortgages. For subprime borrowers the median credit score was 729. In September of this year, hardly anyone with a credit score lower than 691 got a prime mortgage and the median among prime borrowers was 770. In other words, what many consider to be a "good" credit score is not good enough to get a prime mortgage. Now, lenders are demanding a "very good" or an "excellent score."

State economists find signs that the housing market has hit bottom, at least in terms of housing starts. At the same time, they predict that housing prices may have further to fall. In particular, foreclosures and delinquency rates are still relatively high. Nationwide, the Mortgage Bankers Association reports that approximately 13 percent of outstanding loans are delinquent or in foreclosure. The Oregon Office of Economic Analysis concludes that the housing market appears to be the biggest threat to a sustained economic recovery in Oregon. Nevertheless, the state's economists project a relatively steep recovery in housing starts beginning in 2012, as shown in the figure below.



Source: Oregon Department of Revenue

While the single family residential market remains troubling, the multi-family sector is robust and growing. At a panel discussion at the National Association of Real Estate Investment Trusts' REIT World conference in Dallas, Thomas Toomey, president and CEO of UDR Inc., which owns stakes in 62,000 apartments, reported his properties are more than 96 percent occupied. His experience is not unique—the national vacancy rate for apartments in the U.S. was 5.6 percent at the end of the third quarter, down from 5.9 percent in the second quarter, and the lowest level since 2006, according to real estate research company Reis Inc. With the lower vacancy rates, average rents were up 1.8 percent in the third quarter from the same period a year earlier. Portland's experience appears to have mirrored the nation. **Evan Abramowitz** reports that the growth in effective rents has increased 5.3 percent over the same time last year.

Moody's Investors Service reports that commercial real estate prices fell 1.4 percent in September. The decline ended a four-month growth streak in commercial real estate prices. Analysis by **David West** in this month's office market report suggests that Portland may be following the national trend of sluggish commercial real estate pricing. Moody's expects the "bottoming process" in the sector to continue for the next two years.

SHAPING THE CITY: PORTLAND, OREGON, 1841-2011

CHET ORLOFF

School of Urban Studies and Planning, Portland State University; President, Museum of the City; and Director Emeritus, Oregon Historical Society

From the moment future Portlanders began shaping their future city, they fully appreciated the place they had chosen: a place bounded by rivers, surrounded by green hills, lying between ocean and mountains, and made comfortably habitable by a temperate climate. With the self-confident assuredness of the transplanted New Englanders they were, the first generation of settlers claimed their new town was imbued with all of the moral, spiritual, and physical qualities needed to nurture industry, sensitivity, and refinement—values necessary for a “civilized” and productive community. Over the next 150 years, succeeding generations shaped Portland into a metropolis that honors both its natural environment and the traditions of good urban design.

Caution and conservatism, moderation and proportion have been legendary parts of the original Portland personality. The city is connected with nature. Yet, when it comes to the recent and democratic exercises in participatory planning, Portlanders cultivate an amity, patience, and venturesome aspect far beyond that of most American cities. In their historic conservatism and willingness to try new ways of building everything from neighborhoods to transit systems, Portlanders have been able to strike their own balance. That balance takes practice, perseverance, and community

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involvement. It's that involvement, the engagement in the community, that distinguishes this city and its 150-year old shaping. The fountain in Portland's old town gets to the heart of Portland's real-estate ethic: "Good citizens are the riches of a city."

We often think of planning as policy making process.

Someone comes up with an idea. Usually it's an idea to aid commerce or further economic development.

Politicians and policy makers then design a concept, and the public provides input.

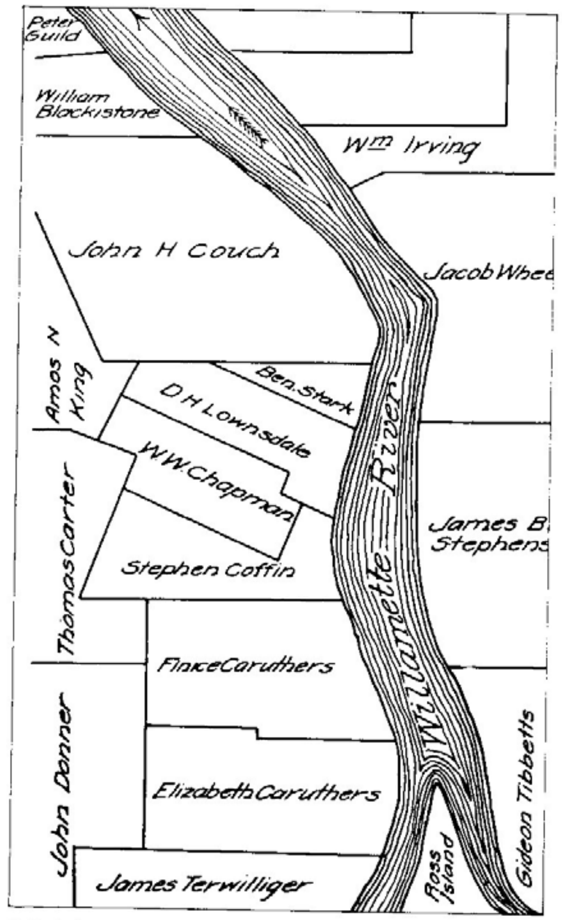
What is underappreciated are the citizens of the city: pioneers, donors, gadflies, and other activists.

Many times, city planning begins with an individual, seeking his own benefit, but producing something that benefits the city as a whole.

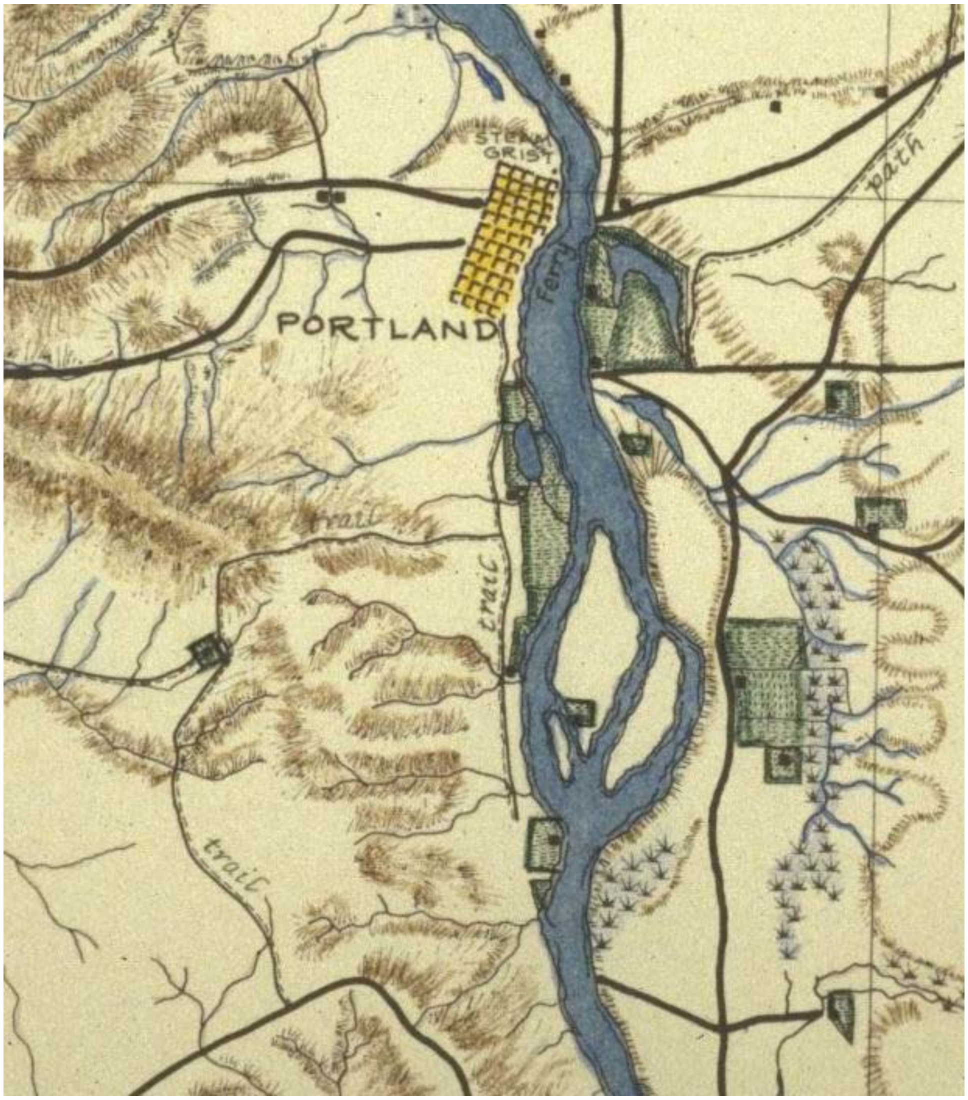
This is a picture was taken on Canyon Road, above the city, conceivably as town-builder Daniel Lownsdale might have seen it in the 1840s. We can imagine Lownsdale, or some other planning pioneer, developing his vision of what the future city should look like.

In the end, city planning is more of a dance. Geography lays out the dance floor, a patron sponsors the dance, and everyone at the dance is looking for partner in progress.

Here, the Florodora Girls pose at the 1905 Lewis and Clark Exposition, an event that shaped the next two decades of real estate growth in Portland. The world's fair, indeed, set off a wild whirl of development and City Beautiful building

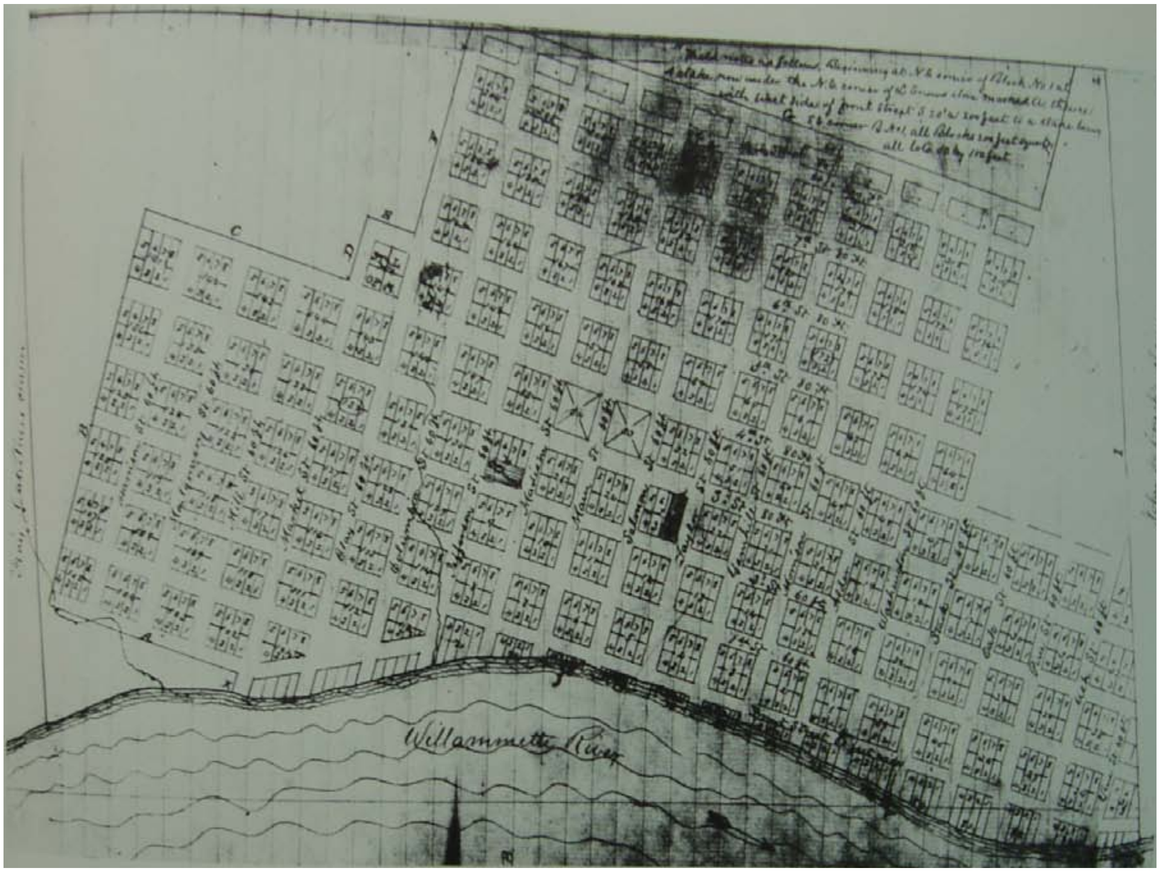


Portland's early settlers had large land claims that extended, on the west, from the hills to the Willamette River. Within a few short years of claiming their land, these same individuals divided up and sold off their properties. Real estate development was a dominant activity from the city's earliest days.



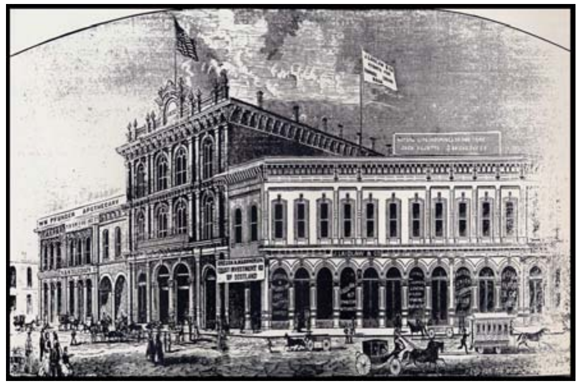
In this map, we see early Portland. To the left of the city are two roads crossing the Tualatin Mountains, now known as the West Hills. The hills are a spur of the Northern Oregon Coast Range and they separate the Tualatin Basin of Washington County from the Portland Basin of western Multnomah County and Clark County, Washington.

The Tualatin Basin grew the wheat that was the basis of Portland's early economy, and economy that, even today, is still significantly dependent on wheat and other agricultural produce.



The map above is the plan Daniel Lownsdale and his fellow Portlanders laid out for Portland in the mid-1840s. Coming from Kentucky, Lownsdale purchased the land that would become downtown Portland on September 22, 1848. Lownsdale established the first tannery near the current location of PGE Park/Jeld-Wen Field just west of the downtown Portland. He resurveyed Portland, keeping the small blocks (200 feet per side, 64 feet streets), and adding the contiguous park blocks.

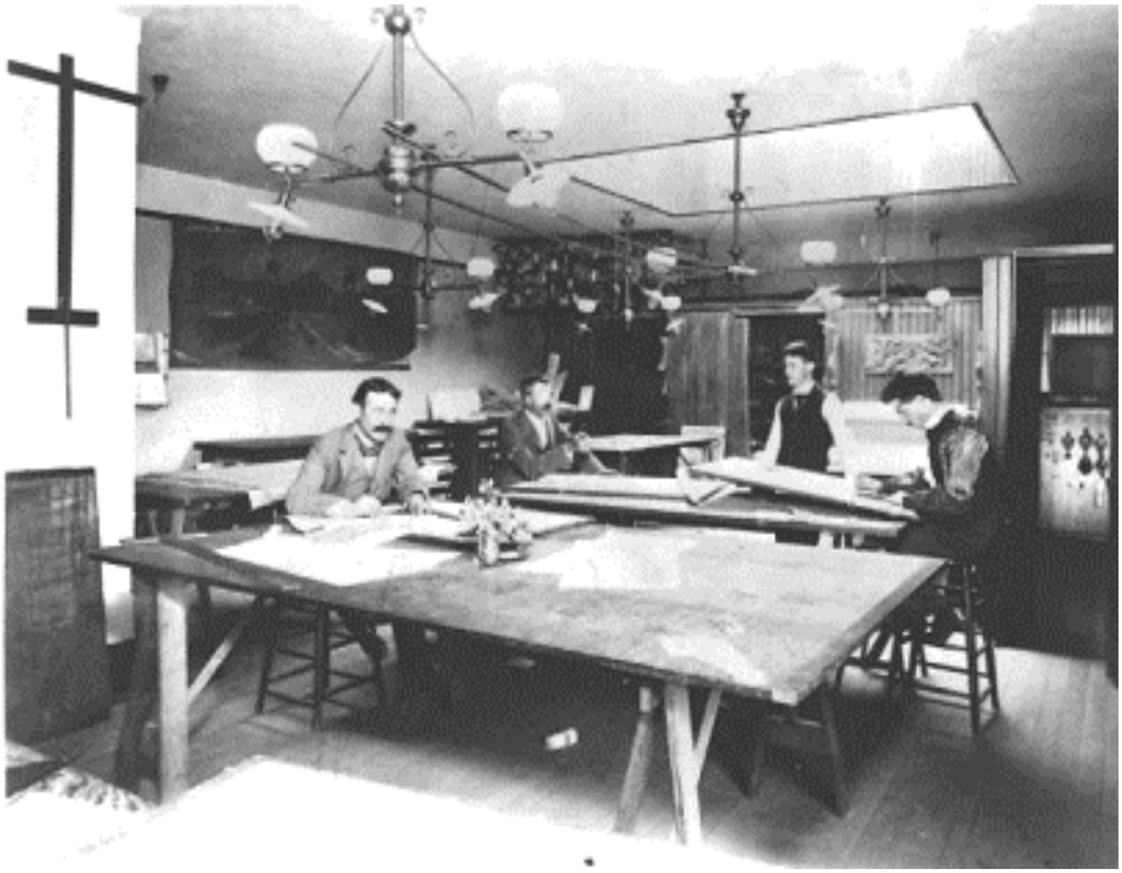
The 200 by 200-foot grid dictates that the streets and sidewalks today play a major role in the usability and accessibility of the city and its neighborhoods. Because of the need for access to all sides of each block, and the founders' early desire to partition land in a way that maximized their value (the small blocks meant more-lucrative corner lots to sell), the standard 60-foot right of way was adopted, a modest measurement when compared to other cities.



Portland in 1852 was a rather muddy affair, with its two-story wooden structures. By the 1880s, however, Portland could boast over 100 cast iron-fronted buildings that gave the city a distinctive European—an Italianate, to be more precise—air.

Daniel Lownsdale's donation of a strip of land, which became the South Park Blocks running right through the Portland State University campus, early on became an important factor in establishing the city's downtown residential and cultural center. The photograph above shows the blocks in the early 1860s. The lithograph below depicts the blocks, soon after the elm trees were planted in the 1870s, at the corner of Park and Montgomery streets.

Soon after his arrival from Harvard in 1867, the Unitarian minister Thomas Lamb Eliot, became the conscience of the city, influencing Portland cultural and intellectual development long after his death in 1936. Eliot led in the creation of such major civic institutions as the public library, the school and parks systems, the Humane Society and the Boys and Girls Aid Society, the state's penitentiaries, Reed College, and the Art Museum, among other agencies. As well, he mentored the young architect A. E. Doyle, who would go on to design many of Portland's iconic buildings.



The architecture firm of William Widden and Ion Lewis were the city's "go-to" architects of the late 19th and early 20th centuries. The young man standing to the tight is A. E. Doyle during his apprenticeship with the firm.

OREGON WORLD'S FAIR OPENED BY PRESIDENT

Roosevelt in Washington Starts Machinery in Portland.

FAIRBANKS TALKS OF THE WAR

Tells Exposition Multitude American Interests Have Been Preserved—Scenes in the Grounds.

PORTLAND, Ore., May 28.—The Lewis and Clark Centennial Exposition was opened to-day, the celebration being participated in by the President of the United States and his personal representative, Vice President Charles W. Fairbanks; representatives of the State and of the House of Representatives of the National Congress; of the army and navy, together with the Governors and staffs of the States of California, Idaho, Washington, and Oregon, and multitudes of people from far and near.

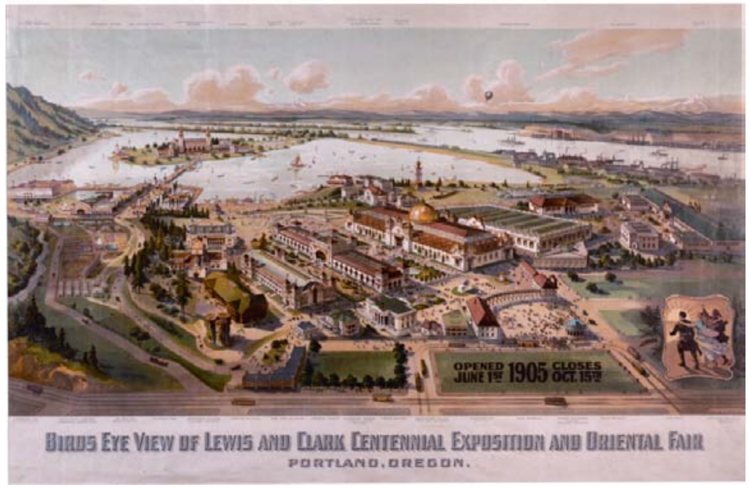
The prelude to the actual opening ceremonies consisted of the military parade, a grand pageant of Federal and State troops, led by Vice President Fairbanks, the Congressional party, visiting Governors, and other dignitaries and the exposition officials. The parade was greeted with continued cheering along the entire line of march from the new Post Office and through the business and residential sections of Portland to the Fair Grounds. As the troops passed, the mass of sightseers flanking the column fell in behind, and when the Exposition Grounds were reached the procession was miles in length. Thousands in the meantime, anticipating the onward rush, had packed themselves around the speakers' stand and occupied every point of vantage, and late comers had to be content with being within seeing distance.

Following the invocation, the band played "Imperial Oregon," a march composed by Innes and dedicated to the memory of Capts. Lewis and Clark and inscribed to the people of Oregon. President Goode welcomed the people of the United States as the guests of the Exposition, and Gov. George Chamberlain congratulated the people of the State, the City of Portland, and the Lewis and Clark Corporation upon the achievement of an event so notable in the history of the city and State.

Other speeches were delivered by Jefferson Byers, President of the Lewis and Clark Centennial Committee of the State of Oregon; George H. Williams, Mayor of the City of Portland; United States Senator Clarence D. Clark of Wyoming, Representative James A. Tawney, H. A. Taylor, First Assistant Secretary of the Treasury and Chairman of the United States Government Board, and then Vice President Fairbanks delivered an address, in the course of which he said:

"We commemorate an important event in American history. We pay tribute to the intrepid explorers who made their arduous expedition up the Missouri, across the Rocky Mountains, down to the Pacific, and pointed the way to this land of incomparable opportunity. They were the forerunners of a high order of civilization in a territory which, prior to their venturesome enterprise, was terra incognita. It was a wilderness, inhabited by the aborigines, into which no white man had entered; it has become the seat of empire—of vast commercial power. We look upon their work with genuine admiration and grateful appreciation.

"This exposition logically follows the great exposition which commemorated the Louisiana purchase. It appropriately supplements it. They both irresistibly suggest our obligation to Thomas Jefferson. We do well to recall his service in connection with the acquisition from France of the province of Louisiana, and his organization of the Lewis and Clark expedition, which opened the way to the expansion of the zone of American civilization. We may well pause to pay tribute to his lofty genius, his profound, far-seeing wisdom, and his service to the cause of human liberty and progress upon this continent. The fruit of his services will bless mankind for ages.

