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SUMMARY AND EDITORIAL

The decline in the U.S. economy is already well know. Problems beginning in real estate markets have filtered their way through the U.S. and the rest of the world to generate recession that has reached most of the world. At one time, Oregon seem to be somewhat insulated from the worldwide recession. Only now, it is becoming clear that Oregon may experience some of the worst impacts. In the wake of the Measure 66 and Measure 67 tax increases, some blame Oregon's business environment for the state's sustained decline.

Randy Miller, however, finds that the grass is not greener elsewhere in the western U.S. Instead, he argues that Oregon has a tax environment and educational system that is as good, if not superior, other states. At the same time, **Bruce Cain** is concerned that politicians and interest groups will look toward a real estate transaction tax as a source for funding for continuing or expanded government services.

Our **office market analysis** finds conflicting data, with some reports showing stable vacancy rates and other reports showing slightly improving vacancies. In **retail markets** declining vacancies, but some substantial increases construction. **Industrial market analysis** experienced a slight vacancy rate increase and positive net absorption during the third quarter of 2010.

In **multifamily markets**, many submarkets are seeing some concessions to encourage new move ins. At the same time, rents seem to be holding steady or increasing slightly. Apartments appear to be gaining a stronger share of the housing market with many apartment complexes with occupancy above 95 percent or better in many cases..

Residential real estate prices show some upticks, fueled in part by the homebuyer tax credits. With the peak buying season over, however, a record number of foreclosures and jobs concerns, many cities are concerned about the potential of declined prices in the year ahead.

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OREGON: THINGS MAY LOOK DIFFERENT HERE, BUT THE GRASS IS STILL GREEN

RANDY MILLER

Produce Row Property Management Company

For most of my life, pride and national leadership has been the ethos of Oregonians. But, as we all have observed over the past few years, these attributes have escaped our self-perception.

Certainly we must aspire to improve the fundamentals in this state. We are all aware of recent negative elements such as education achievement, slipping per capita income, and higher rate of governmental dependency. However, if we search just a little deeper, we quickly find a true perspective as it relates to other states.

That deeper digging led to a study I co-authored called “Is the Grass Really Greener in Other States? An Oregon Perspective.”[1] The study was based on business leader John Calhoun’s observation that Oregon maintained many strengths relative to our western peers of California, Washington, Idaho, Nevada, and Arizona.

Our research confirmed that our Western peers have challenges every bit as bad or worse than those we face. Much of our angst in Oregon is due to the heated debate and schism fostered by Measures 66 and 67 earlier this year. As a consequence of the legislature refusing to endorse the compromise between many elected officials and business organizations, a huge rift now divides our state, and this negative view pervades many business leaders yet today.

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[1] Calhoun, J., Vernier, D., Miller, R., Jacobson, K., Arnerich, T., and Jackson, J. Is the grass really greener in other states? An Oregon perspective. August 2010. Available for download at http://oregonbiz.info/.

IS THE GOLDEN WEST ALL THAT GOLDEN?

Should these disenchanted business leaders abandon Oregon for other western states? Should they look at California with it near total fiscal collapse? How about Washington, which in total business taxes, has a far heavier burden than Oregon? Arizona just added close to a billion dollars in new taxes, and their anti-immigration policies have inhibited their ability to recruit new talent. Idaho claims they offer advantages to Oregon business, but they have a corporate tax rate equivalent to Oregon's in addition to a six percent sales tax.

California

California was once known as the Land of Milk and Honey. Now it looks like the milk and the honey has made a sticky mess. The state is facing the third highest unemployment in the U.S. According to the Tax Foundation, California is the second worst state in which do business, just behind New York. California's taxes on business equal 4.7 percent of gross state product, a number that is more than 25 percent higher than Oregon's. On top of its corporate income taxes, California has an 8.25 percent sales tax and a top personal income tax rate that is not much different from Oregon's top rate.