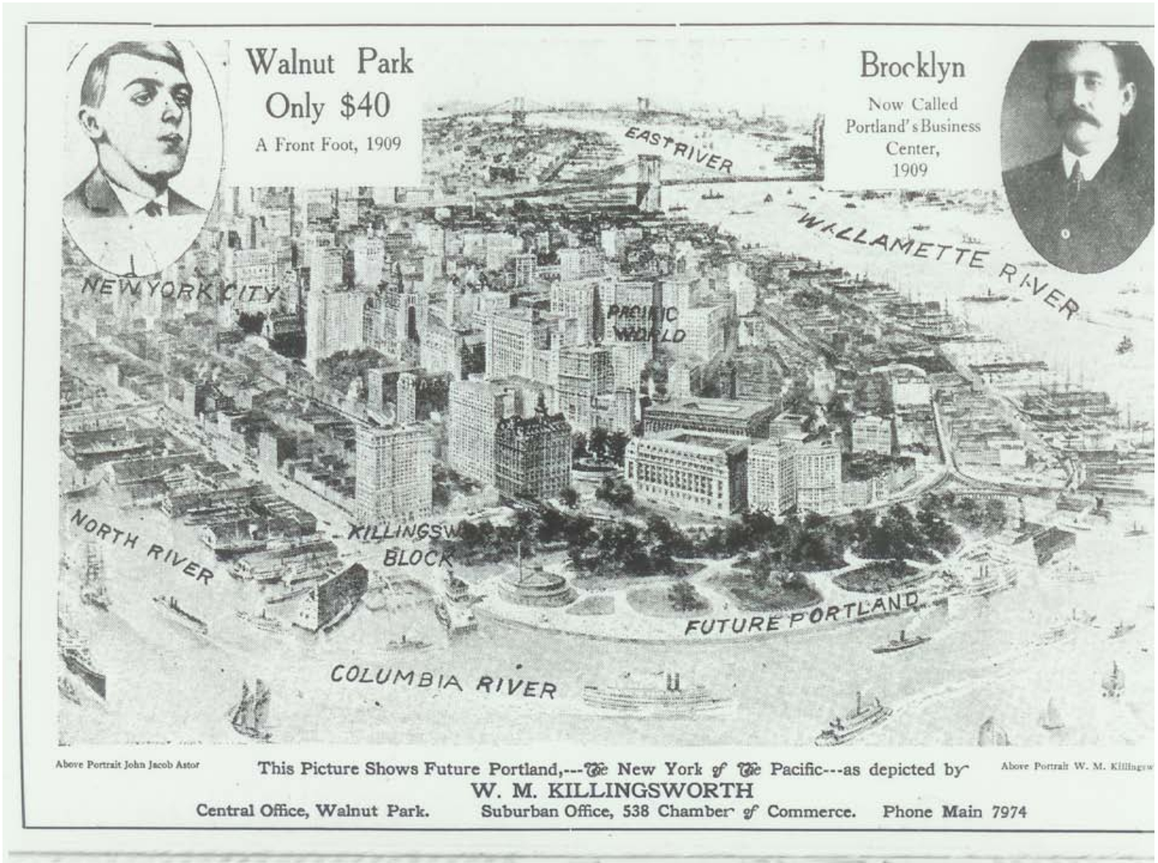


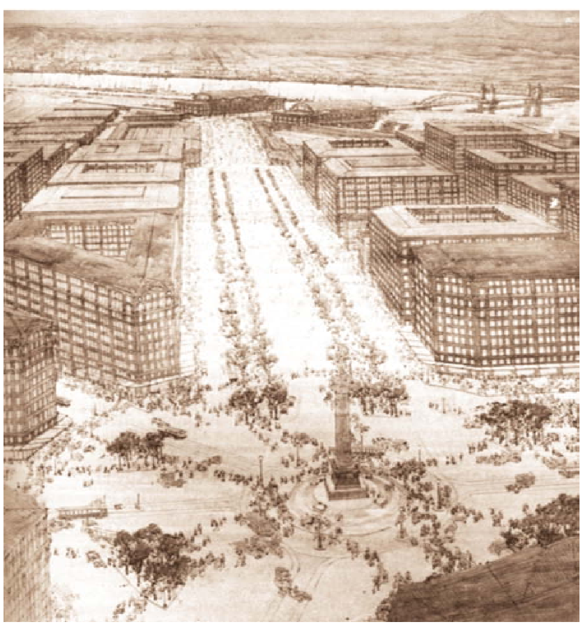
In 1905, Portland was the host city of the Lewis and Clark Centennial Exposition, a world's fair. This event increased recognition of the city, which contributed to a doubling of the population of Portland, from 90,426 in 1900 to 207,214 in 1910.

Landscape architect John Charles Olmsted, nephew and stepson of Frederick Law Olmsted, was hired to develop a plan for the grounds. His plan took advantage of the scenic views available from the site, including Mount St. Helens and the river. Numerous other local architects, including Ion Lewis of the firm Whidden & Lewis, were commissioned to design the fair's buildings; the majority of the buildings were in the style of the Spanish Renaissance, and decorated with architectural flourishes such as domes, cupolas, arched doorways and red-colored roofs. The buildings, not intended to be permanent, were largely constructed of plaster over wooden frames, which resulted in rather low construction costs.

The major exception to the use of low cost construction techniques was the Forestry Building, a log cabin designed by A. E. Doyle which was said to be the world's largest log cabin.

In addition to his work on the fairgrounds for the Lewis and Clark Exposition, Olmsted created a park plan for Portland. He began by analyzing Portland's terrain, park inventory, real-estate prospects for future parkland, and park personnel. On tours of the city, he took copious notes of all he saw on five-inch index cards and snapped hundreds of photographs of the Portland landscape. He then spent his evenings at the Portland Hotel writing up his notes in longhand, which were then typed by hotel stenographers. Strategic, visionary planning was at the heart of the Olmsted Report of 1903. Olmsted wanted Portlanders to look far into the future—50 years or more—especially when it came to purchasing land while it was still within reach of the city's means. Typical of Olmsted plans, it was comprehensive, including advice on land acquisition, the qualities of good parks and park systems, parkways and boulevards, park governance, and administration.

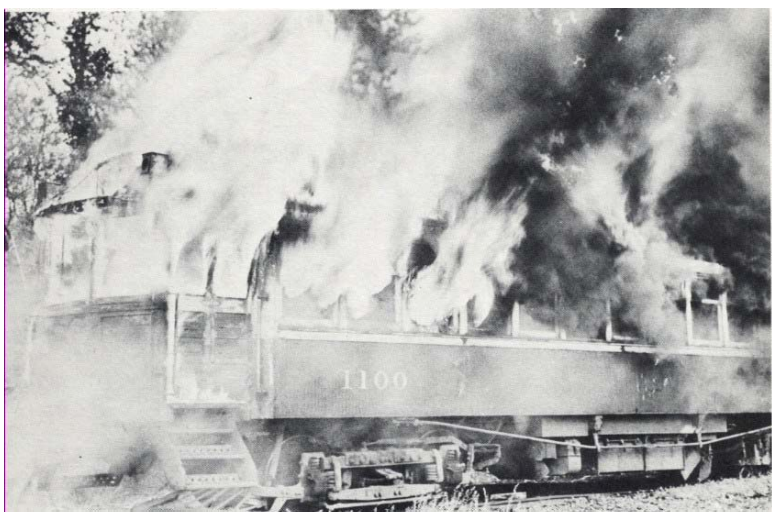




The years following the Exposition were boom ones for Portland realtors and bankers. W. M. Killingsworth went so far as to imagine Portland becoming the “New York of the Pacific.” Following the lead of City Beautiful advocates and architects, Portlanders erected several terra cotta buildings that grace the downtown. Chicago planner Edward Bennett was brought to town to give the city a grand plan that would have had Portland built like Paris. While Portlanders were entranced by the vision, the price brought them back to reality, and Bennett’s plan was never realized.

As with other cities, Portland's heady days of the 1920s came to a grinding halt with the onset of the Depression. Little was built, though the city lost many of its great cast iron buildings to the wrecking ball and the advent of parking lots.

During the years of World War II, Portland saw its population explode by one third as workers flocked to the shipyards to build the liberty ships that fed the allies. In 1943, the city council, acting upon orders from the federal government to make post-war plans, brought New York planning czar Robert Moses to draw up plans for Portland. He advised the city to rid itself of its old streetcar system and make room for cars and freeways. He also advised the city to acquire the land that would soon become Forest Park.

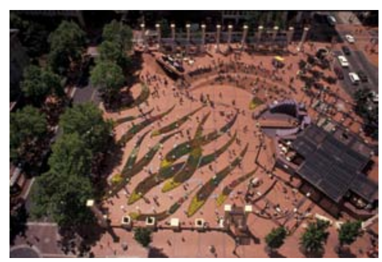


The fate of many a Portland streetcar, furnished with beautiful wood and leather seats.

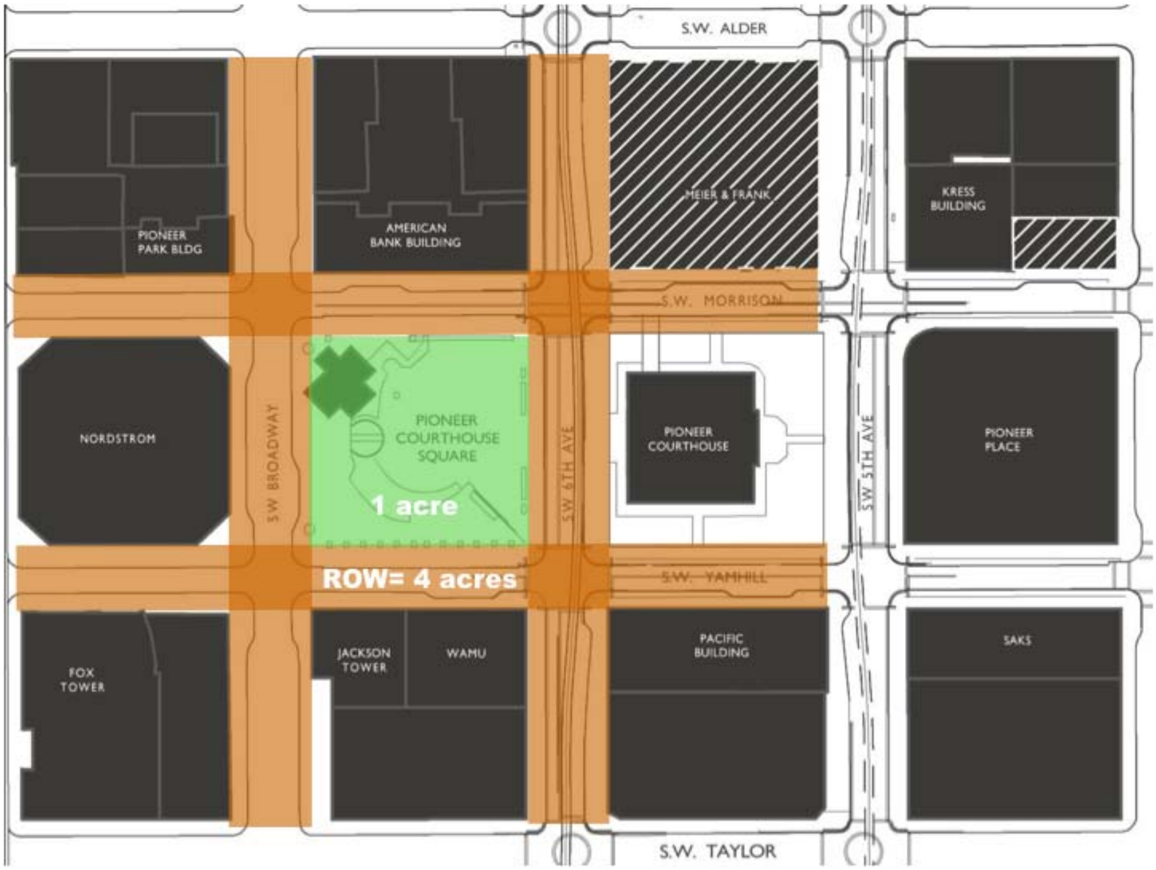
Follwing the nationwide fashion of urban renewal, Portland created the Portland Development Commission in 1958 and launched its first urban-renewal district south of the civic auditorium. The wooden homes of the historic Jewish and Italian neighborhoods of South Portland were taken down and new buildings designed by Chicago architects Skidmore Owings & Merrill were put up.

An extension of the freeway ring around the city planned by Robert Moses included what was to be the Mt. Hood Freeway, carrying traffic from the eastside downtown east toward Gresham. The freeway would have destroyed several neighborhoods between the river and the eastern portion of Multnomah county. It was stopped by a combination of citizen resistance and empowered politicians.

From its founding and its evolution into the commercial center of Oregon, through creation of the Downtown Plan of 1972, to the Central City Plan of the 1980s and ongoing neighborhood plans—planning has always originated with citizens. And while there never was a Grand Plan, there always was a “noble diagram.” That diagram included the tight 200 by 200-foot blocks, the traditions of City Beautiful, and design guidelines that reinforce incremental development in which each building is considered as development occurs. The guidelines describe how a building or structure should fit within its context, what will add to the life and vitality of the street, and how it will relate to the public realm.



Above we see the evolution of two important downtown parks. At the top left is the old Harbor Drive on the west bank of the Willamette and, on the right, is Waterfront Park, which opened at the same location in 1979. Below shows the evolution of the landmark Portland Hotel to the two-story Meier & Frank parking lot to Pioneer Courthouse Square, today Portland’s “living room.”



The street network and the public open spaces now combine to create a downtown that is 60 percent public realm (the space between buildings) and it is the importance of the public realm that determines the character of the city. (Image courtesy of Walker Macy Architects)

Shaping the city as Portlanders know it has come not through planning alone, but through applying the tools that citizens, politicians, and city planners—together—have created to design and build Portland. Portlanders care about the natural environment in their state and their city—but they also care deeply about the built environment. And they view the city as a lasting legacy they will pass on to future generations.

HOUSING MARKET ANALYSIS

EVAN ABRAMOWITZ

Joseph Bernard Investment Real Estate
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& Masters of Real Estate Development Graduate Student

National housing market statistics reflect slightly increasing median-existing home prices. Even so, prices are still lower than a year ago for all housing types. Nationally prices are down 3.9 percent from September 2010 to September 2011. Median prices in the western United States have followed a similar trend and decreased by 4.5 percent to $207,400.

Over the past year, the Portland metropolitan area experienced a decrease in median sales prices, but double-digit increase in sales volume. The median sales price of $222,500 has decreased 6.1 percent since September 2010 and the number of transactions in the metropolitan area increased by 14.8 percent.

The National Association of Realtors reports the number of existing home sales decreased in September 2011 to a seasonally adjusted rate of 4.91 million homes sold nationally. This was a 3.0 percent decrease from August. However, the number of home sales is currently 11.3 percent above the 4.41 million unit pace as of September 2010.

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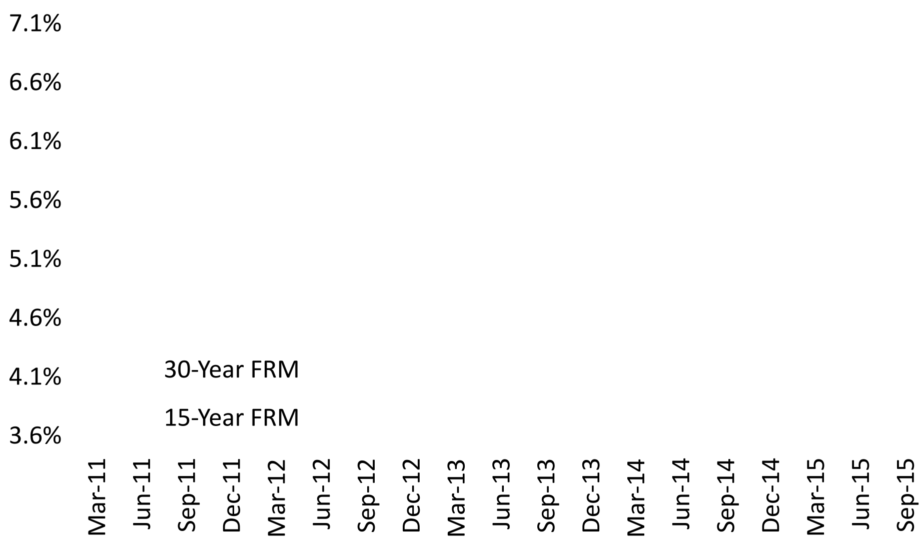
The HousingPulse Distressed Property Index (DPI) is one indicator of the health of the housing market and decreased to 45.9% in August from 46.2% percent in June. The index suggests that nearly half of all housing sales are distressed properties. This trend is expected to continue as the backlog of foreclosures and mortgage defaults make their way through the housing pipeline. According to Campbell Surveys, first-time homebuyers made up a smaller proportion of short sales this August at 39.7%, compared to a peak of 54.1% in November 2009. In August 2011, short sales accounted for 17.1% of the home purchase market, with damaged REO and move-in ready REO accounting for 13.2% and 15.6% respectively.

Figure 1: Single Family Mortgage Interest Rate



Source: Freddie Mac

Mortgage interest rates had been steadily decreasing since the first quarter of 2011 and are now at nearly 60-year lows. The national average commitment rate for a 30-year conventional, fixed-rate mortgage was 4.11 in September, down from 4.27 percent in August; the rate was 4.35 percent in September 2010.

First time home buyers made up 32 percent of home sales in September, unchanged from August. They were also 32 percent in September 2010. Investors purchased 19 percent of homes in September, down from 22 percent in August.

Table 1: Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
September 2010 Median Sales Price	$172,400	$217,100	$237,000
September 2011 Median Sales Price	$165,600	$207,400	$222,500
% Change in Median Sales Price	-3.9%	-4.5%	-6.1%
% Change in Number of Sales Sept 2010- Sept 2011	15.2%	10.7%	14.8%

Source: National Association of Realtors

Standard & Poor's Case-Shiller Index for Portland was 135.80 through July 2011. The represents an increase of 1.0 percent from June 2011, and a year-over-year decrease of 8.4 percent. Case-Shiller's 20 city composite index is down 4.1 percent compared to the same time last year. 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.

The Case-Shiller Home Price Indices are a leading measures for the US residential housing market, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. The indices show prices for the 10- and 20-city composites are lower than a year ago, both the composites fell, 3.70 percent for the 10-city composite and 4.10 percent for the 20-city composite as compared to July 2010.

Of the 20 cities tracked, Washington D.C. and Detroit were the only markets to post a year over year gain at growth rate of 0.3 percent and 1.2 percent respectively. Portland, Ore. was one of seventeen markets that saw improvements in their annual rates of return in July versus June.

Data published by RealtyTrac, show 610,337 foreclosure filings for the third quarter 2011, an increase of less than one percent from the previous quarter and a 34 percent decrease from the third quarter of 2010. The filing figures include default notices, schedule auctions and bank repossessions.

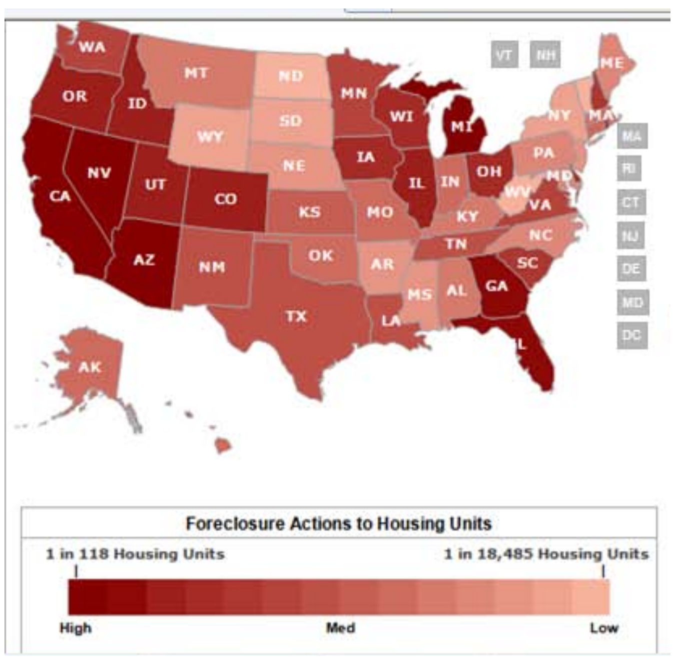
Foreclosure filings were reported on 214,855 U.S. properties in September, a 6 percent decrease from August and a 38 percent decrease from September 2010. September marked the 12th straight month where foreclosure activity decreased on a year-over-year basis.

"U.S. foreclosure activity has been mired down since October of last year, when the robo-signing controversy sparked a flurry of investigations into lender foreclosure procedures and paperwork," said James Saccacio, chief executive officer of RealtyTrac. "While foreclosure activity in September and the third quarter continued to register well below levels from a year ago, there is evidence that this temporary downward trend is about to change direction, with foreclosure activity slowly beginning to ramp back up.

"Third quarter foreclosure activity increased marginally from the previous quarter, breaking a trend of three consecutive quarterly decreases that started in the fourth quarter of 2010," Saccacio continued. "This marginal increase in overall foreclosure activity was fueled by a 14 percent jump in new default notices, indicating that lenders are cautiously throwing more wood into the foreclosure fireplace after spending months trying to clear the chimney of sloppily filed foreclosures."

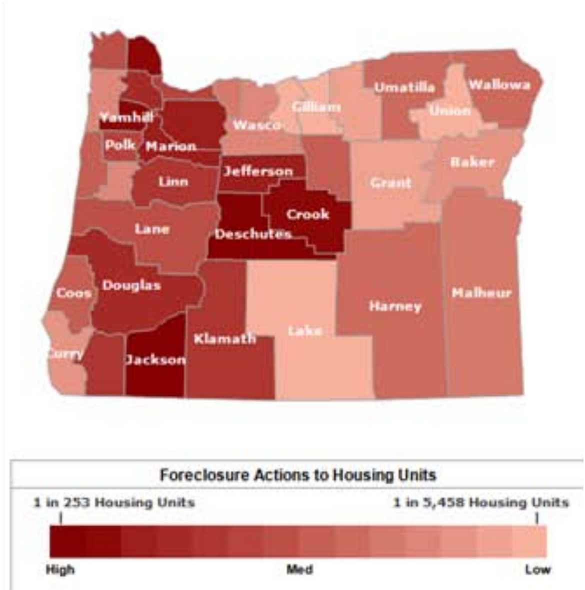
During September 2011 Oregon reported 2,934 foreclosure fillings, which is a 13 percent increase from August and a 36.6 percent decrease from the previous year. Oregon registered a 47 percent increase in REO activity from the previous quarter, which was second in the nation to Massachusetts. In the U.S., one in every 213 homes received a foreclosure filling while one in every 559 homes in Oregon received a foreclosure filling during September 2011.