Even so, California has been facing several years of severe budget cuts. The Sacramento Bee reported that "In just two years, budget cuts have reduced per pupil spending by $1,500 per student ... pushing our schools to 45th in the nation in per pupil spending." The Center on Budget and Policy Priorities also reports that the University of California increased tuition by 32 percent. In contrast, Oregon announced its increased tuition will average 6 percent this fall.

Washington

In the last legislative session, Washington passed a $780 million revenue package that increased Washington's taxes on businesses. Washington increased its gross receipts tax on service providers such as doctors, lawyers, architects, and accountants.

Washington collects approximately $2.5 billion annually from its Business and Occupation (B&O) taxes. The recent increases in B&O tax for the service industry is expected to increase state revenues by about $250 million, with another $250 million forecast from a variety of minor changes to B&O tax policy. The sales tax and excise tax increases represent roughly another $250 million in taxes. All told, Washington's business tax burden as a percentage of state income is expected to increase by about 0.25 percent, based upon the current $300 billion size of the state's economy.

Washington's taxes on businesses, as a percentage of the state economy, are amoung the highest in the West. According to the Council on State Taxation, in fiscal year 2009, Washington state and local taxes on business equaled 5.3 percent of state income. That is 50 percent higher than the figure in Oregon.

Source: Author's calculations based on Council on State Taxation

Idaho

While Idaho made headlines about recruiting companies from Oregon after Measures 66 and 67, they face many fundamental disadvantages in this task. The state is small, isolated from major markets, and lacks Oregon's industrial base and infrastructure. For example the Portland airport serves five times the number of passengers as Boise and air connections are an important consideration for locating a business. While access to capital is a significant concern in Oregon it is substantially worse in Idaho according to CNBC. All of this is reflected in the fact that the 2008 GDP per capita in Idaho is only 77 percent of Oregon's ($29,900 in Idaho vs. $38,800 in Oregon).

According to the Council On State Taxation, Idaho's taxes on business represent 4.2 percent of gross state product – compared to Oregon's 3.7 percent. Idaho's corporate profits tax rate is 7.6 percent, identical to Oregon's new permanent rate on profits exceeding $1 million, but above the 6.6 percent for small companies with profits below $250,000. Idaho has a 6 percent sales tax,20 a point that is conveniently overlooked when the state tries to recruit companies from Oregon.

Nevada

Nevada, according to the Council on State Taxation, has the second-highest taxes on business of the six states we looked at, with taxes on business representing 4.9 percent of gross state product.

Nevada's recent economic performance is abysmal. It has the highest foreclosure rate in the country and, not surprisingly, the highest unemployment rate in the nation. In June, Nevada's unemployment rate hit 14.2 percent. In 2010, Nevada has lost jobs, the only state in our survey to lose jobs this year. Massachusetts-based IHS Global Insight forecasts that Nevada will see no job gains in 2010.

In 2009, the Nevada Legislature addressed its budget gap with $781 million in tax increases, with $346 million coming from an increase in Nevada's tax on payroll, from 0.63 percent to 1.17 percent for the portion of payroll exceeding $250,000.

Arizona

Oregon isn't the only state where voters approved tax increases to protect vital services. Facing a 16.5 percent decline in revenue (compared to Oregon's 19 percent), and with the 2nd-highest home foreclosure rate in the country, in 2010, Arizona took a very similar approach to that followed by the 2009 Oregon legislature—a mixture of steep cuts, along with new sources of revenue.

In May, Arizona voters approved a 1 percent increase in the statewide sales tax, with 64 percent voting in favor. The tax had the strong support of the state's Republican Governor, Jan Brewer, and was placed on the ballot by the Republican-controlled legislature. Had the sales tax failed at the ballot, it would have automatically triggered contingency cuts of $862 million: $428.6 million to K-12 schools, $107.1 million for universities, and $15.2 million for community colleges.

Arizona's sales tax is now 6.6 percent. In 2009, before the sales tax increase, Arizona's taxes on business equaled 4.8 percent of gross state product – more than 25 percent higher than Oregon's. The tax hike represents an approximate 9 percent increase in Arizona's business taxes, which would raise Arizona's business taxes as a percentage of Gross State Product from 4.8 percent to 5.2 percent.