Figure 2: Foreclosure Rate Heat Map, September 2011



Source: RealtyTrac

Figure 3: Foreclosure Rate Heat Map-Oregon, September 2011



Source: RealtyTrac

According to RealtyTrac, the ten states that ranked the highest in foreclosure rates in the third 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 44 housing units receiving a foreclosure filing. In Arizona one in every 93 housing units and in California one in every 88 housing units filed for foreclosure during the third quarter.

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

	Single Family			Multi Family		
	Aug-11	Aug-10	% Change	Aug-11	Aug-10	% Change
United States	284.6	319.9	-11%	123.0	98.3	25%
Oregon	3.58	4.10	-13%	1.41	0.99	43%
Portland-Vancouver-Beaverton OR-WA	2.15	2.46	-12%	1.04	0.62	68%
Salem OR	0.16	0.27	-42%	0.07	0.22	-68%
Eugene-Springfield OR	0.28	0.35	-21%	0.12	0.08	53%
Bend OR	0.34	0.25	33%	0.01	0.01	-30%
Corvallis OR	0.02	0.02	11%	0.17	0.02	828%
Medford OR	0.18	0.19	-9%	0.07	0.09	-15%

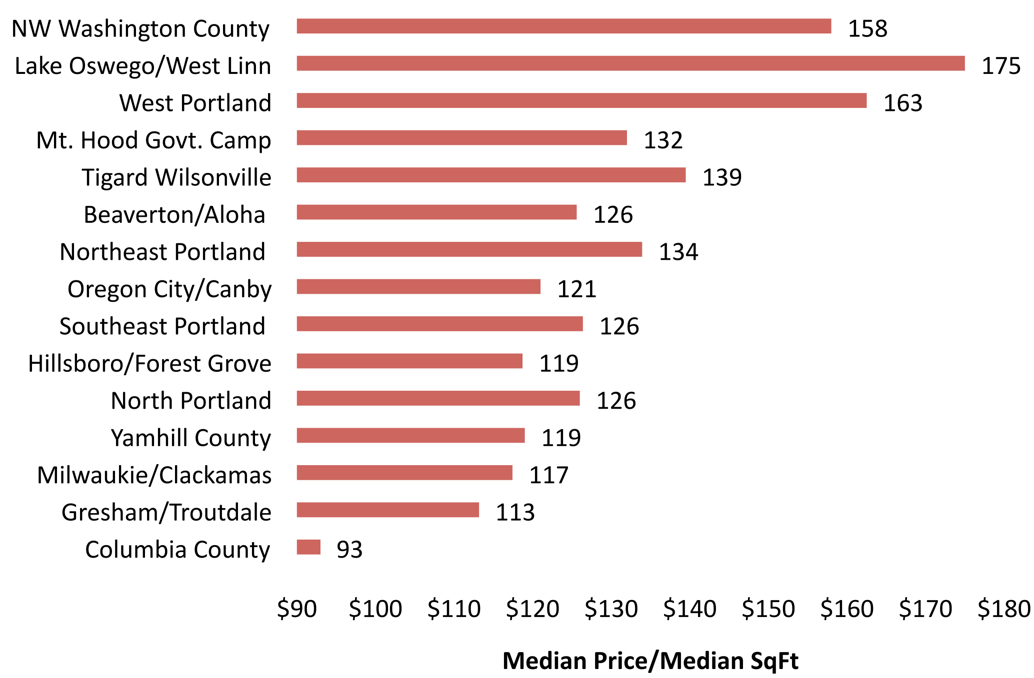
Source: National Association of Home Builders

PORTLAND

The number of Portland metropolitan area home sales increased by 15.31 percent during the third quarter compared to the second quarter of 2011, and buyers closed on purchases of 5,235 existing homes. This is a 55.76 percent increase from the third quarter of 2010 when there were 3,361 transactions in the metropolitan area.

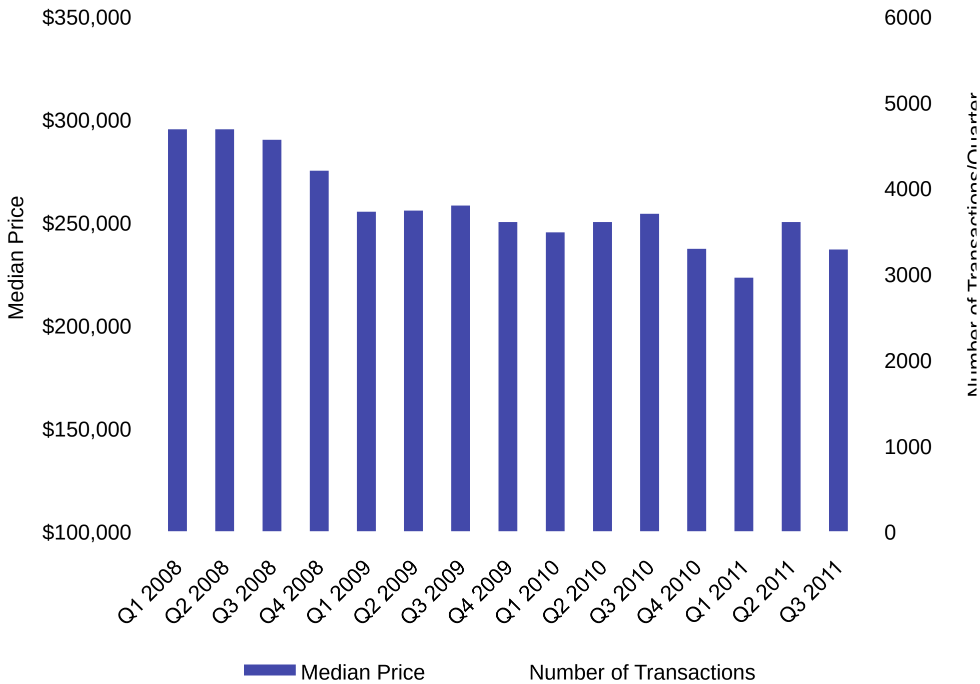
Median prices for the third quarter were at $246,450, which represents a 1.42 percent decrease over the previous quarter and a 2.97 percent reduction annually. Sales price to original list price are coming closer together, with average sales taking place at 96.78 percent of the original list price. This is a 0.43 percent point increase from the previous quarter which was 96.36 percent, and a 0.48 percent increase annually from 96.31 percent. Sellers in the Portland area have had their homes on the market for an average of 89 days before closing, reflecting a 14 day increase from 2010 and an 8 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)



3rd Quarter Median Price: $236,675

Quarterly % Change:

-5.33%

Annual % Change:

-6.82%

Number of Transactions : 5,235

Quarterly % Change: 15.31%

Annual % Change: 55.76%

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

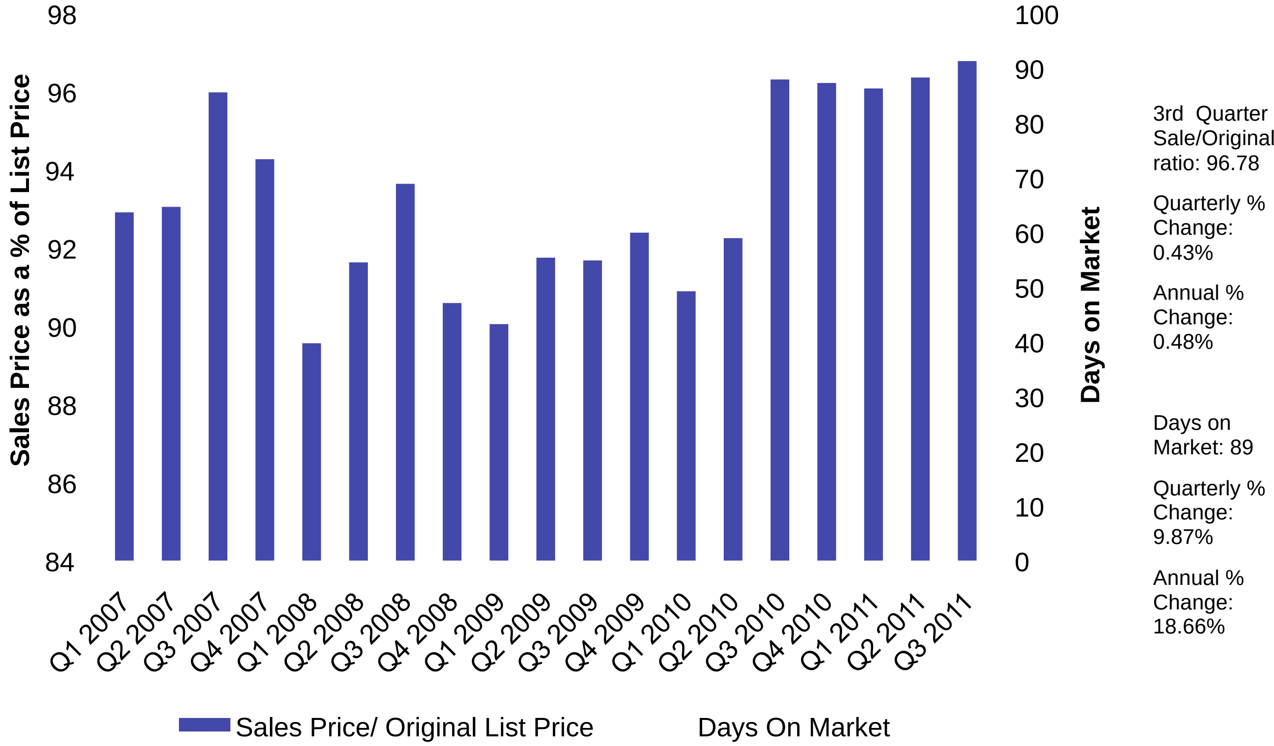
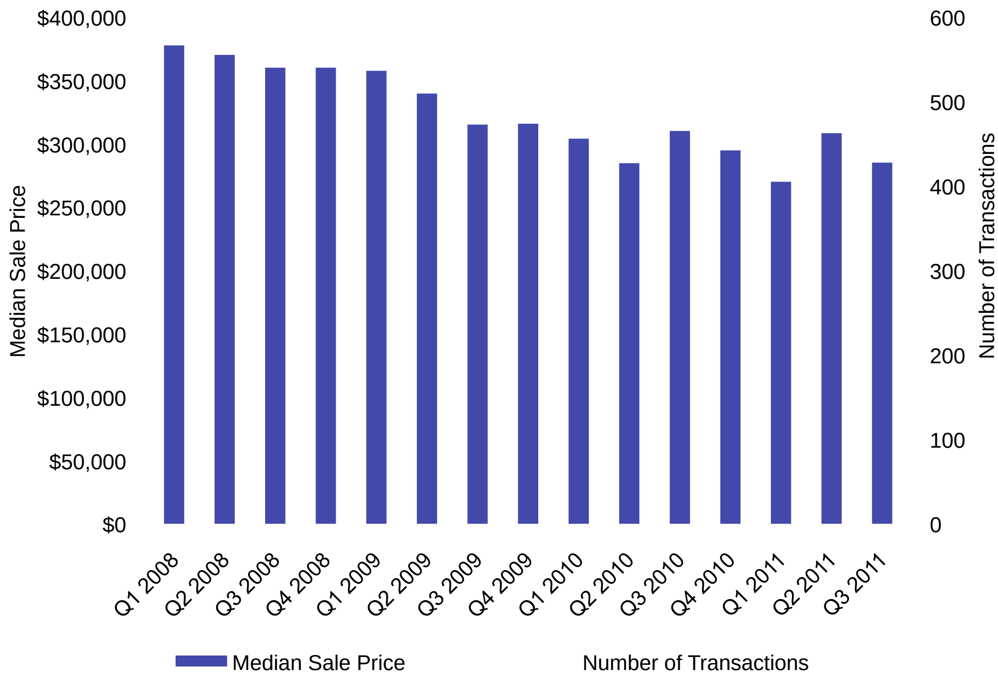


Figure 8: Median Sales Price & Number of Transactions, New Detached Homes, Portland Metro (excluding Clark County, WA)



3rd Quarter Median Price: $285,000

Quarterly % Change:

-7.5%

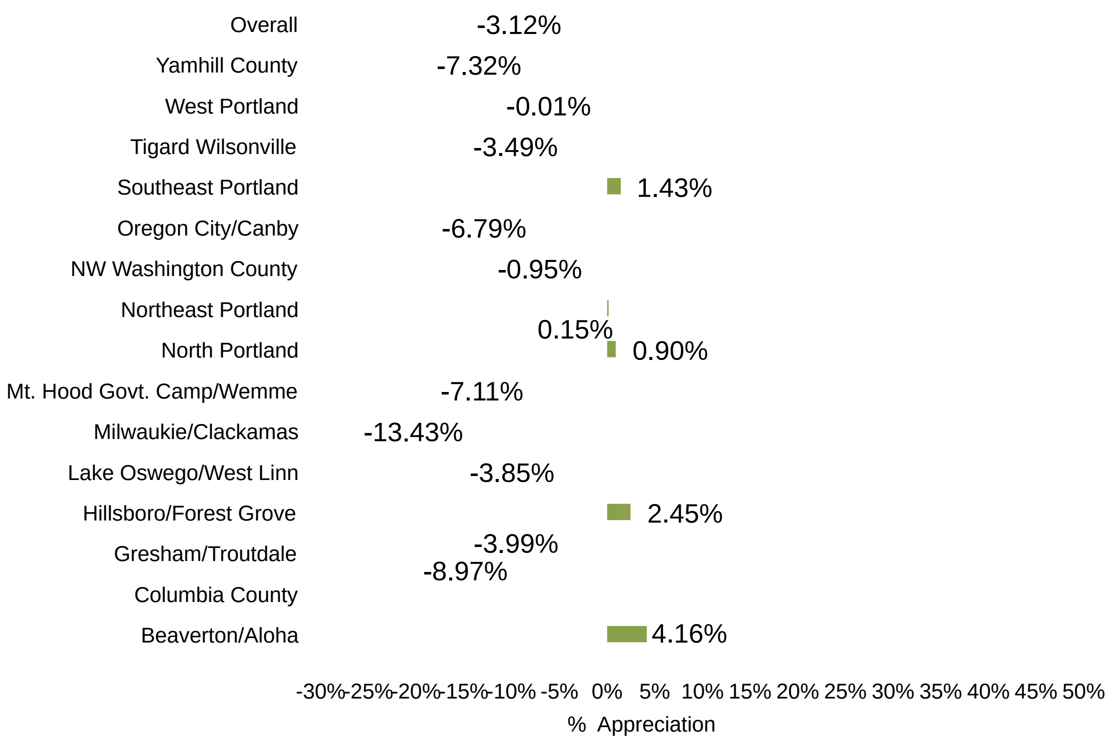
Annual % Change: -8.06**%**

Number of Transactions: 568

Quarterly % Change: 82.68%

Annual % Change: 111.94**%**

Figure 9: Appreciation Rates of Existing New Detached Homes from Q3 2010 to Q3 2011, Portland Sub-Markets



The largest annual depreciation was experienced in Milwaukie / Clackamas with a 13.43 percent, while Beaverton / Aloha increased by 4.16% and Hillsboro / Forest Grove increased by 2.45%.

VANCOUVER

Vancouver's median home price was $190,095 resulting in a quarterly increase of 3.6 percent and an annual increase of 0.6 percent in home values. The number of homes sold throughout the third quarter increased by over 15.5 percent to 879 from the second quarter of 2011, and a large increase of 82.7 percent since third quarter 2010. Six of the 16 submarkets decreased in median sold price. The largest decrease was in SW Heights at 29.8% and the largest increase was Five Corners by 28.53%. The average number of days on the market decreased to 86 days. Second quarter 2011 average number of days on the market was 88, while it was 84 during the third quarter of 2010.

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

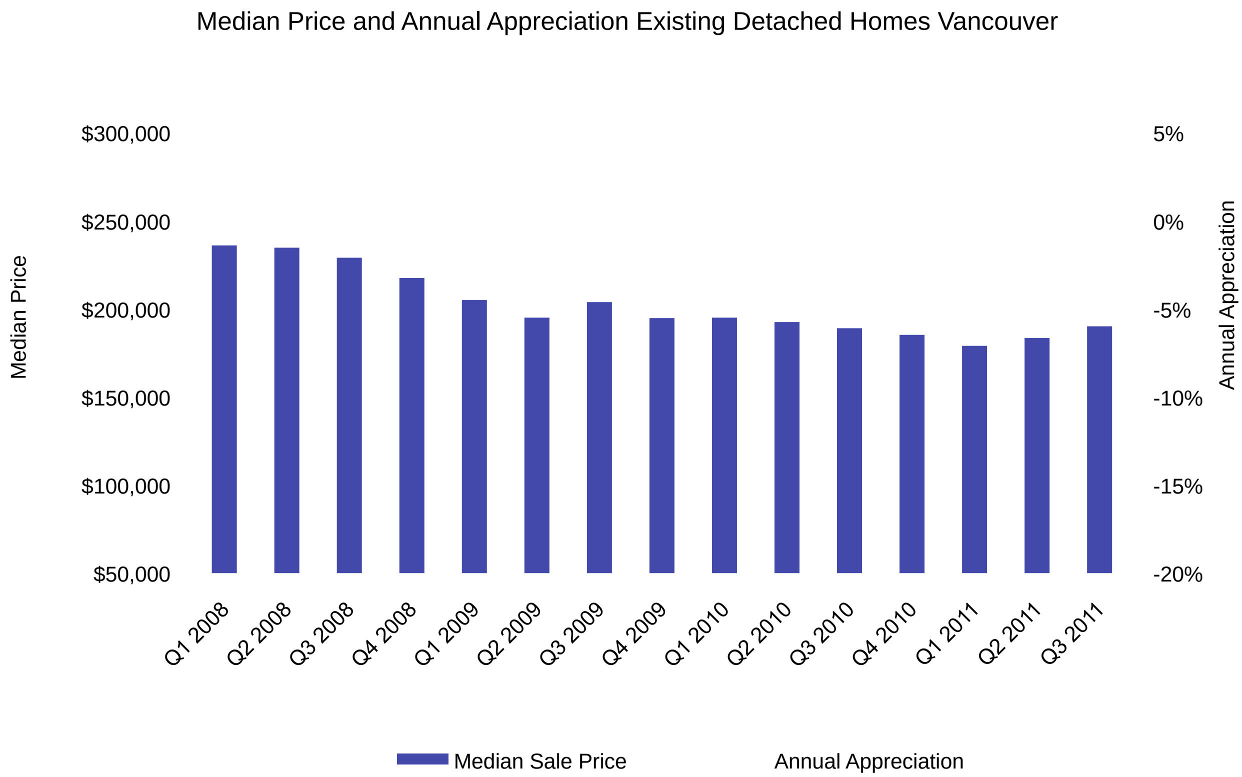


Figure 1: Average Days on Market and Number of Transactions Existing Detached Homes, Vancouver

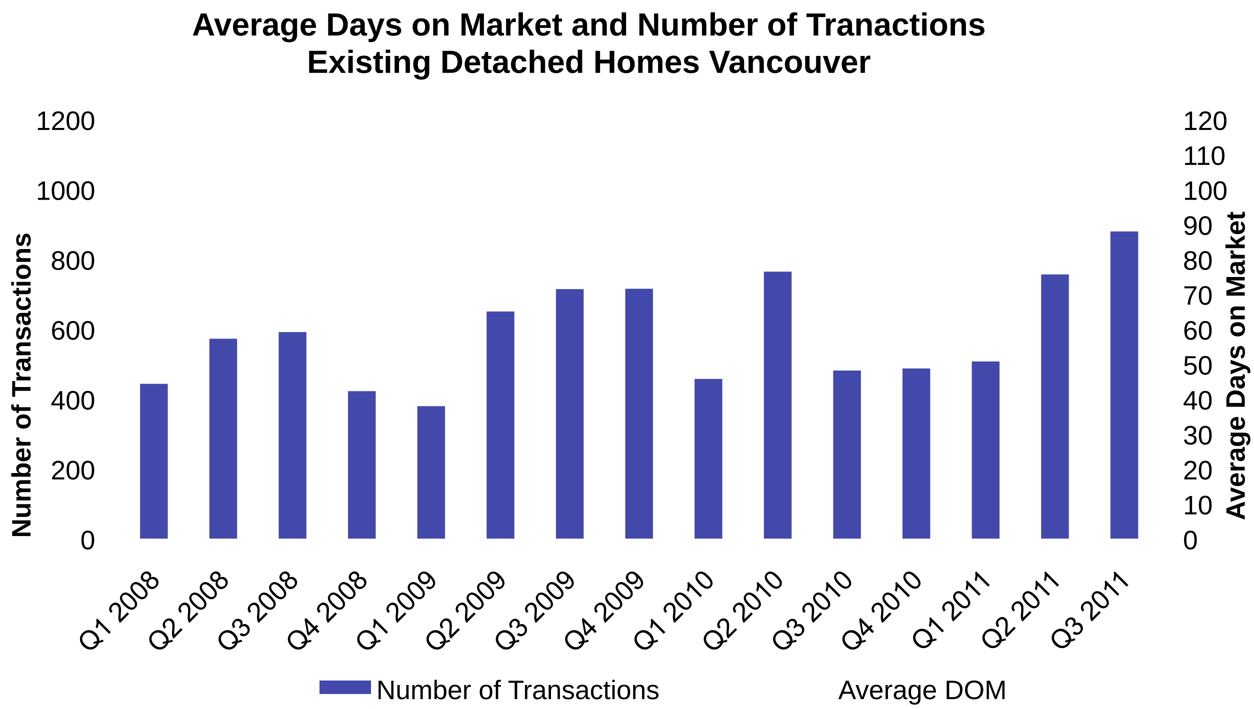
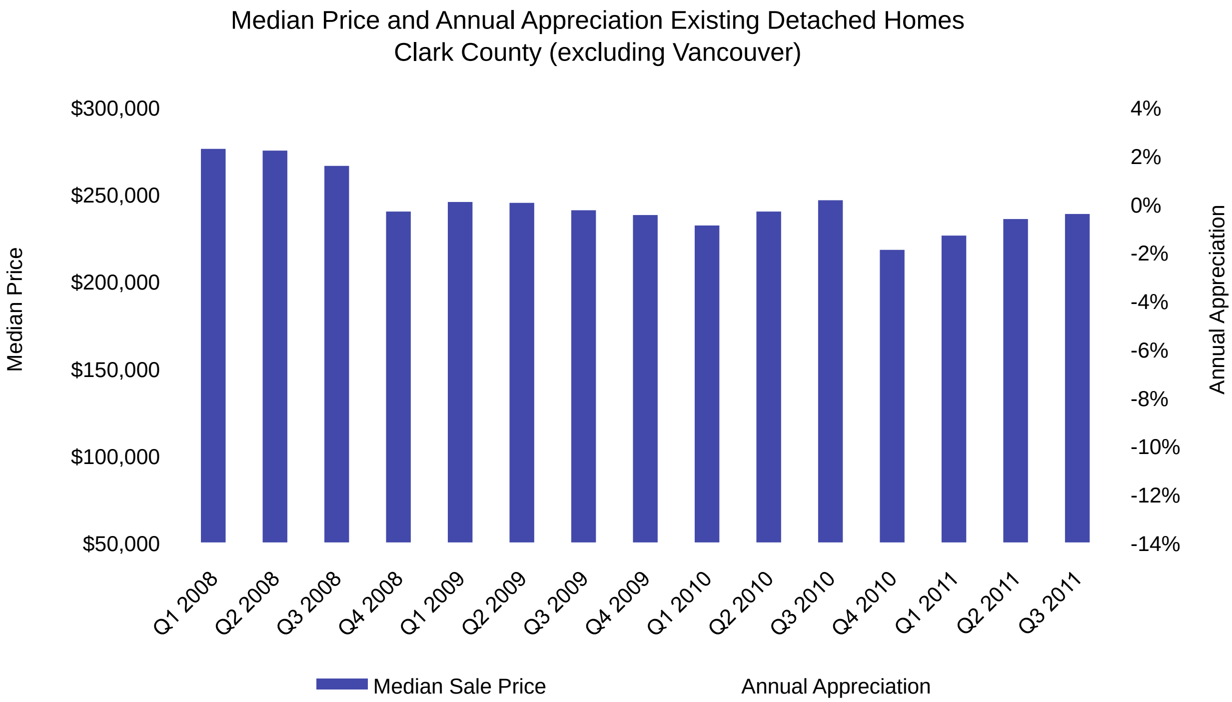


Figure 12: Median Price and Annual Appreciation Existing Detached Homes, Clark County (excluding Vancouver)



In the suburban areas of Clark County there were 699 transactions during the third quarter of 2011, compared with 586 transactions during the second quarter, a 19.2% increase. The average days on the market was 97, compared to 101 in third quarter of 2010. The median sold price was $238,613, a 1.24% increase from the previous quarter. The median price decreased by 3.2% over the year from $246,500. The submarkets that increased the most since the second quarter were NW E of I-5 County at 27.1% and Woodland Area at 11.2%.

The number of transactions increased in 13 of the 18 submarkets with the largest numerical increases occurring in Woodland Area, Yacolt, and west of I-5. The average number of day on the market decreased from 100 in the second quarter to 97, demonstrating the growing strength of this market.

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

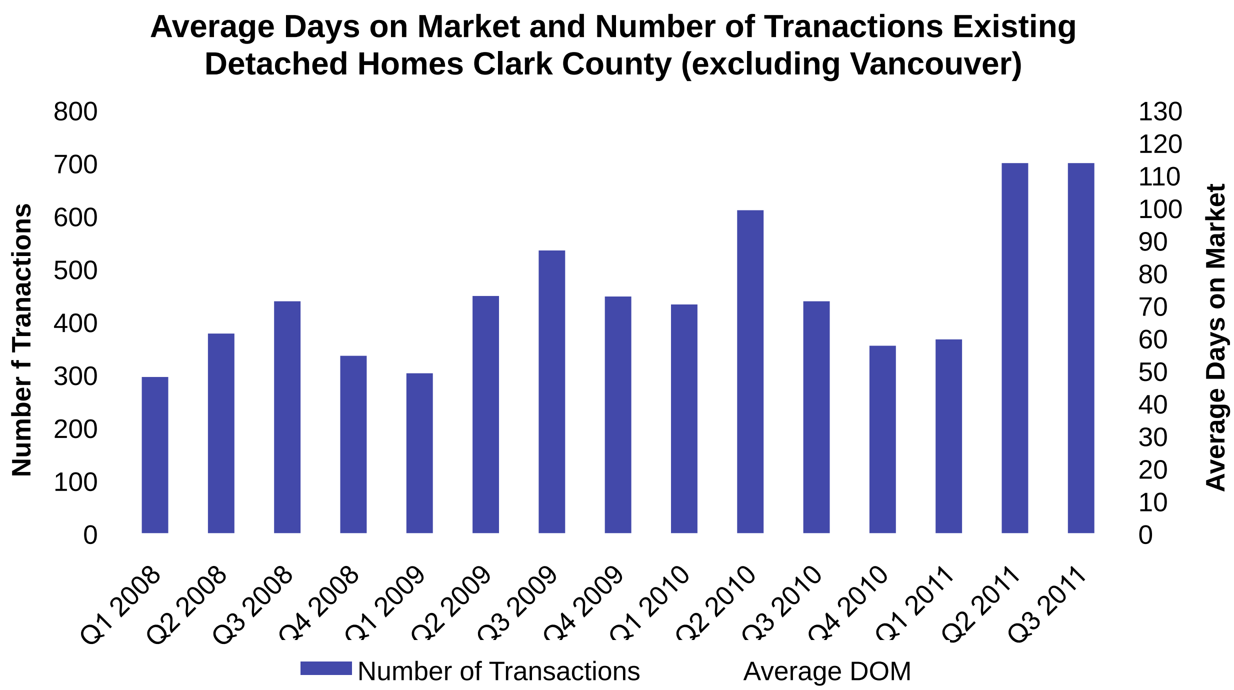
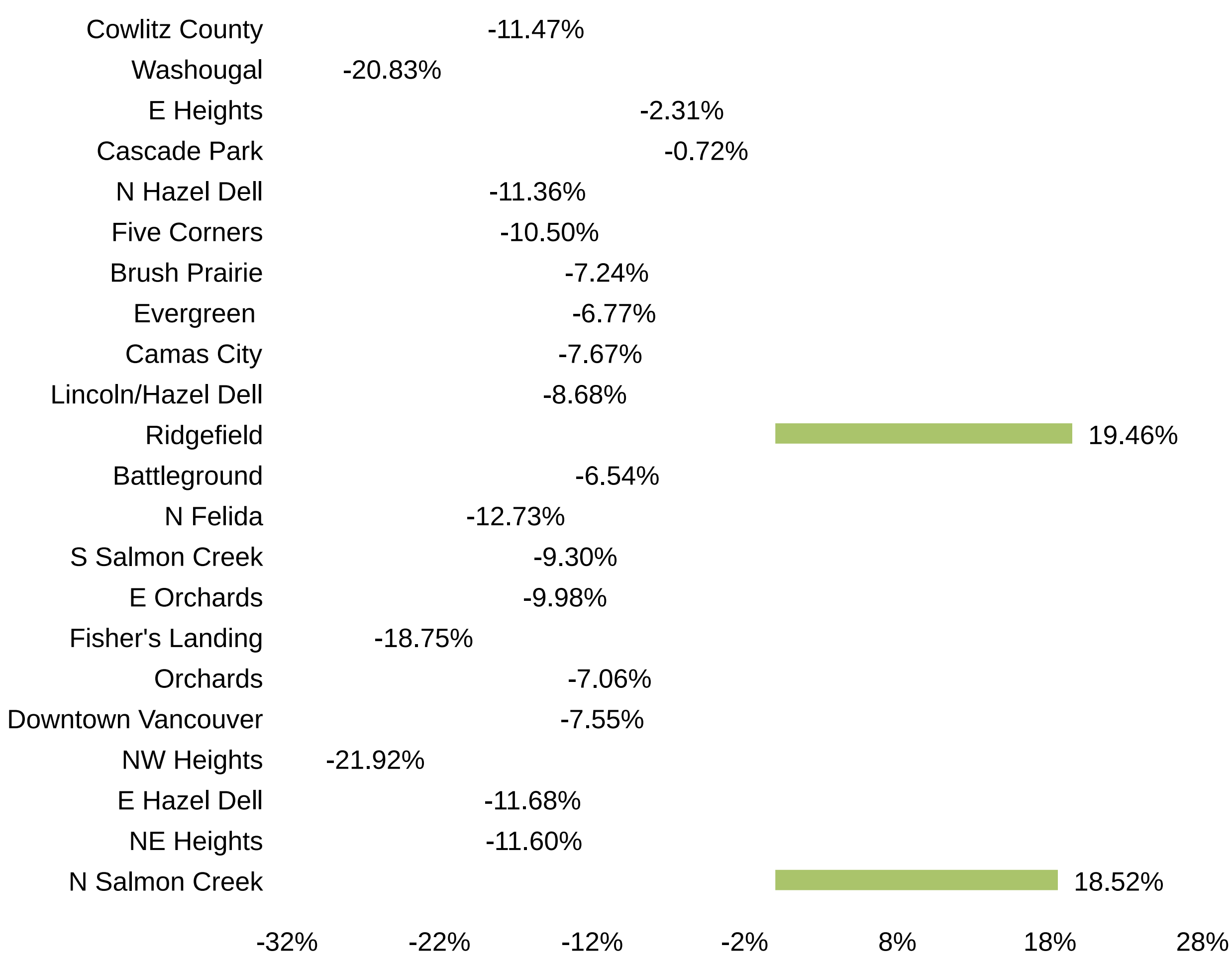


Figure 14: Appreciation Rates of Existing Detached Homes, Vancouver and Clark County Sub Market from Q3 2010 to Q3 2011



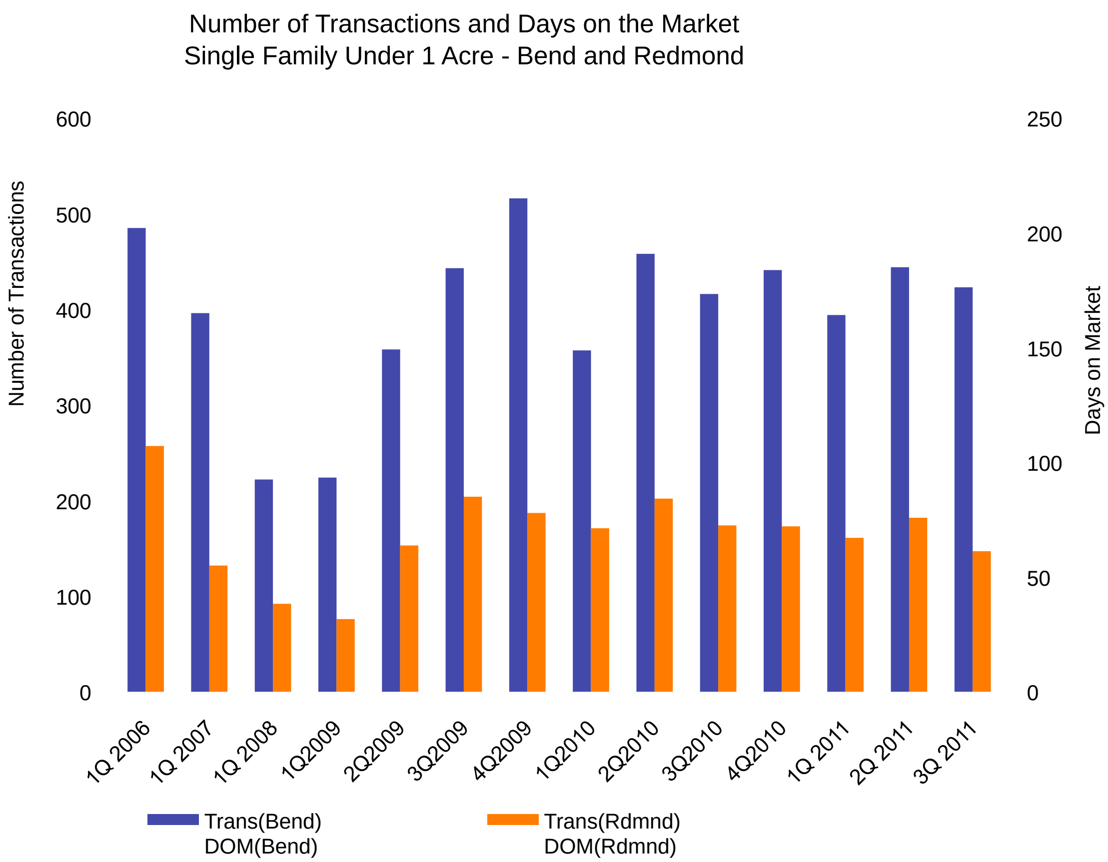
Two submarkets increased over the past year, Ridgefield and N Salmon Creek. The Ridgefield submarket posted the highest gains with an appreciation rate of 19.46 percent and 18.52 percent from N Salmon Creek.

Conversely twenty submarkets had price depreciation. The Fisher's Landing submarket had the highest quarterly depreciation rate at 18.75 percent (195 transactions) followed by NW Heights submarket at 21.92 percent (129 transactions) and Washougal at 20.83 percent (248 transactions).

CENTRAL OREGON

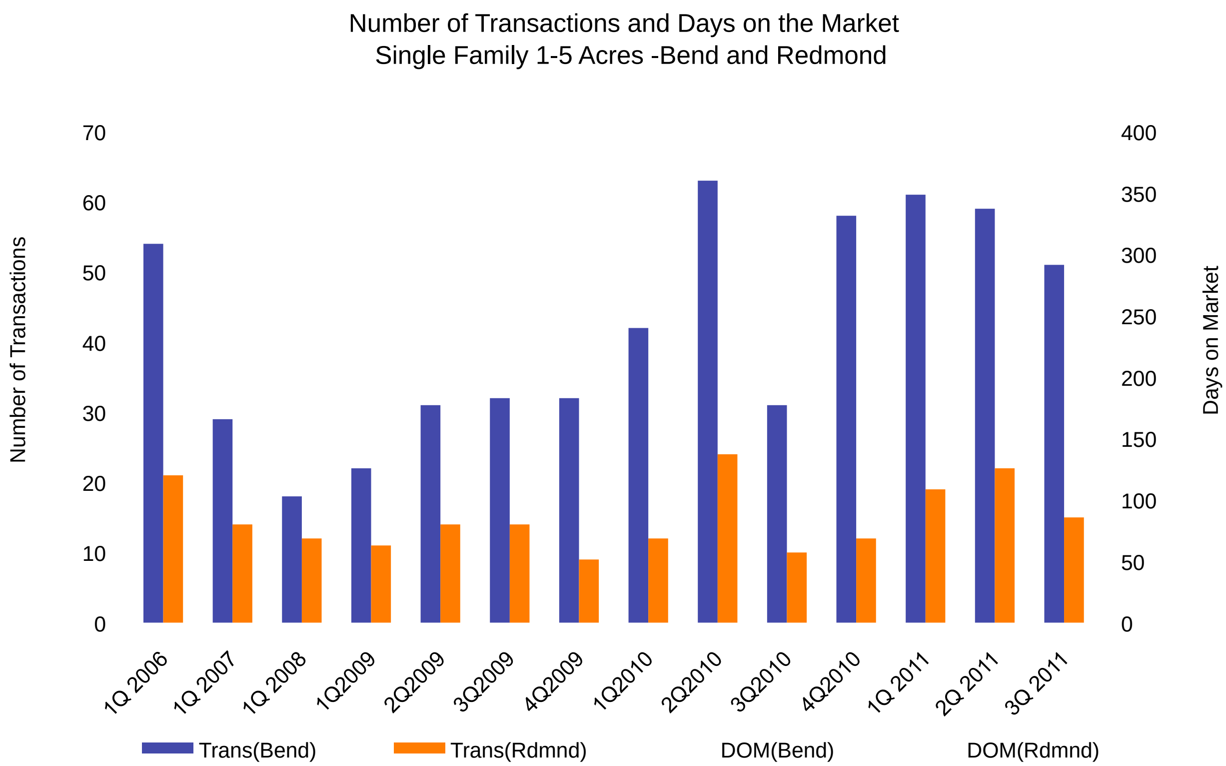
Both Bend and Redmond increased in median price, but Redmond had 19.2% fewer transactions and 15.6% longer days on the market. The Redmond market continues to be particularly soft in the 1-5 acre market. The two markets decreased from the previous quarter with respect to the number of homes sold less than one acres. Bend home sales less than one acre decreased 4.7 percent to 423 and Redmond's decreased 19.2 percent to 147 in the third quarter. Sales volume for homes on 1-5 acres also decreased 31.8 percent from 22 to 15 in Redmond and decreased 13.6 percent to 51 transactions in Bend. For homes on less than one acre, the average number of days on market decreased from 144 (in the second quarter 2011) to 124 (in the third quarter 2011) in Bend and increased 15.6% from 147 to 170 in Redmond. In reports from Central Oregon, 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 differences in lot size between each category.

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 increased during the third quarter of 2011 for the second straight quarter, while the Redmond market increased slightly. The Bend market increased 3.4% to $205,000, and Redmond increased 11.9% to $120,000 from the previous quarter for homes less than one acre. Sales on homes 1-5 acres produced the opposite trends in the market. Bend decreased 10.4% to $268,000, while the Redmond market decreased 4.3% to $199,900. Over the past year the Bend market has increased 4.0% while the Redmond market decreased 3.1% for home sales under an acre. For sales 1-5 acres, Bend increased 15.1% while Redmond has decreased 26.6% since third quarter of 2010.

Price-per-square-foot numbers in Bend increased from the second quarter to the third quarter from $108/sq.ft to $113/sq.ft for homes under one acre and from $149/sq.ft to $123/sq.ft for homes with 1-5 acres. In Redmond, homes under one acre was decreased from $68/sq. ft to $74/sq.ft, while the price per square foot of 1-5 acre homes decreased slightly from $123/sq.ft to $109/sq.ft.

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

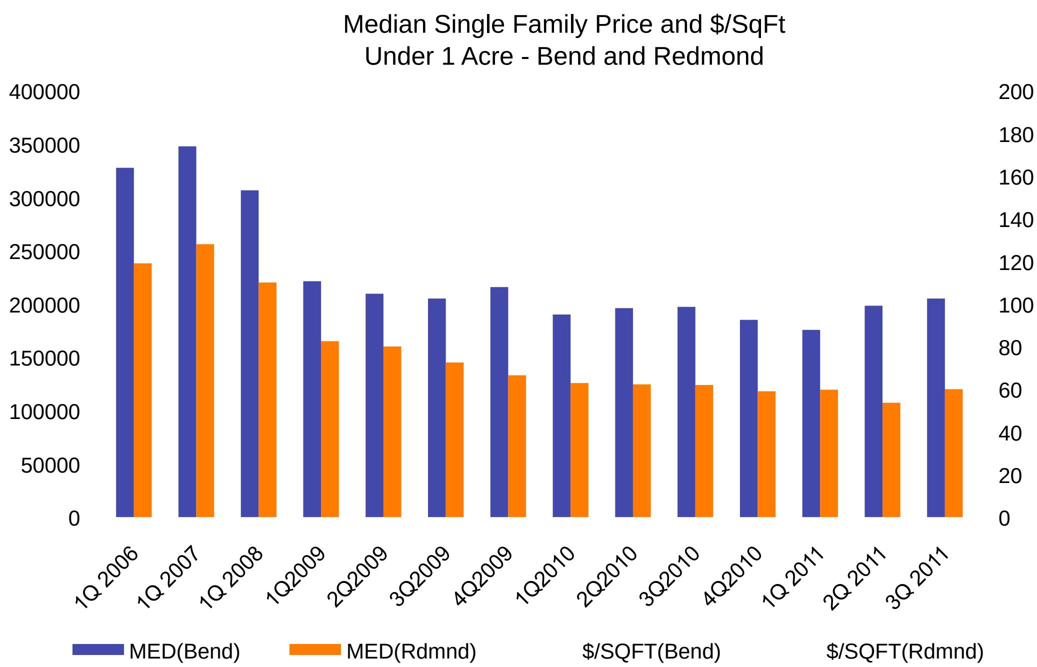
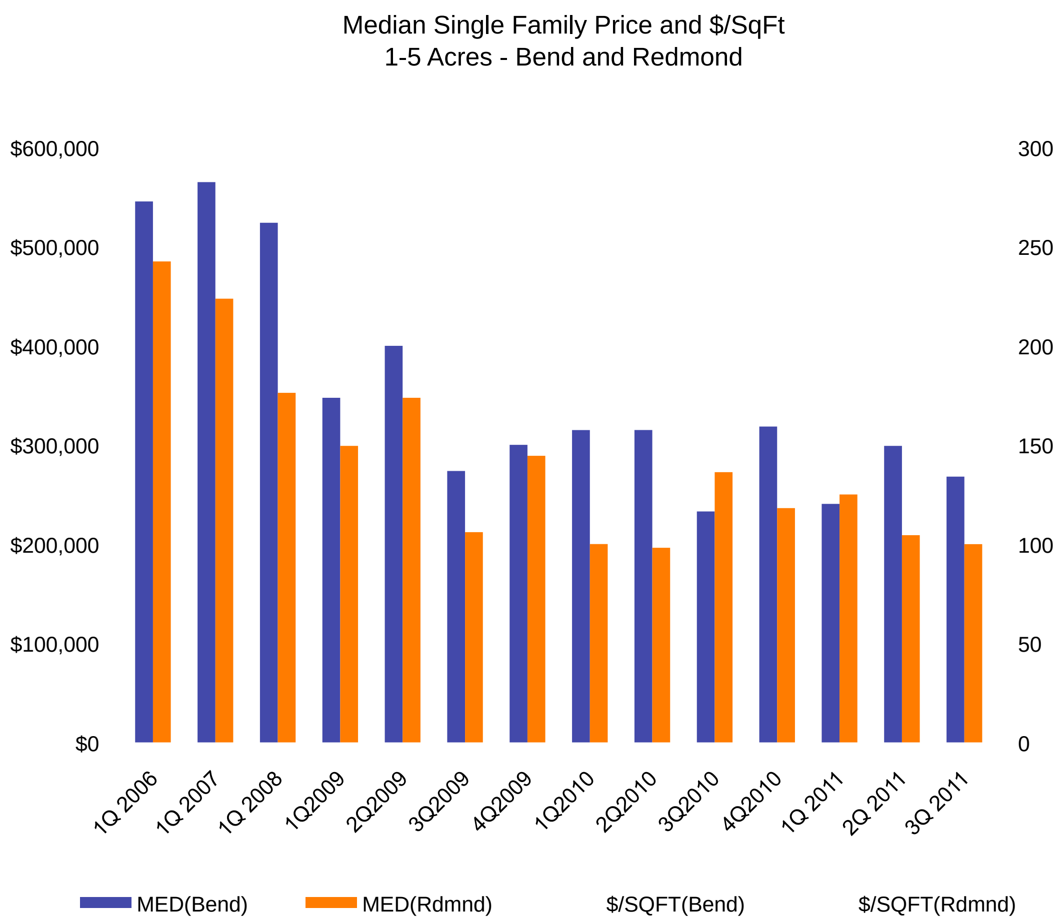


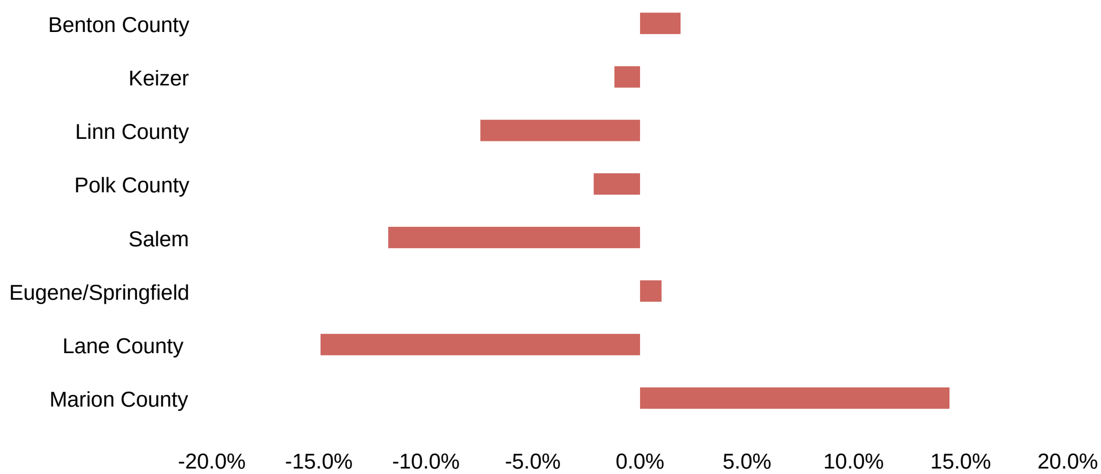
Figure 18: Median Single Family Price and $/SqFt, 1-5 Acres, Bend and Redmond



WILLAMETTE VALLEY

Prices in Marion County increased 14.5% since the third quarter of 2010 to a median sold price of $163,100. Benton County and Eugene / Springfield also saw year over year increases. Lane County decreased 14.9% over the past year to a median price of $171,000.

Figure 19: Annual Appreciation Rates of Existing Detached Homes, Willamette Valley from Q3 2010 to Q3 2011

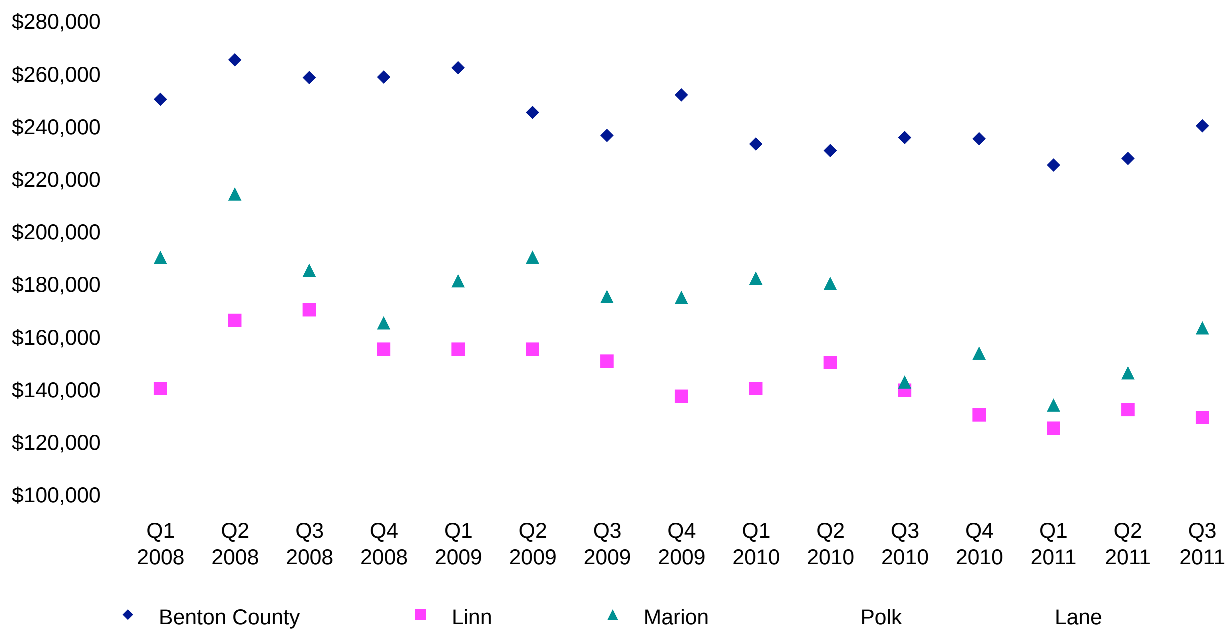


Source: Willamette Valley RMLS

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%. The number of transactions in Marion County increased from 134 to 141.

The number of days on the market decreased annually for all submarkets, except for Lane County which increased by 13.9% to 115 days. The largest change in number of days on the market on a percentage basis was the Benton County submarket which decreased 27.6% from 119 in third quarter 2010 to 86 in third quarter 2011.

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



SALEM

Salem's housing market experienced annual depreciation of 11.7% year over year in the third quarter while the number of days on the market decreased. The median sale price increased slightly while the number of transactions increased from the second quarter of 2011. The number of transactions increased from the previous year from 339 to 415, and increased from the second quarter of 2011 from 394. The average number of days on market decreased from 119 in the second quarter to 105 in the third quarter of 2011.

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

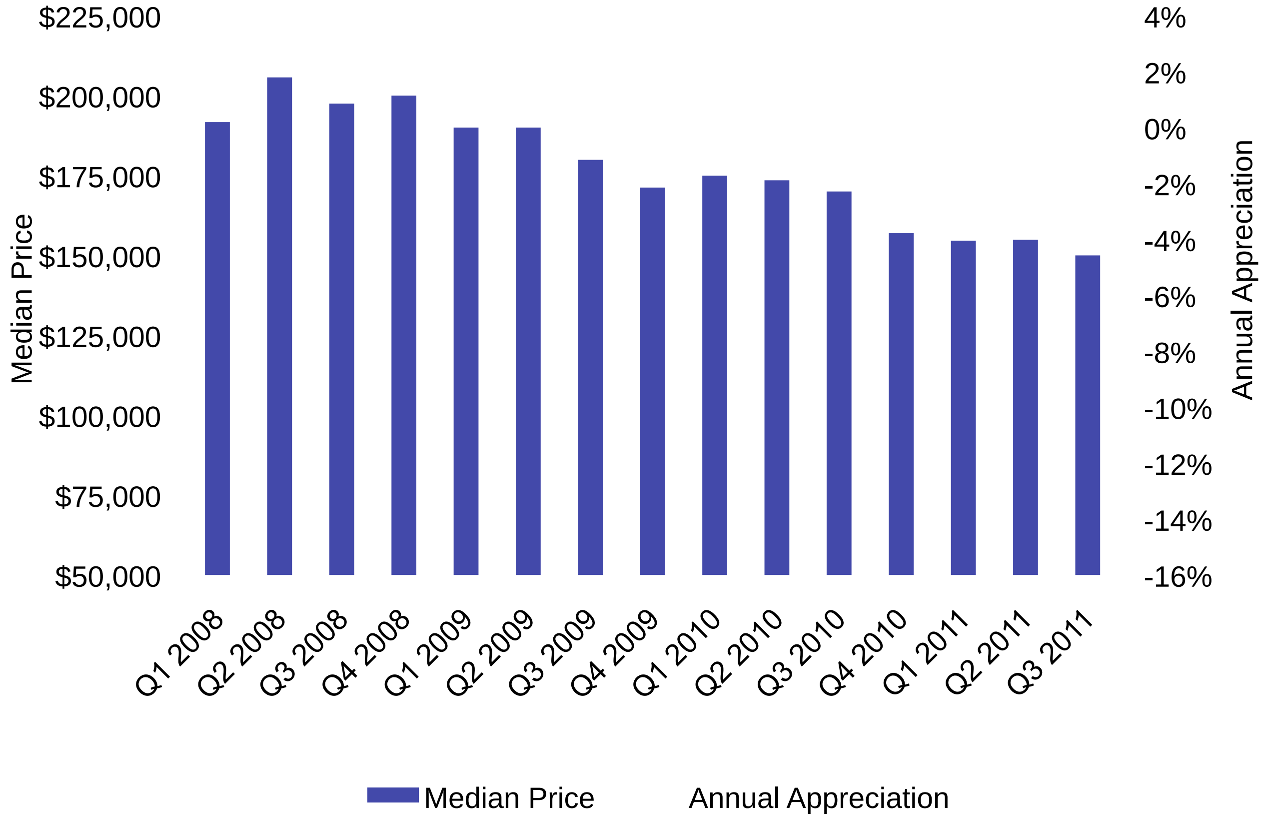
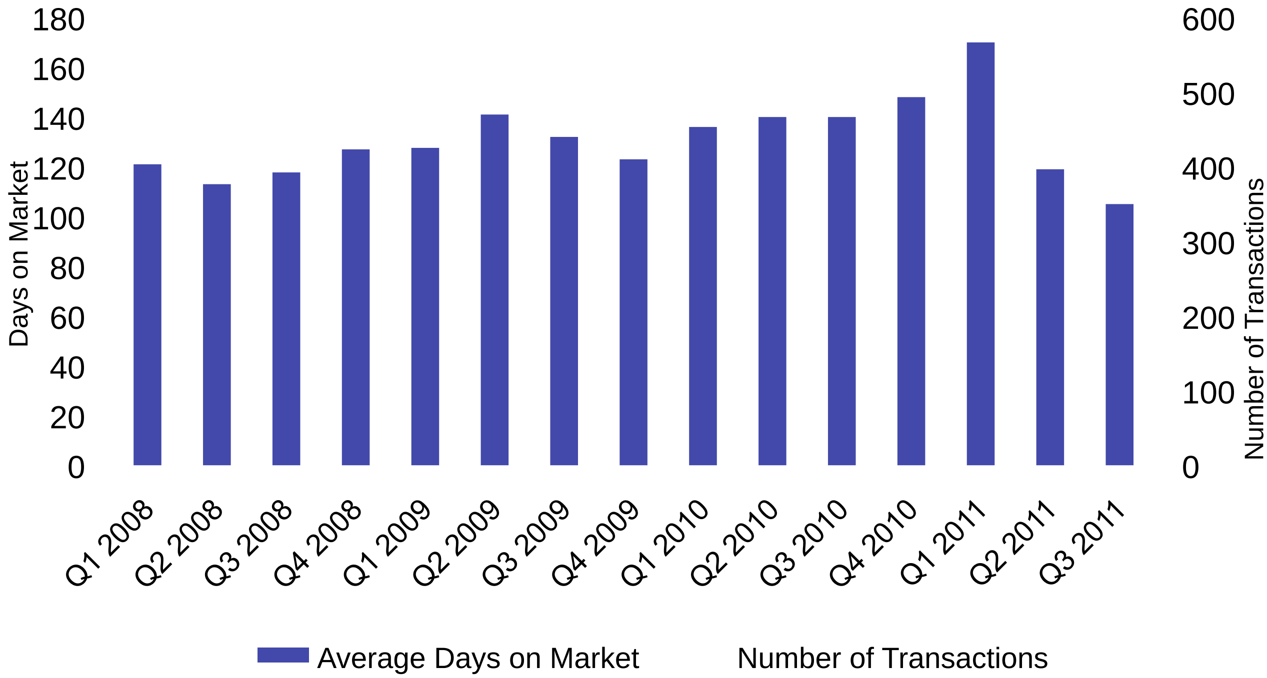


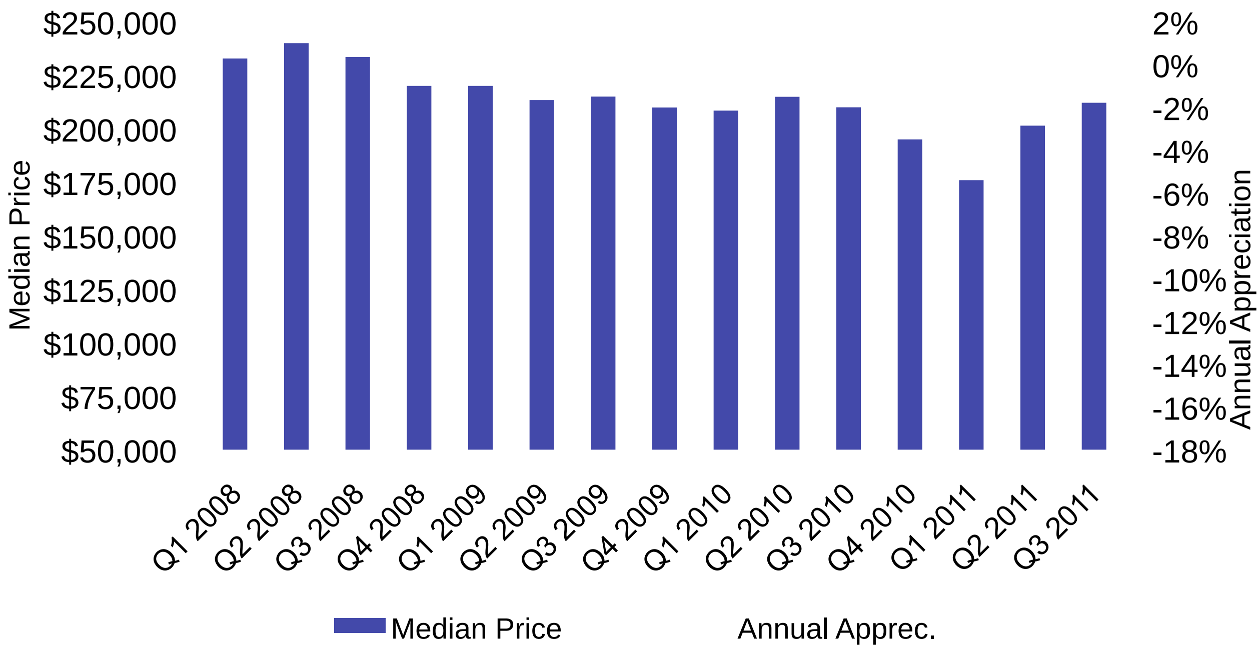
Figure 22: Average Days on Market and Number of Transactions, Existing Homes, Salem



EUGENE/SPRINGFIELD

Home prices in the Eugene/Springfield area increased 5.0% from the second quarter of 2011 to $212,111. Annual appreciation increased 1% since the third quarter of 2010.

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



Source: Willamette Valley RMLS

MULTIFAMILY MARKET ANALYSIS

EVAN ABRAMOWITZ

Joseph Bernard Investment Real Estate
Oregon Association of Realtors Student Fellow
& Masters of Real Estate Development Graduate Student

The multifamily market in Portland is improving with rents increasing in all local submarkets. According to the October 2011 Metro Multifamily Housing Association report, the Portland area currently has a 3.34% vacancy rate, which is among the lowest vacancy rates in the US. Demand is strongly fueled by new residences in the 20-34 year old demographic and fewer buyers drawn to the single-family market.

New apartment construction is trending to approximately 1,500 units in 2011, which is more than 2010, but significantly lower than 4,000 units annually average over the past 15 years. According to MMHA, the majority of activity is in close-in, urban Portland. Developers have projects in the pipeline, but economic issues and the long development process may result in some projects being delayed or put on hold.

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. According to real estate research firm,

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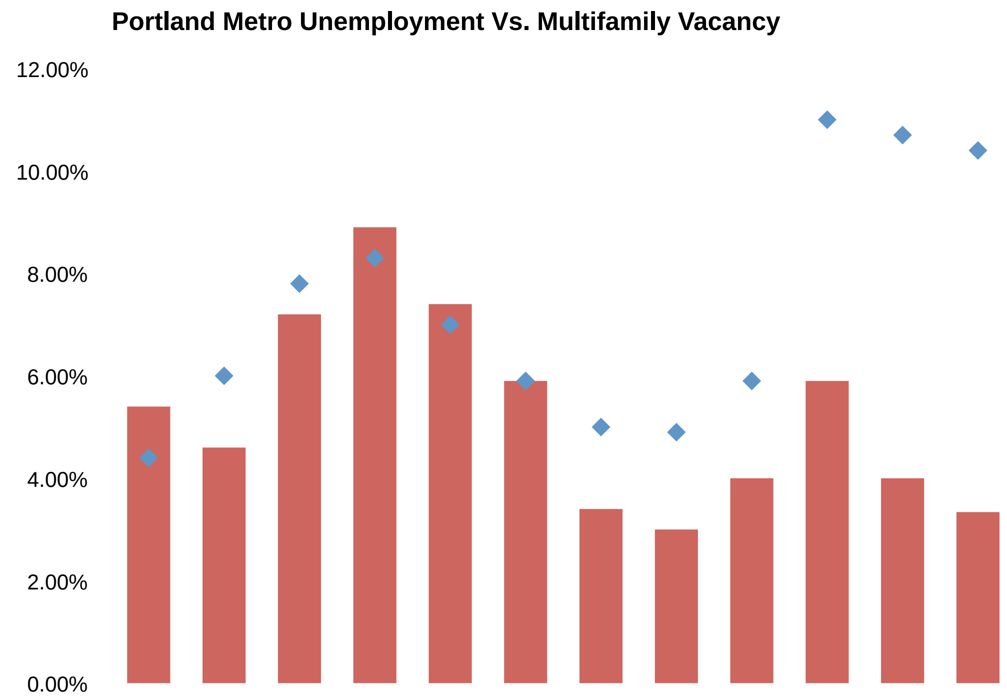
RealFacts, 38 of the 47 markets surveyed posted gains in rent, and 33 increased occupancy.

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. Despite a consistently high unemployment rate, Portland's relative lack of supply and high demand for rentals has contributed to a decreasing vacancy rate. In 2009 the vacancy rate was 5.9% and the unemployment rate was 11% and the current vacancy rate is 3.34% and the unemployment rate was 10.4% at the end of September.

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%	3.34%
Unemployment	4.40%	6.00%	7.80%	8.30%	7.00%	5.90%	5.00%	4.90%	5.90%	11.00%	10.70%	10.40%

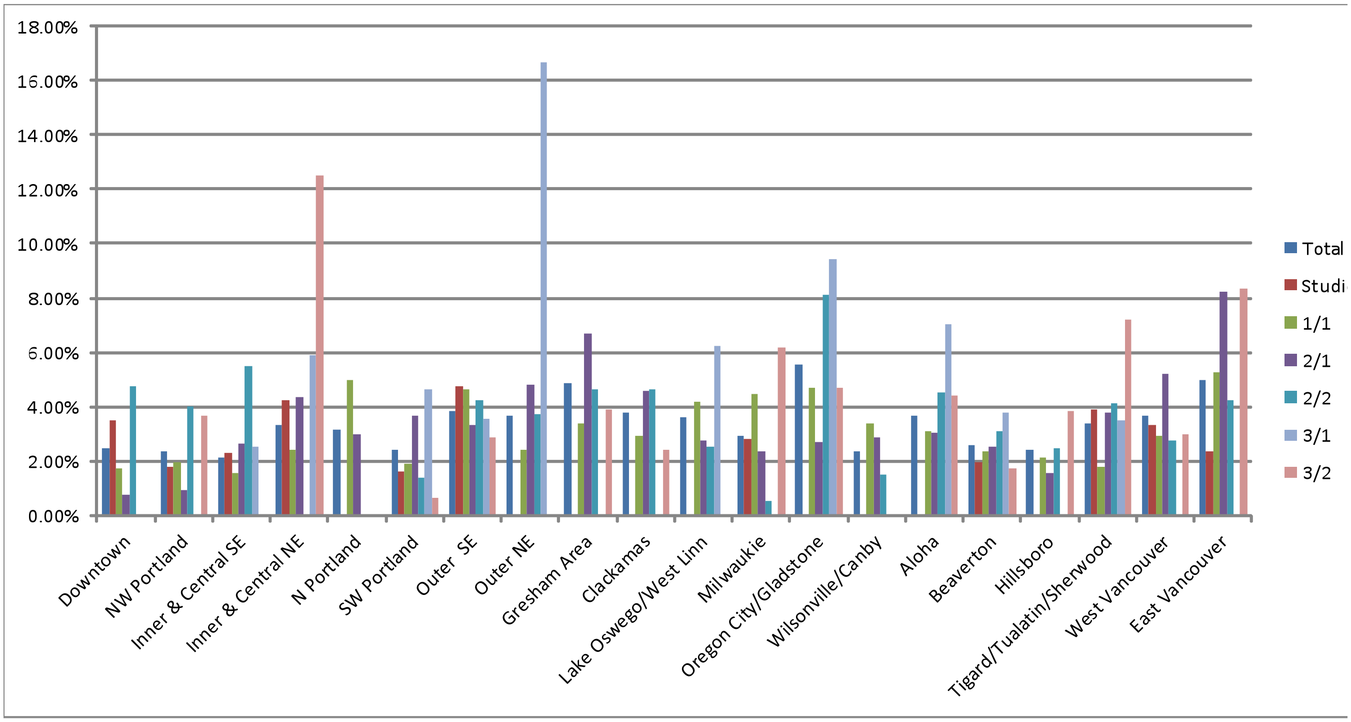
Vacancy Unemployment

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. MPF Research reported that effective rents for new leases increased 5.3% from third quarter 2010 rates in Portland. Rent growth slowed from 1.2% the second quarter of 2011 to 0.3% this quarter. According to MPF, owners are easing back on rent growth, and their analysis indicated that the market fundamentals are strong and rent growth is projected to increase at a higher rate in 2012. Nationally, rent growth also slowed in August to 0.34% the lowest rate since December 2010.

"We're still showing a very strong apartment market," says Jay Denton, vice president of research at Axiometrics. "We're about to start seeing a normal seasonal pattern of growth rates slowing in the third quarter. We haven't seen a big hit on the industry."

The market conditions have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. In the third quarter of 2011 Portland had an average vacancy rate of 3.34%. The highest overall vacancy submarket was 5.52% in Oregon City / Gladstone and the lowest was Inner SE at 2.11%. The highest vacancy rate among studios was Outer Southeast at 4.76%%, while five submarkets (Outer NE, Clackamas, Lake Oswego / West Linn, Aloha, and Hillsboro) reported 0% vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was East Vancouver at 5.28%, while the lowest was Inner SE with 1.57%. For 2 BD, 1 BA the highest vacancy was East Vancouver at 8.25% and the lowest was downtown Portland at 0.76%. Eight submarkets reported 0% vacancy for 3 BD, 1 BA, while the highest vacancy was in Outer NE at 16.67%. Five submarkets (Inner SE, N Portland, Outer NE, Lake Oswego / West Linn, and Wilsonville / Canby, reported 0% vacancy for 3 BD, 2 BA, while the highest vacancy was in Inner NE at 12.5%.

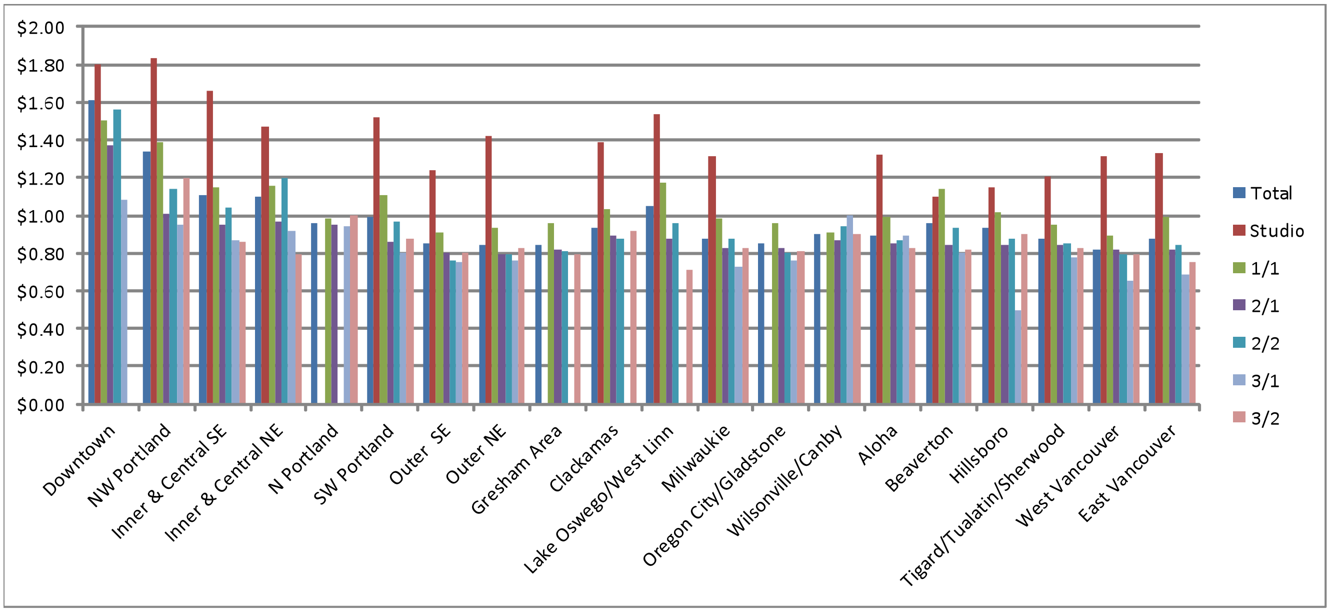
Figure 2: Vacancy Rates by Submarket October 2011 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a $1.61 average, followed by NW Portland at $1.34. The lowest overall rent/SF is West Vancouver at $0.81, followed by Outer Northeast and West Vancouver at $0.82. The highest rent/SF for studios was NW Portland at $1.83 and the lowest was Beaverton at $1.10. The highest rent/SF for 1 BD, 1 BA was downtown at $1.50 and the lowest was West Vancouver at $0.89. The highest rent/SF for 2 BD, 1 BA was downtown at $1.37 and the lowest was $0.79 in Outer Northeast.

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



Source: MMHA

In this high demand market, investors seem to be seeking quality, well-located properties. Apartments are viewed as a relatively safe investment to gain a higher return than bonds, or conventional Treasuries. Several 100+ unit, Class A, institutional quality properties traded in the third quarter of 2011. These major sales transactions included Town Center Village in Portland ($37 million), The Cove at Fisher's Landing ($27 million) in Vancouver, and Sunstone Parc ($14 million) in Beaverton.

Figure 4: Major Sales Transactions, 3rd Quarter, 2011, Portland Metropolitan Area

Q3 2011 Major Sale Transactions					
Building	**Buyer**	**Price**	**Units**	**Price/Unit**	**Submarkets**
Town Center Village	Kevin Maddron	$ 37,956,854	363	$ 95,724	Hillsboro
The Cove at Fisher's Landing	29th Street Cove LLC	$ 27,500,000	253	$ 149,707	Vancouver
Sunstone Parc	Steve Mozinkski	$ 14,700,000	158	$ 93,037	Beaverton

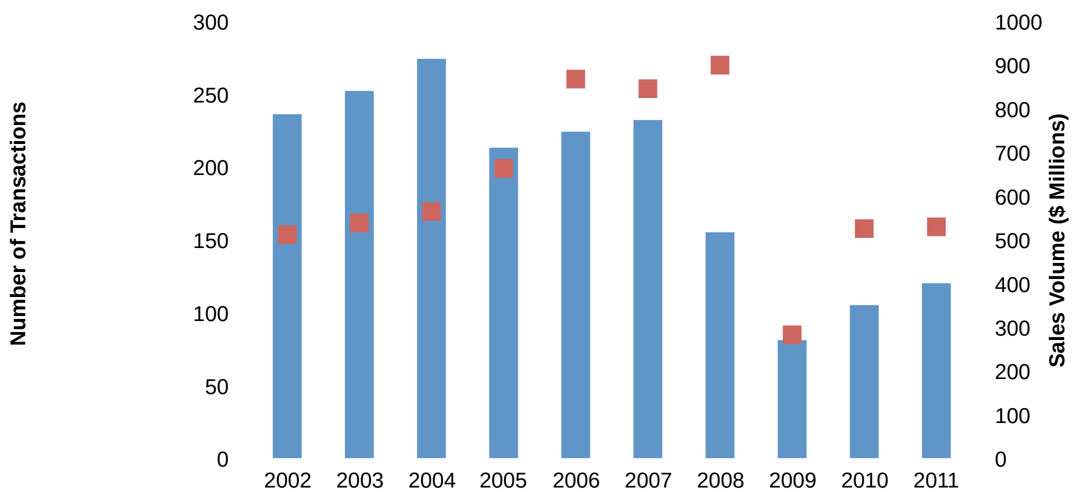
Source: Costar

There were 44 multifamily transactions completed in the third quarter, up from 33 in the second quarter. There were 1,797 units transacted in the third quarter, a decrease compared to 2,255 units in the second quarter. The third quarter produced

$136 million in sales volume, due to fewer large institutional assets trading which resulted in $516 million in second quarter.

The number of transactions and sales volume has rebounded nicely since 2009. Based on the numbers through September, the year 2011 has already surpassed 2010 in number of transactions. 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 75% 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, October 2011 Year to Date



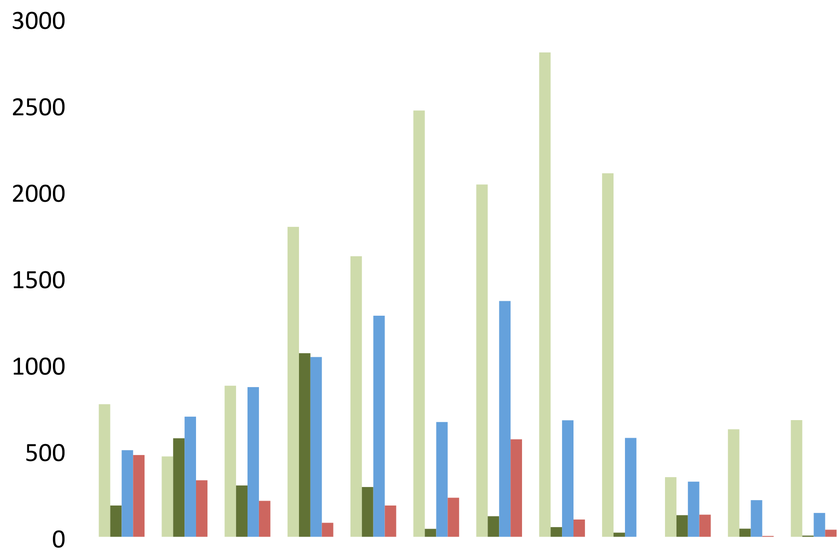
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Transactions	236	252	274	213	224	232	155	81	105	120
Sales Volume	511	538	564	663	867	845	899	282	525	529

Source: The Barry Apartment Report

Through the first eight 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 the City of Portland and Washington County year to date. For the 2011 year to date, total building permits for 675 units 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 multifamily permits for 138 units issued, with 106 units spread over 7 projects in Hillsboro. Clackamas County has 41 units issued so far this year, a significant increase from 2010 when only 5 units were permitted.

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	675
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	7
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	138
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. Many investors are projecting 3-6% annual income growth over the next several years due to the market conditions of supply and demand. Buyers are active in the Portland metro market looking to capitalize on historically low interest rates and rent growth in the market.

OFFICE MARKET ANALYSIS:

DAVID WEST

RMLS Fellow

Mixed indicators mark the office market in the third quarter. While fears of a double-dip recession remain, local signs suggest that Portland is in a position of relative stability with low but steady levels of activity in both leasing and new delivery for three consecutive quarters. The metropolitan unemployment rate continues its 9 consecutive quarters of improvement, dropping over 200 basis points during that time to 9.1 percent, seasonally adjusted.

The Bureau of Economic Analysis's national GDP numbers for the third quarter showed the fastest growth in more than a year, hitting a 2.5 percent annual growth rate, up from an estimated 1.3 percent in the first quarter. Alongside these encouraging signs, public debt crises domestically and in Europe, high energy prices, and a thirty year low in consumer confidence loom over the national economy. This mixed picture was highlighted with the Commerce Department's recent report which showed surprisingly strong consumer spending numbers outpacing growth in incomes. While consumer spending growth is typically seen as encouraging news, consumers are spending at a rate which suggests a drop in savings, a sign that rates of spending may be unsustainable. The University of Oregon's Index of Economic Indicators, which examines state employment, permits, and consumer confidence,

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has been sinking since February, and is now suggesting an increased, though low, risk of an Oregon recession for the first time since 2009.

In the Portland office market, all brokerages reports showed healthy drops in vacancy, with a median drop of 30 basis points. Grubb & Ellis dropped their market wide vacancy numbers 30 basis points to 14.1 percent in the third quarter, with a return to positive net absorption at a strong 230,000 square feet. Cushman & Wakefield showed the most significant drop in overall vacancy, dropping 90 basis points to 12.4 percent.

As has become the trend, vacancy numbers are bolstered by a lack of new delivery across most submarkets. The one exception to this was the Central City submarket, which saw the completed Overton Building in the Pearl District, pre-leased at 65 percent of its 61,000 square feet to the General Services Administration. The new office project at NW Overton & 14th will hold the Portland field office of the U.S. Citizenship and Immigration Services, and has been built to meet specification for LEED Gold certification. The field office's former location in the 511 NW Broadway is set to be donated to the Pacific Northwest College of Art. This new delivery drove downtown Class A vacancy rates up slightly, with Grubb & Ellis reporting a 30 basis point rise to 6.5%.

The downtown Class A market continues to outperform others, across reports. Due to the addition of the Overton Building and a small drop in suburban vacancy, the gap between metropolitan all classes vacancy and downtown class has narrowed, departing from a consistent trend that has continued for nearly 10 years in the Portland market. (See Figure 4) While this could be a short term trend, it is significant in being the first time the gap has narrowed since the beginning of 2009. 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 actually seen in Class B, which saw strong positive absorption across submarkets while other classes saw little movement.

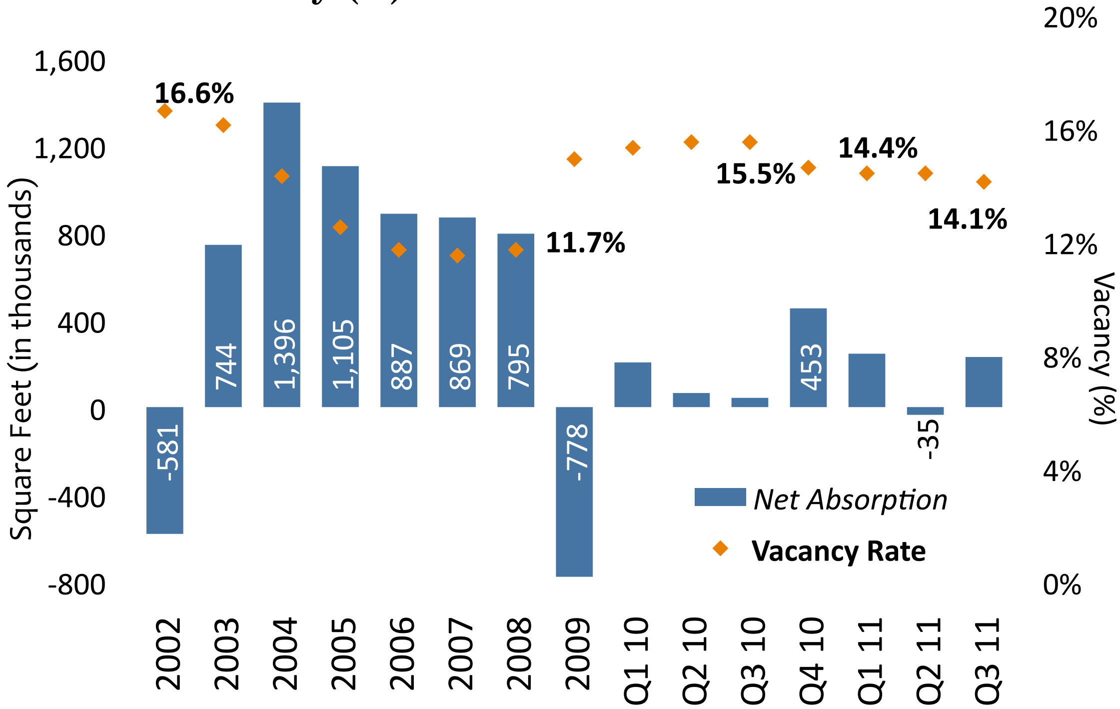
Suburban submarkets continue to face significant challenges, with a considerable supply of unoccupied space and few signs of commensurate demand in the near term. With minimal new delivery over the course of two years, and high pressure on the downtown market, suburban submarkets saw decreases in vacancy across the board, with the median vacancy across brokerages falling 50 basis points to 18.5 percent. This is a trend that is expected to continue so long as pressure remains high on downtown space.

Table 1: Office Market Vacancies and Asking Rents, Q3, 2011

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	14.9%	12.4%	14.1%	17.2%	14.5%
Previous Quarter	15.1%	13.3%	14.4%	18.1%	14.8%
Third Quarter 2010	-	-	15.3%	18.0%	16.7%
Third Quarter 2009	12.8%	13.5%	12.6%	14.7%	13.2%
CBD & Downtown Vacancy	9.7%	9.1%	9.3%	12.9%	9.5%
Previous Quarter	9.7%	9.6%	9.5%	12.8%	9.7%
Third Quarter 2010	10.3%	11.6%	10.7%	12.1%	11.2%
Third Quarter 2009	10.0%	11.7%	9.8%	11.1%	10.6%
CBD Class A Vacancy	-	-	6.5%	N/A	6.5%
Previous Quarter	-	-	6.2%	9.2%	7.7%
Third Quarter 2010	-	7.6%	8.7%	8.4%	8.4%
Third Quarter 2009	6.3%	9.0%	6.2%	6.7%	6.5%
CBD Class A Asking Rents	-	$24.44	$25.99	N/A	$25.22
Previous Quarter	-	$24.54	$25.47	N/A	$25.01
Third Quarter 2010	-	$26.69	$26.50	N/A	$26.60
Third Quarter 2009	N/A	$25.79	$25.86	N/A	$25.83
Suburban Vacancy	19.9%	15.6%	17.0%	23.2%	18.5%
Previous Quarter	20.5%	17.0%	17.4%	23.9%	19.0%
Third Quarter 2010	21.2%	20.5%	18.4%	24.1%	20.9%
Third Quarter 2009	20.3%	19.9%	17.4%	20.2%	20.1%
Suburban Class A Vacancy	N/A	-	19.8%	N/A	19.8%
Previous Quarter	N/A	-	21.2%	N/A	21.2%
Third Quarter 2010	N/A	-	20.1%	26.5%	23.3%
Third Quarter 2009	N/A	22.6%	20.6%	22.6%	22.6%
Suburb Class A Asking Rent	N/A	$22.95	$21.79	N/A	$22.37
Previous Quarter	N/A	$23.17	$22.22	N/A	$22.70
Third Quarter 2010	N/A	$23.15	$22.94	N/A	$23.05
Third Quarter 2009	N/A	$24.04	$23.84	N/A	$23.94

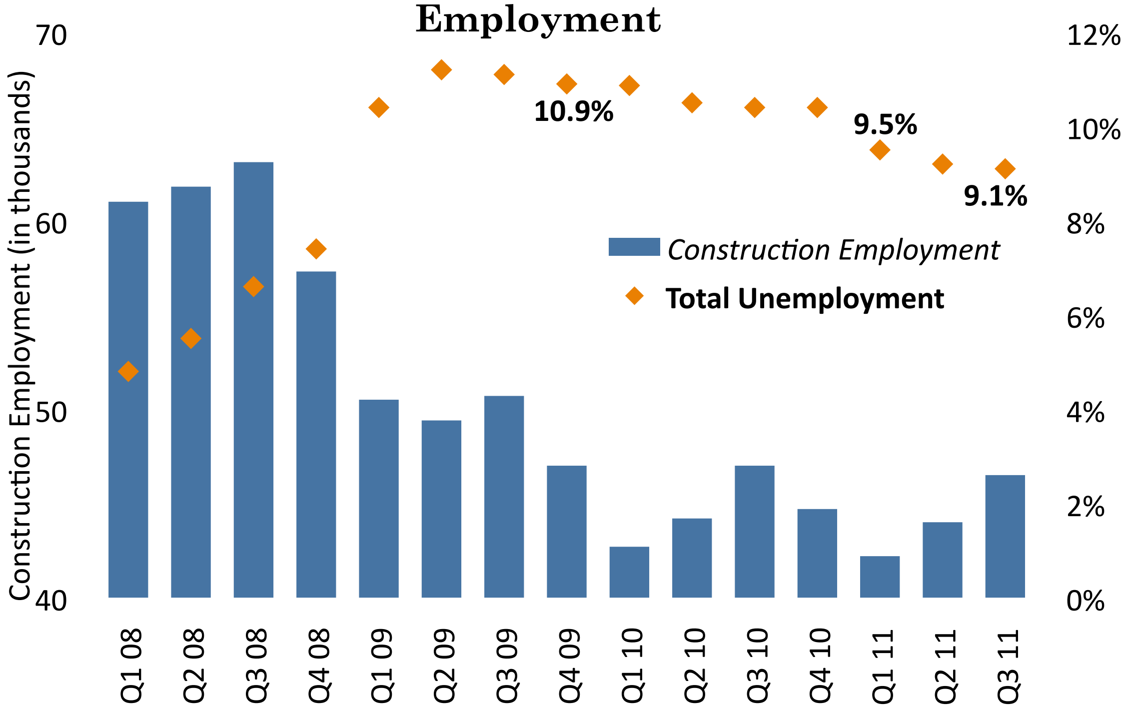
Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, and Norris Beggs & Simpson Quarterly Reports

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



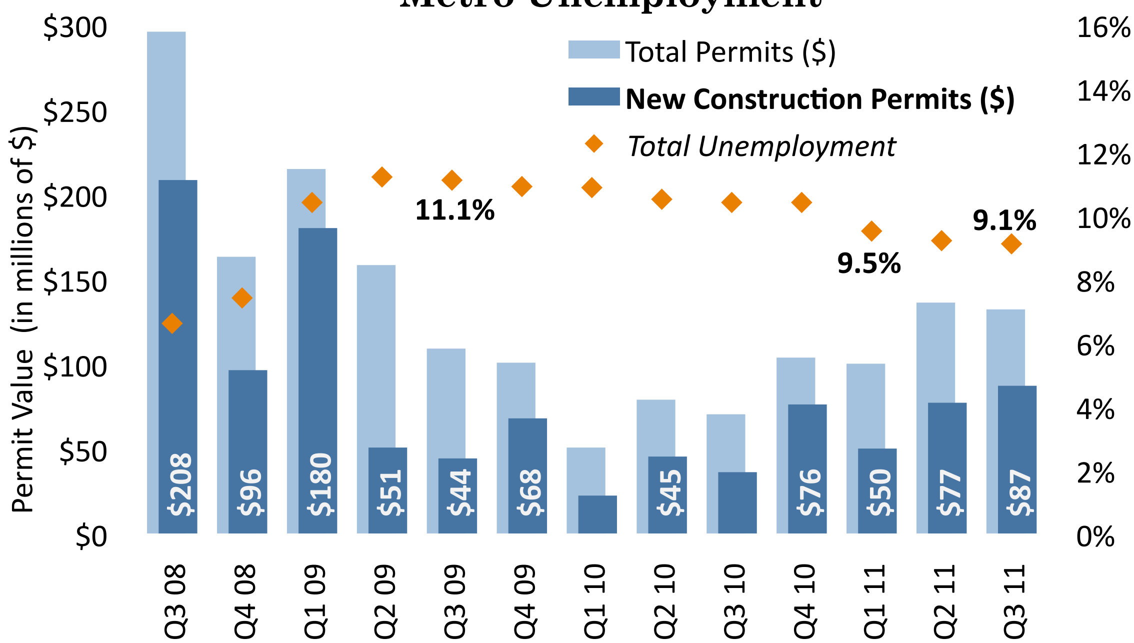
Source: Grubb & Ellis, Office Quarterly Reports

Figure 2: Unemployment & Construction Employment



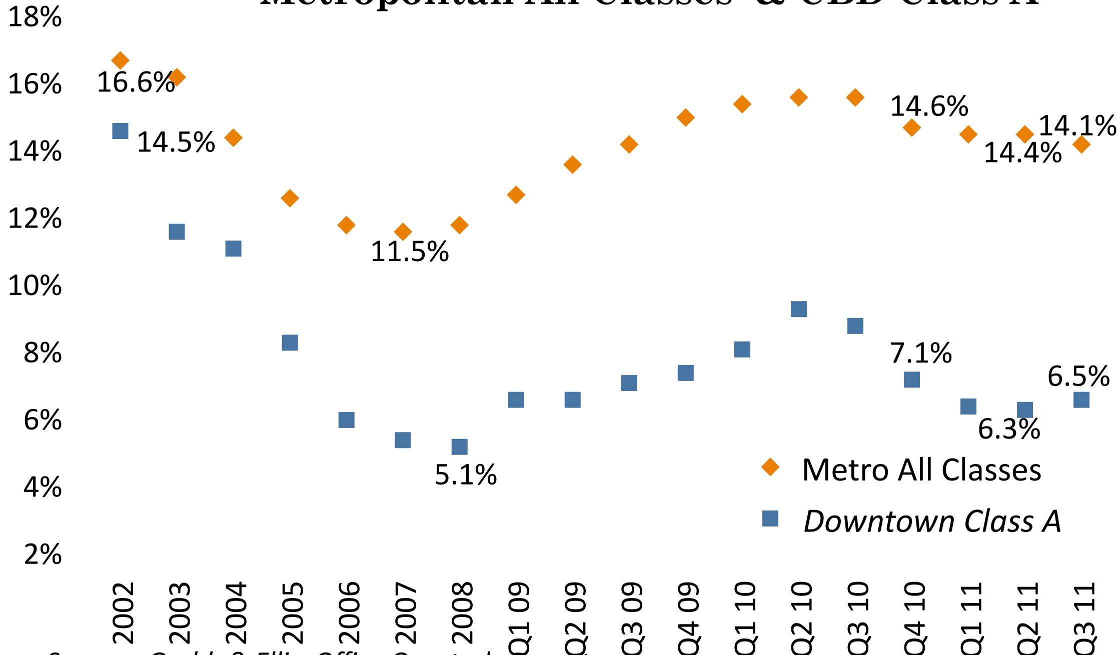
Source: Oregon Employment Department

Figure 3: Portland Construction Permits & Metro Unemployment



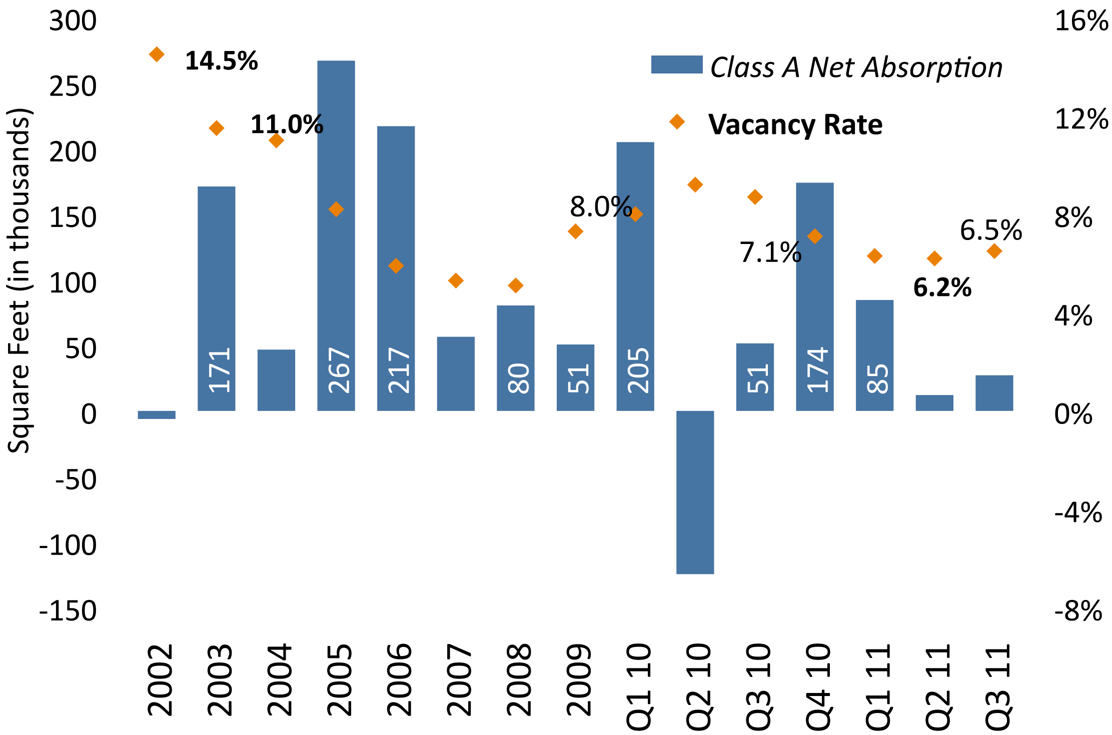
Source: Portland Development Services and Oregon Employment Department

Figure 4: Office Vacancy (%)
Metropolitan All Classes & CBD Class A



Source: Grubb & Ellis, Office Quarterly Reports

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



Source: Grubb & Ellis, Office Quarterly Reports

Creative and historic office spaces, often the result of industrial renovation, have seen high levels of demand. Characterized by large windows, exposed structures and high ceilings, these creative spaces are seen as more casual, collaborative environments. Industries most prevalent in these spaces are creative class firms in architecture, software development and consulting. Particularly in a time when Class A space is under pressure in the central business district with little new delivery, creative spaces have become a refuge for some firms. Grubb & Ellis report that some Class B creative spaces have been able to draw higher rents than older Class A space. Kidder Matthews points to PeaceHealth's third quarter lease in the Columbia Tech Center as a prime example of creative spaces that have been successful in a tough market. Grubb & Ellis suggests a strong pipeline of renovation projects focused around improving older creative spaces will play a larger role in new deliveries in the coming years as new construction represents greater exposure in a down economy. The "Broadway Commons" project, underway in the third quarter at 225 SW Broadway, is slated to bring new creative space to the market in 2012. The developers have seen strong demand for the space, with pre-leases representing 60 percent of the project in place.

Table 2: Total Vacancy for Select Suburban Submarkets

Submarket	Market Size (SqFt)	3Q 10 Vacancy	4Q 10 Vacancy	1Q 11 Vacancy	2Q 11 Vacancy	3Q 11 Vacancy
Wash. Square/Kruse Way	6,187,668	21.2%	19.7%	19.2%	20.7%	20.5%
Sunset Corridor	4,321,964	29.3%	25.5%	24.5%	24.6%	23.2%
SW/Beaverton/Slyvan	3,530,939	17.0%	17.0%	16.3%	16.1%	15.8%
Eastside	2,855,826	8.2%	8.6%	10.6%	9.0%	9.2%
Johns Landing/ Barber Blvd.	1,759,476	16.8%	17.7%	15.7%	14.2%	14.4%
Tualatin/Wilsonville	1,676,855	34.0%	32.0%	32.5%	33.1%	33.4%

Source: Grubb & Ellis, Quarterly Statistics Reports

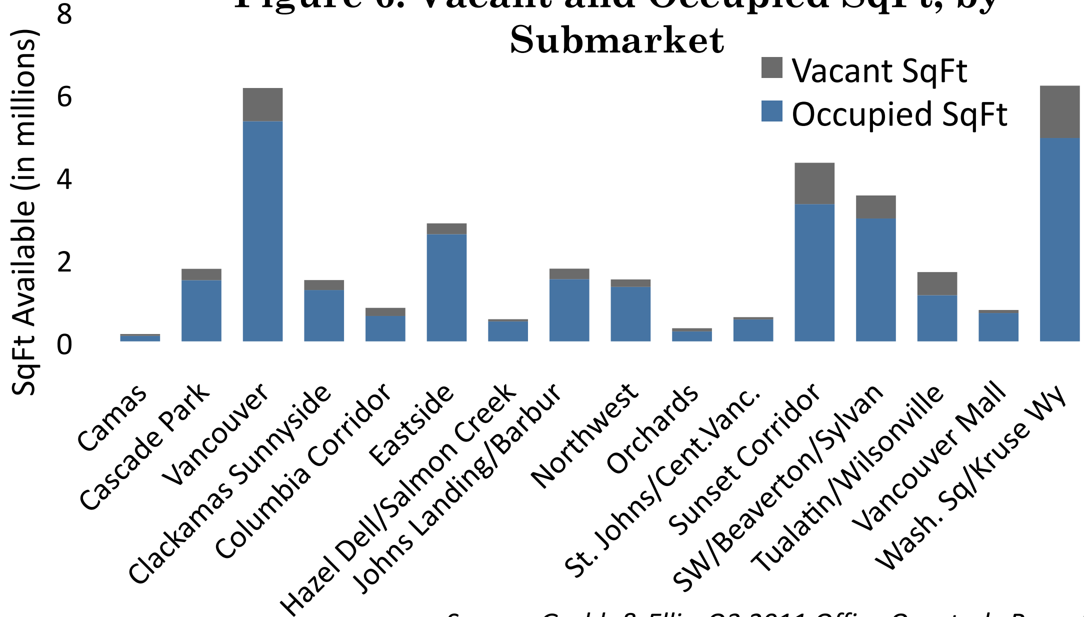
Table 3: Suburban Office Submarkets, Ranked by Vacancy Rate

Submarket	3Q 11 Vacancy
Tualatin/Wilsonville	33.4%
Camas	25.4%
Columbia Corridor	24.2%
Orchards	24.2%
Sunset Corridor	23.2%
Wash. Sq/Kruse Wy	20.5%
Clackamas Sunnyside	16.3%
SW/Beaverton/Sylvan	15.8%
Cascade Park	15.7%
Johns Landing/Barbur Blvd	14.4%
Vancouver	13.1%
Northwest	12.1%
Hazel Dell/Salmon Creek	9.9%
Vancouver Mall	9.7%
St. Johns/Cent.Vanc.	9.3%
Eastside	9.2%

Source: Grubb & Ellis Office Report, Q3 201:

Rankings of vacancy by submarket from Grubb and Ellis (Table 3) show few dramatic shifts from the first quarter. Tualatin/Wilsonville remains at the top of the list, climbing 230 basis points to a striking 33.4 percent vacancy. Despite positive absorption in the past year, the major submarkets of Sunset Corridor & Washington Square/Kruse Way remain strong renter's markets at over 20 percent vacancy, though Sunset Corridor dropped 140 basis points to 23.2 percent vacancy in the third quarter. The Eastside submarket climbed 20 basis points to hit 9.2 percent, narrowly holding on for the lowest vacancy of any submarket (including CBD at 9.3%). Northwest Portland took a hit in terms of vacancy, rising 260 basis points to 12.1 percent.

Figure 6: Vacant and Occupied SqFt, by Submarket



Source: Grubb & Ellis, Q3 2011 Office Quarterly Report

Figure 7: Office Construction Completed by Year for All Classes

Source: Grubb & Ellis, Office Quarterly Reports

Notable lease transactions include one new lease greater than 100,000 square feet, with PeaceHealth's expansion. Interestingly, the majority of activity took place either in the Columbia Tech Center in Vancouver or within the CBD.

Table 4: Major Lease Transactions, 3rd Quarter, 2011

Lessee	Property	Submarket	Size (SqFt)
PeaceHealth	Columbia Tech Center	Vancouver	162,216
Davis Wright Tremaine	Wells Fargo Tower	CBD	59,048
Nautilus	Columbia Tech Center	Vancouver	51,833
Columbia Sportswear	Cornell Oaks-Summit	Sunset Corridor	24,073
Inside Track	Bank of America Center	CBD	18,197
Metropolitan Pediatrics	Cornell Oaks	Sunset Corridor	17,439
Springbrook Software	1000 Broadway	CBD	17,420

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

The numbers suggest a messy picture, with the third quarter of 2011 bringing increased global recessionary concerns, increasing uncertainty in a local market that has seen a year of stagnancy. Absorption has tapered off in recent months, and vacancies have remained stable with modest improvement, 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 hold on to the modest gains accumulated over the previous year. Watching the pipeline of new projects and their absorption in the downtown CBD market will be a key indicator in the coming year, though forecasts for downtown Class A properties continue to be positive.

RETAIL MARKET ANALYSIS:

David West

RMLS Fellow

Amid dire circumstances for the US consumer, retail real estate in the Portland metro is showing new and encouraging signs of life. Despite a number of clear challenges from the closing of regional Border's bookstores to continued high energy prices and unemployment, brokerages concur on an upswing in overall leasing activity, positive year-over-year same-store sales data for the back to school season, and stable or falling rates of vacancy. While progress and activity remain moderate by pre-recession standards, most analysts are predicting continued gains and stabilization through the coming year.

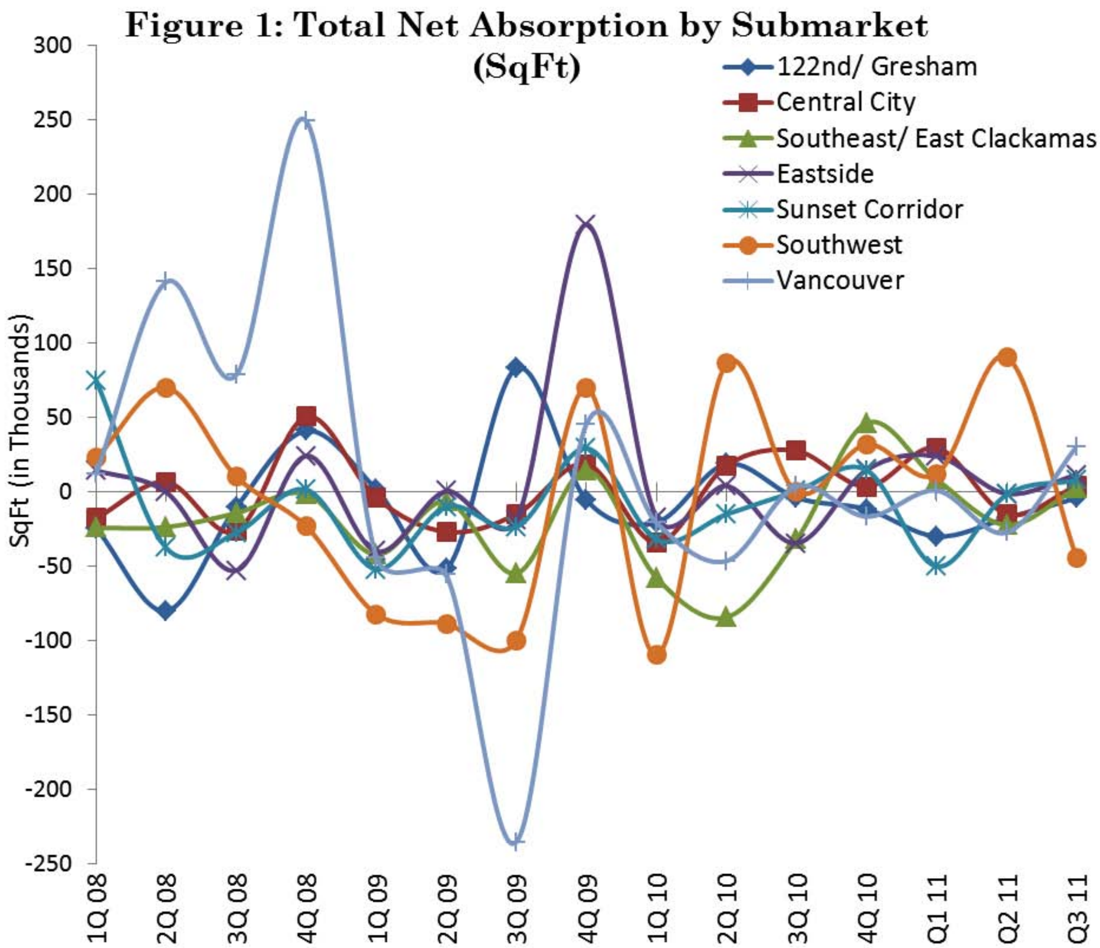
Any progress seen has taken place against a backdrop of conflicting economic news including positive moves in employment, high prices at the pump, continuous declines in housing prices, poor income performance, and sluggish but consistent growth in GDP. These factors have combined to slow progress in 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 a seasonally adjusted 9.1 percent in September, below or on par with national and state numbers. State projections have Portland's economy continuing to grow at above 2 percent for 2011 and 2012.

■ David West is a 2011 graduate of Portland State University with a master's degree in Urban and Regional Planning and a graduate certificate in Real Estate Development. He currently lives in Seattle and works for Starbucks Global Development Group. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Table 1: Major Retail Lease Transactions, 3nd Quarter, 2011

Tenant	Property	SqFt	Submarket
New Seasons	2100 SE 164th	40,000	Vancouver
Walmart	Robinwood Shopping Center	40,000	Southeast
Salvation Army	San Rafael Shopping Center	23,695	Gresham
DSW	1981 NW 185th	20,000	Sunset Corridor
Concentra	2225 NW Town Center Drive	8,000	Sunset Corridor

*Source: Portland Business Journal, Norris, Beggs & Simpson, and Cushman Wakefield Q3 2011 Reports

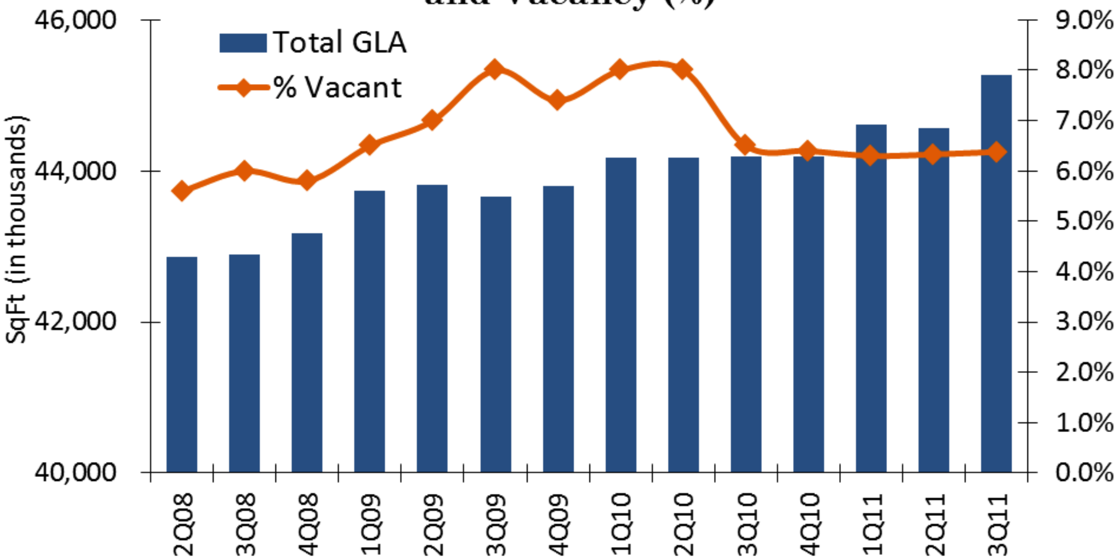


Source: Norris, Beggs, & Simpson Retail Reports

Norris, Beggs and Simpson reports that retail vacancy has remained stable since the first quarter at 6.4 percent, alongside a positive but negligible net absorption of 6,000 square feet. This coincides with Kidder Matthews reports of a 10 basis point drop to 5.9 percent vacancy in the metro area, though Kidder Matthews reports a more robust absorption of 436,000 square feet following a gain of 299,000 square feet in the second quarter and a net loss of 293,000 square feet in the first.

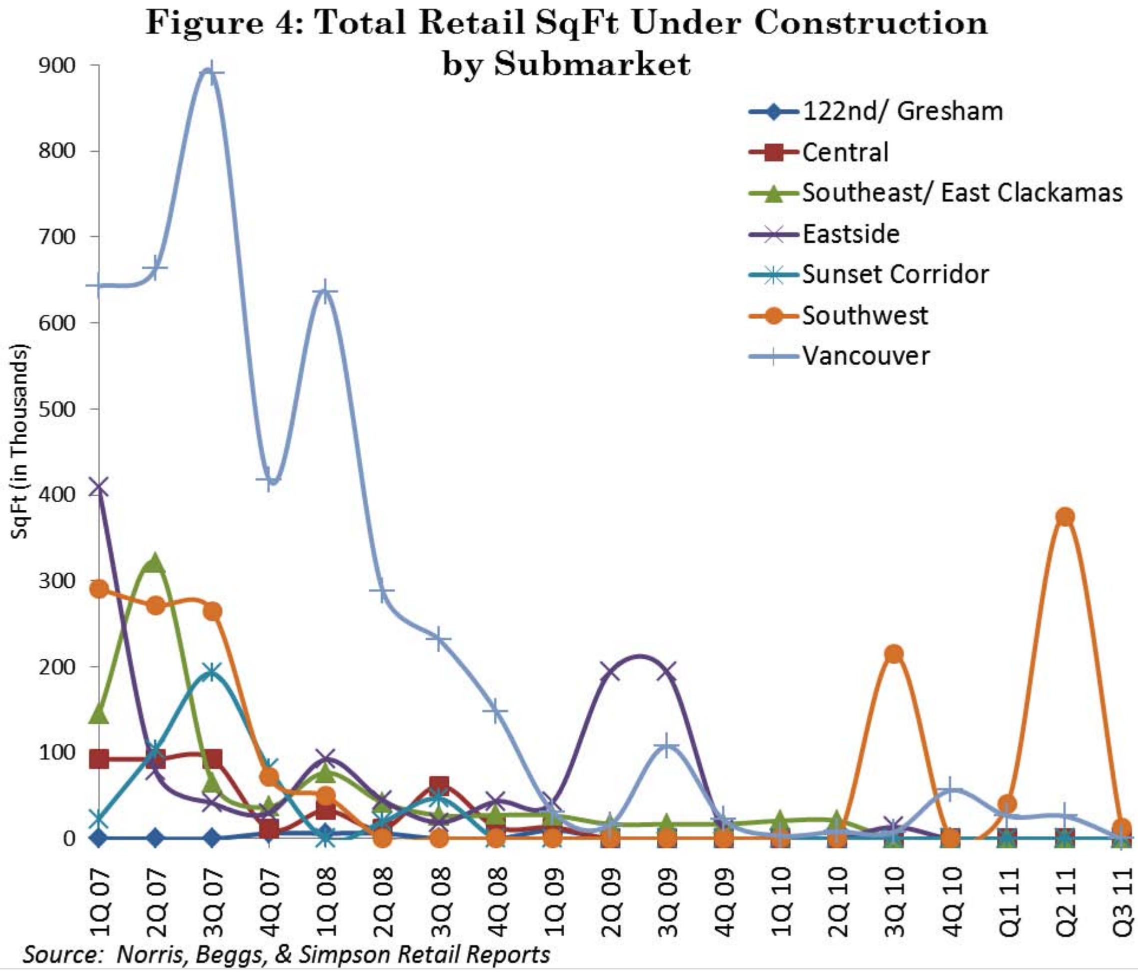
The Gresham submarket continues to carry the highest vacancy rate according to Norris, Beggs & Simpson, up 10 basis points to 9.0 percent in the third quarter. Central City carries the next highest vacancy rate at 8.4 percent, down 20 points from the second quarter. Eastside remains well below all other submarkets, dropping 20 basis points in the third quarter to a very strong 3.4 percent, according to Norris, Beggs & Simpson. Following a string of positive quarters, the Southwest submarket experienced a net loss of 45,000 square feet in the third quarter, driving the vacancy rate up 70 basis points to 5.0 percent. Store losses at Bridgeport Village reportedly account for a significant portion of Southwest's negative absorption and vacancy. This adjustment returns the Southwest submarket to a 5.0% vacancy, similar to its rate at the outset of 2011.

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



Source: Norris, Beggs, & Simpson Retail Reports

Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at $16.14/square foot (triple net), a rate that has been steadily dropping since a peak of $18.14 in Q4 2008, and down nearly $0.80 from the first quarter. Kidder Matthews' forecasts continues to suggest that that this rate will stabilize through the coming year based on high rates of concession currently being offered by landlords. The report suggests that concessions will be a key indicator in future quarters, with a decrease in concessions signifying imminent rental rate increases. A rise in rates is not expected in the coming quarters, however. Brokerages are consistent in comments that most leasing activity is currently taking place in small spaces, with little activity among larger retailers. As the Kidder Matthews report discusses, "There are a lot of small deals getting done but it's pretty slow in the 4,000 to 15,000 s.f. range."



Norris, Beggs, & Simpson reports that much of the negative absorption in the third quarter is due to the bankruptcy filing and national closures of Borders Bookstores retail locations. According to a KGW report on the topic, Borders had 11 stores in Oregon and Southwest Washington prior to the closure.[1] With the average Borders store at 25,000 square feet, the closure of 11 stores has made a significant dent in overall retail absorption, and could be interpreted as good news that overall vacancy and absorption remain stable after the shock of the loss of a major chain. It is reported that Borders was slower to react to consumer trends in the book marketplace than rivals Barnes & Noble, most notably through the late adoption of electronic books.[2] Borders peaked in 2003 with 1,249 stores nationwide, but had dropped to 642 stores and 19,500 employees by the second quarter of 2010. The

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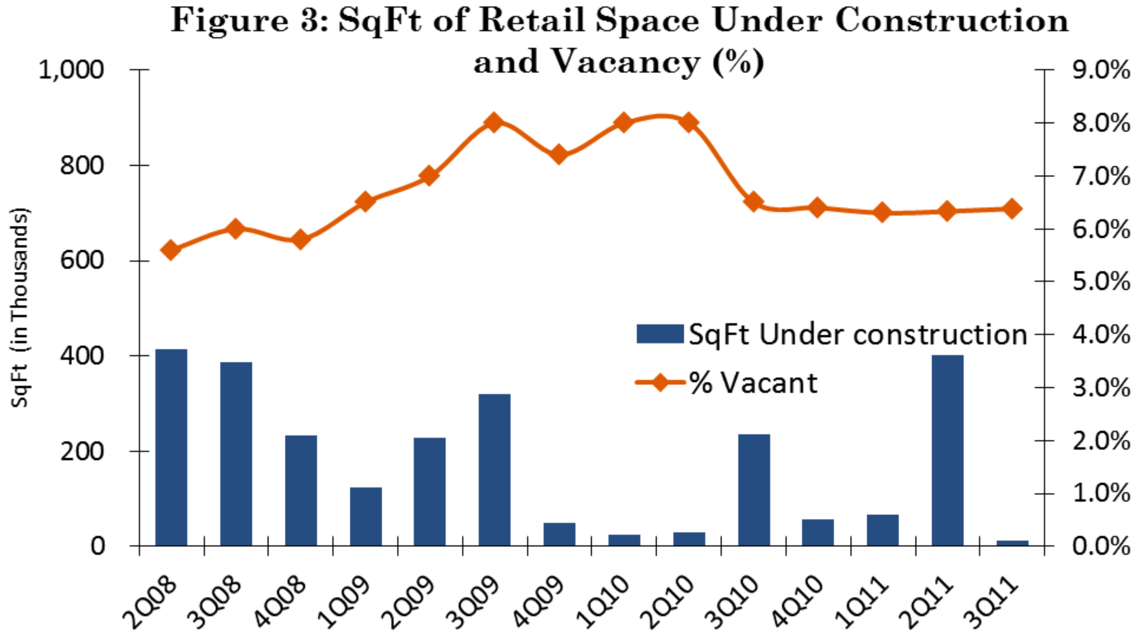
[1] D'Innocenzio, Anne. "Borders Closing 11 Stores in OR & SW WA", *KGW.com News*, July 19, 2011. Accessed November 2, 2011. http://www.kgw.com/news/local/Borders-seeks-to-close-nationwide-including-11-SW-Wash-Ore-stores--125810843.html

[2] Sewell, Dan. "Last Borders shoppers wistful, looking for deals", *Wall Street Journal*, September 18, 2011.

closing of the remaining stores opens up significant inventory in retail markets nationwide.

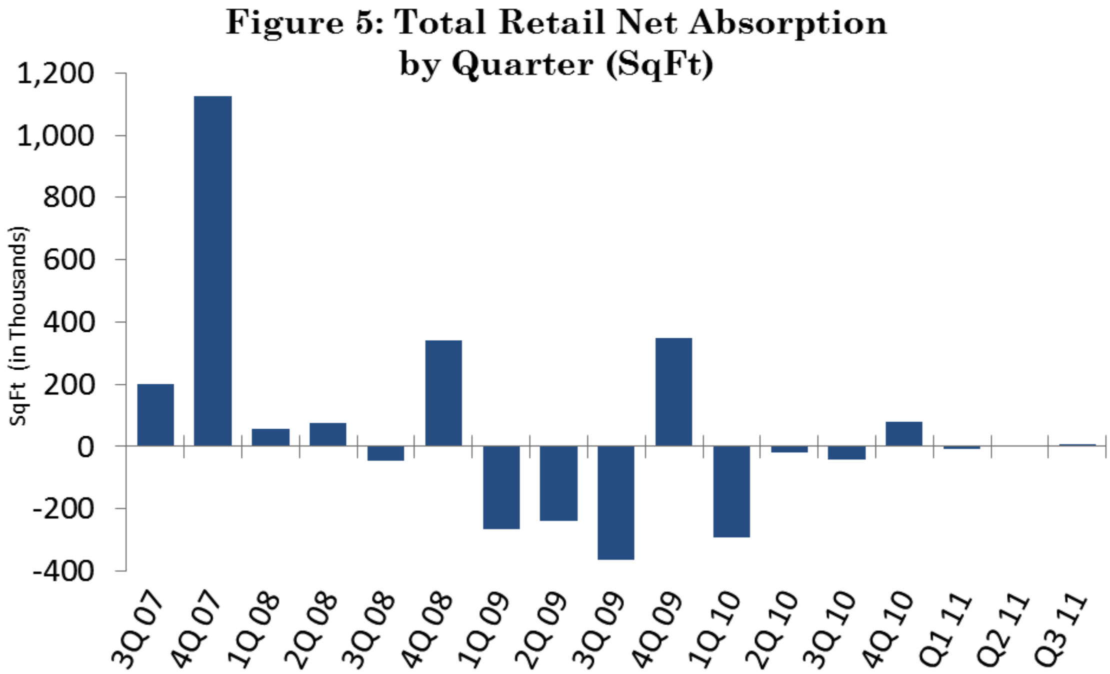


Source: Norris, Beggs, & Simpson Retail Reports

Nike's recent opening of its 26,000 square foot flagship store in downtown Portland was hailed by Elliot Hill, a Nike vice president and general manager for North America as "a catalyst for the overall marketplace and the sports retail industry".[3] The new location at SW 5th & Morrison was designed with a focus on sustainable practices, and the developers are seeking a platinum LEED (Leadership in Energy and Environmental Design) rating from the US Green Building Council. The new store is planned to be one of seven of Nike stores with a LEED rating, and the company credits initiatives like recycling of 93 percent of renovation waste and local sourcing for 30 percent of construction materials along with on-time, under-budget development with setting an example for the industry. Built as a "brand experience store", the new location includes large touch-screen displays with information on the history of the company and an open footprint with elements resembling both a museum and retail store.[4]

[3] Siemers, Erik. "Nike Portland store enters 'new evolution of retail'", *Portland Business Journal,* November 4, 2011.

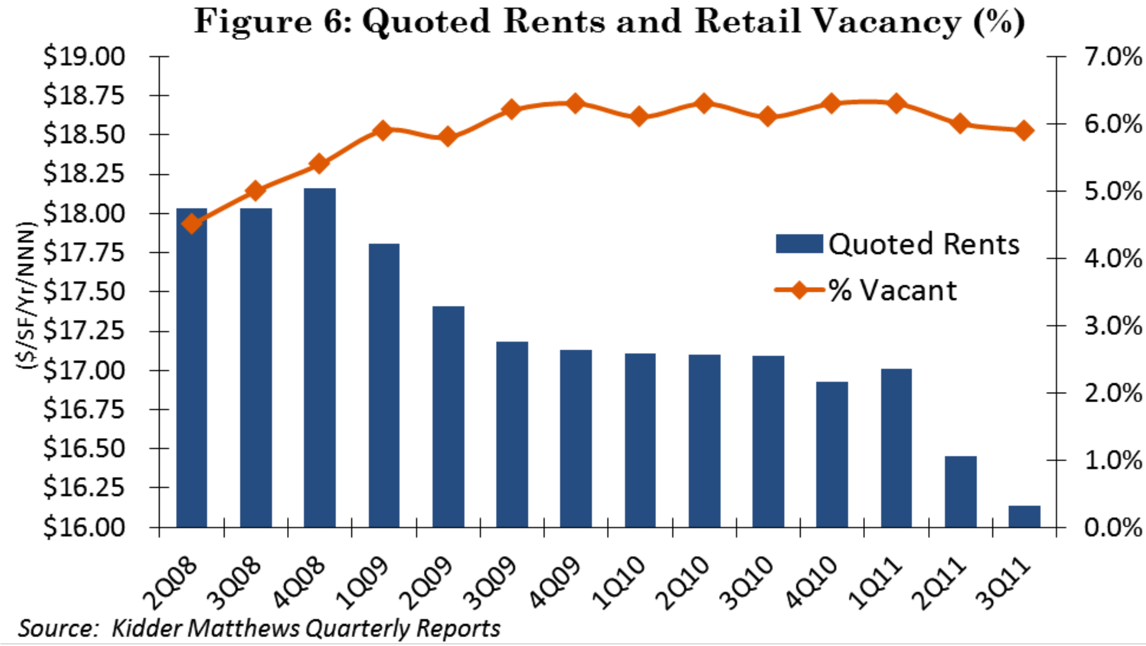
[4] Brettman, Allan. "Nike Portland opens downtown store that's half museum, half marketing", *The Oregonian*, November 3, 2011.



Source: Norris, Beggs, & Simpson Retail Reports

Two major grocery store-anchored strip malls have opened 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 opened in September, anchored by New Seasons and is set to include a luxury theater (Cinetopia), high end bowling alley (Big Al's) and a set of bars, restaurants and service businesses. 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.[5]

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



A string of box store development sites are also moving forward locally, as WalMart continues with its planning for new store locations and Target is said to be eyeing space at both Jantzen Beach and the downtown Galleria. In October, PDC voted unanimously to drop its plans for a parking garage at SW 10th and Yamhill in support of the Galleria ownership's bid to attract a large-format retailer, rumored to be Target.[6] 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 footprint.[7] The WalMart stores reportedly being considered are also significantly smaller than their traditional format, as they adopt an "urban approach" to retailing. WalMart has quietly pushed forward with expansion plans in the Portland metropolitan area, having progressed in the design and permitting process in the past year for 17 of their 40,000 square foot "neighborhood market" stores.[8]

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[6] Giegerich, Andy. "PDC gives go ahead to Galleria deal", *The Portland Business Journal*, October 26, 2011.

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

[8] Swart, Cornelius. "Walmart's North Portland plans draw little opposition, unlike in 2006", *The Oregonian*, September 22, 2011.

INDUSTRIAL MARKET ANALYSIS:

David West

RMLS Fellow

While nationwide concerns over the industrial economy continue, Portland indicators suggest hint at positive momentum, even as the pace of recovery seems sluggish. Metro unemployment dropped to a seasonally adjusted 9.1 percent in September, following a trend that led the metro area to private-sector job gains of 14,000 over the past four quarters, with the Bureau of Labor Statistics reporting a 1.9 percent rise in manufacturing jobs, year-over-year. Recent signs, however, show the pace of growth dropping off and mixed signals in an otherwise volatile time.

The third quarter brought strong positive absorption numbers and drops in vacancy across brokerages. Grubb & Ellis reported 578,000 square feet of net absorption, the strongest number seen since the second quarter of 2010. This represents a majority of gains seen this year based on a loss of 120,000 square feet in the first quarter. This pushed reported vacancies from Grubb & Ellis down 40 basis points to 8.4 percent across submarkets. Vacancy dropped across all brokerage reports considered, at a median value of 20 basis points. Warehouse/Distribution greatly outperformed the Flex category, with Grubb & Ellis showing a 90 basis point vacancy drop for Warehouse alongside a 110 basis point rise for Flex.

The improved vacancy rates were boosted by nearly non-existent product delivery over the past four quarters. No new industrial inventory hit the market in

■ David West is a 2011 graduate of Portland State University with a master's degree in Urban and Regional Planning and a graduate certificate in Real Estate Development. He currently lives in Seattle and works for Starbucks Global Development Group. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

the first or third quarters of 2011, with only 71,000 square feet in the second quarter, compared with a 10 year quarterly average of just less than 600,000 square feet of new delivery per quarter.

Table 1: Industrial Market Vacancies and Asking Rents, Q3, 2011

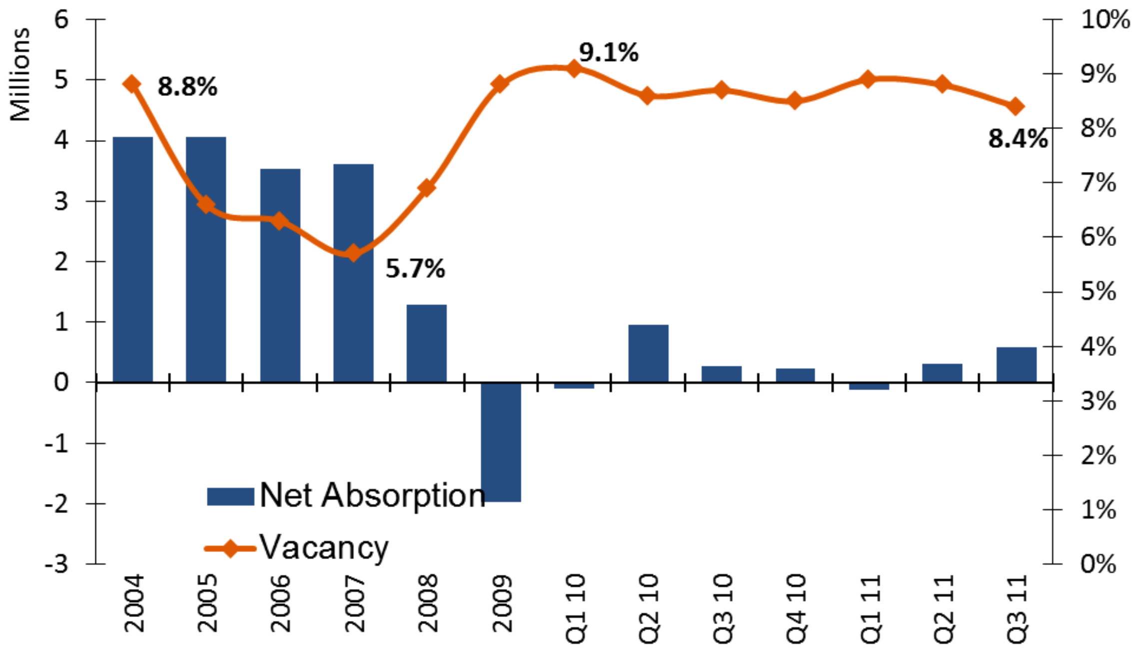
	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.1%	6.6%	8.4%	15.0%	7.7%	8.1%
Previous Quarter	8.2%	6.8%	8.8%	16.1%	8.3%	8.3%
Second Quarter 2010	-	8.6%	8.6%	15.2%	8.5%	8.6%
Second Quarter 2009	8.1%	8.0%	8.5%	13.9%	8.1%	8.1%
Warehouse/Distribution	-	-	9.8%	14.4%	N/A	12.1%
Previous Quarter	-	-	10.9%	N/A	N/A	10.9%
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	13.5%	-	10.9%	18.2%	N/A	13.5%
Previous Quarter	12.2%	-	9.8%	18.3%	N/A	12.2%
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	$0.37	N/A	$0.47	N/A	$0.43	$0.43
Previous Quarter	$0.38	N/A	$0.40	N/A	$0.43	$0.40
Second Quarter 2010	$0.38	N/A	$0.41	N/A	$0.45	$0.41
Second Quarter 2009	$0.40	N/A	$0.41	N/A	$0.47	$0.41
Asking Monthly Flex Rates	$0.79	N/A	$0.66	N/A	N/A	$0.73
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 dropped 20 basis points to 8.1 percent in the third quarter. All brokerages reported drops in market wide vacancy, with Norris, Beggs and Simpson's vacancy figure falling a striking 110 basis points to 15.0 percent. It is important to note, however, that Norris, Beggs & Simpson's vacancy rates consistently vary significantly from the other reports considered due to the use of different source data. 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. In a break with a three year trend, Norris, Beggs & Simpson reports R&D/Flex vacancy rates dropping. This rate has been steadily struggling since late 2008, when the category bottomed out at 13.2 percent vacancy. This figure may be misleading, however, as both CB Richard Ellis and Grubb & Ellis show jumps in Flex/R&D vacancy of over 100 basis points. No meaningful adjustment in rental rates was seen in the third quarter, reflecting continued stagnation in pricing, but also a sign that what little demand has been seen is holding steady.

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



Source: Grubb & Ellis, Industrial Quarterly Reports

Swan Island posted the lowest submarket vacancy at 4.4 percent (down from 5.2 percent in the second quarter) while the 217 Corridor in Beaverton & the I-5 South Corridor carry the highest. Both saw drops of over 50 basis points from the second quarter. I-5 South Corridor posted the highest absorption of the submarkets, at 365,000 square feet, followed closely by NE/Columbia Corridor at 226,000 square feet, with a vacancy rate of 8.2 percent. While submarket vacancies varied across reports, these particular geographies were consistent in each. Following strong absorption numbers in the second quarter (263,000 square feet), Sunset Corridor experienced negative absorption of 88,000 square feet. Milwaukie/ Clackamas saw the worst absorption numbers, losing 143,000 square feet, pushing the submarket's year-to date net absorption to a negative 393,000 square feet, by far the hardest hit among Grubb & Ellis' submarkets.

Table 2: Major Industrial Transactions, 3rd Quarter, 2011

Tenant	Property	SqFt	Submarket
Georgia Pacific	Joe's Warehouse	275,391	Wilsonville
SoloPower	Marine Drive Distribution Center	225,250	Portland
PCC Structurals (expansion)	Commerce Park McLoughlin	91,481	Milwaukie
Tucker Rocky	Birtcher Center	76,491	Portland
Reading Group/ABC Dist.	4426 NE 158th	73,000	Portland
Aosom, LLC	6710 McEwan Rd	46,980	Lake Oswego
Worm's Way	Logisticourt at Portal Way	45,000	E Columbia Corridor
Tim Gallagher, LLC	217 Distribution Center	30,224	Portland

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

In August, SoloPower cemented its long discussed location in Portland with the lease of a 225,250-square-foot building in North Portland's Rivergate District. The San Jose located firm has been considering Oregon for some time, and pulled back from plans to locate the thin-film solar plant in Wilsonville earlier this year. The Oregonian reports that the long-discussed project will benefit from:

> "… $14 million in state tax credits, a $20 million state energy loan and an estimated $16.5 million in tax abatements for locating in…a designated 'enterprise zone.' The company will also use part of a $197 million loan guarantee from the U.S. Department of Energy to develop the Portland plant."[1]

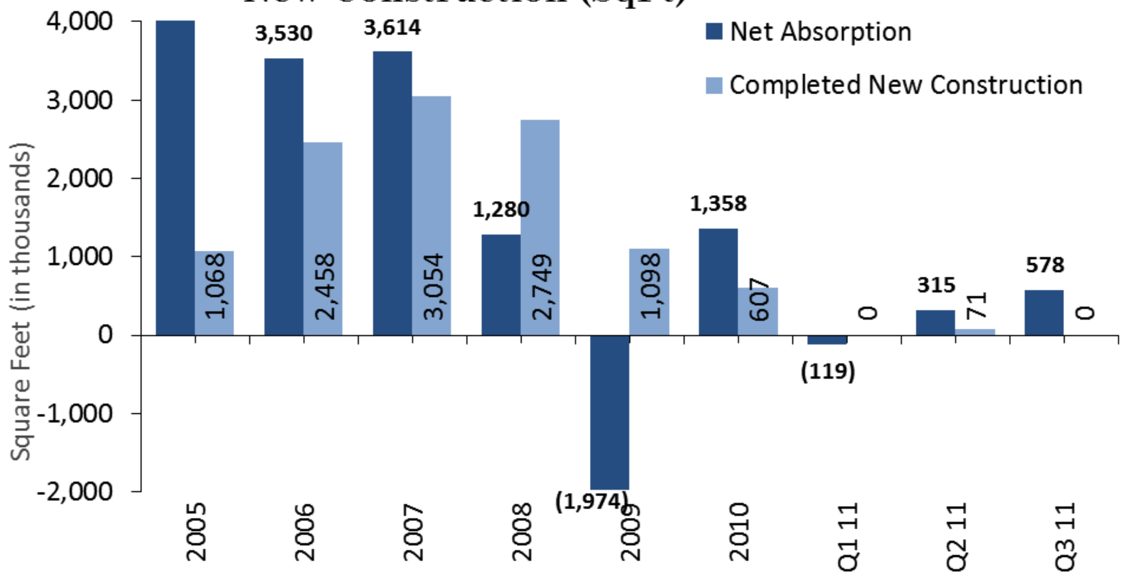
The $340 million manufacturing facility is expected to employ 170 people at the outset, with the potential to grow to 500 in the coming years. The site is one of the few locations of its size currently available in the Portland market. Colliers third quarter report suggested that there are less than five large block options available for lease in the Portland market. As Tom Talbot of Kidder Matthews discussed the significance of the signing, "Now there are no other vacant buildings larger than 150,000 square feet anywhere in the North/Northeast Portland submarkets. Any large users may be forced to look to new construction as the only solution to operating in large spaces. Continued leasing of large blocks of space will certainly lead to lower vacancies and higher rents."

Rivergate also 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

[1] Njus, Elliot. " SoloPower leases 225,250 square feet in North Portland", *The Oregonian*, August 29, 2011

"the largest build-to-suit transaction in Portland in a decade"[2] 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 had been expected to open in October.

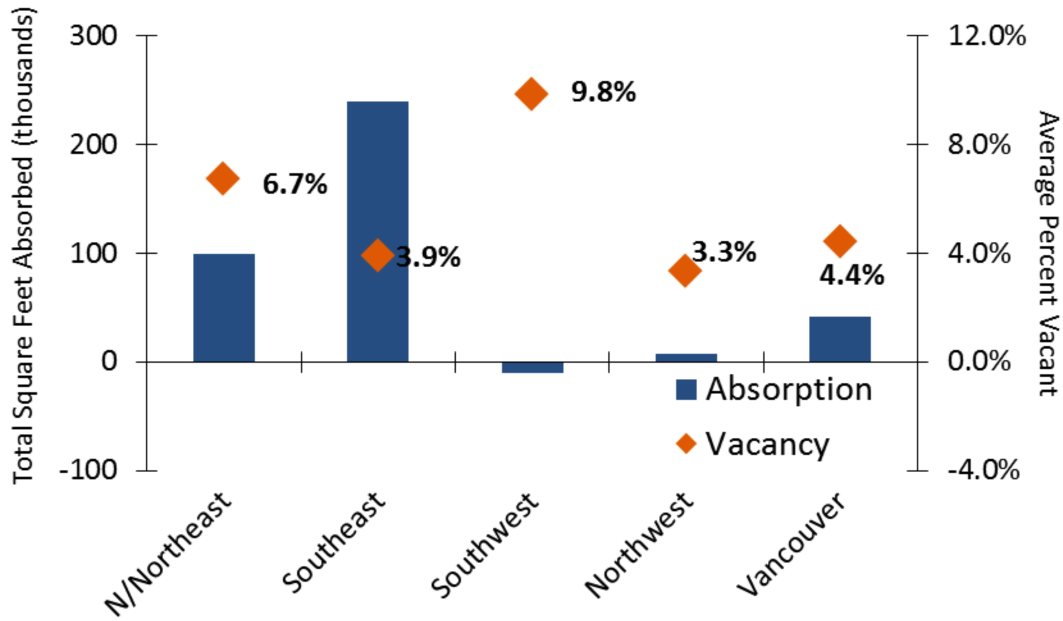
Figure 2: Industrial Absorption and New Construction (SqFt)



Source: Grubb & Ellis, Industrial Quarterly Reports

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

Figure 3: Submarket Vacancy and Overall Absorption, Q3 2011



Source: Cushman and Wakefield, Q3 2011 Industrial Quarterly Report