Because the sales tax increase covered less than half of its budget deficit, Arizona is still making large cuts in state spending. In March, the legislature adopted a budget that cut $1.1 billion to arrive at an $8.5 billion annual budget.

LOOKING FURTHER EAST WILL NOT PROVIDE GREENER PASTURES

So, how about other states in the Midwest and East? With few exceptions, most states are also in dire straits. Delegations of about 50 business, education, and government leaders frequently visit other regions to observe other community fundamentals. I have been leading these are Best Practices trips for more than 20 years. We recently visited Detroit which has an effective unemployment rate close to 45 percent, huge outmigration, a minimal tax base. The traditional school system is so bad that about 40 percent of their kids are enrolled in charter schools. Other cities in the east may not be this troubled, but they are far more challenged than we are.

As I surmise our future, I am thankful we have so many advantages. I feel our key ingredient for economic prosperity can be found by analyzing who is moving to metropolitan Portland. We are one of the leading US cities which is attracting a cohort which is actually declining in most regions of the country: the highly educated 22-35 year old segment. With a dearth of jobs commensurate with their education, it may surprise locals as to why they are attracted to this region. The reason? Their values and ideals are in alignment with the ethos of this community. Our consistent advocacy of environmental stewardship, land use, transportation choices, and lifestyle options appeals to this demographic, and they are willing to be underemployed (for a time, at least) to enjoy living here. This is an economic driver in itself, as their education and skills will result in creativity and innovation as new employment opportunities arise. We must be mindful, however, that we must relentlessly focus on employment opportunities and economic growth so we don't ultimately lose this generational advantage.

It is time Oregonians recognize that we possess significant advantages and opportunities here, despite the rancor over tax and other policy issues. Instead, we should focus on those fundamentals which we agree underscore the benefit of being Oregonians, and work with policy professionals to address the shortcomings to sustain our leadership as national pioneers in innovative concepts. ■

Randy Miller is President of Produce Row Property Management Company and former Chairman, The Moore Company. He is a Director of AAA of Oregon/Idaho, Air Advice Corporation and the PGE Foundation. He is also Director, Greenlight Greater Portland; Director and former Chairman, World Affairs Council; Director and Former Chairman, Oregon Sports Authority; Director, Central Eastside Industrial Council; Member International Air Service Committee, Port Of Portland; Member, Mayor's Cabinet of Economic Development; Member Oregon Business Plan Steering Committee; and Chairman, Business Committee at the Oregon Business Association. He was previously Chairman of the Ambassador Program For Economic Development; Director, Portland General Corporation; Chairman, Portland Metro Chamber Of Commerce (Portland Business Alliance); Commissioner, Portland Development Commission; Commissioner, Portland Housing Authority; and Chairman, Governors Commission on Brand Oregon. He has a BS from Boston University and an MS from Portland State.

A REAL ESTATE TRANSFER TAX CAN STALL OREGON'S RECOVERY

BARRY CAIN

Gramor Development

During the recent recession state and local government has had to face declining income tax revenues and rising demands for services. However, even when the state is not stuck in recession, the pressure to raise more tax money persists. During the housing boom that preceded this recession, several interest groups eyed a sales tax on real estate transactions, known as a "real estate transfer tax," as a source of easy money to fund their special interests. One group proposed using the taxes to increase school funding and another group proposed using it to provide affordable housing.

With the boom over, we live in an interesting time in the construction industry, as the real estate market has been mired in a severe downturn, which is negatively impacting businesses and Oregon families alike. Our economy is struggling as we face one of the highest unemployment rates in the nation at 10.5 percent. The severe decline in the real estate market has resulted in a terrifying reality for many property owners—a substantial loss of equity, and a virtual evaporation of new development opportunities.

With over 25 years of commercial development experience, and the completion of 60 developments; including retail, office, medical and mixed-use residential, I have worked with local communities to build consensus and ensure that each development adds value to their respective neighborhoods.

In my experience, I have seen firsthand how new regulations, taxes and fees impede the development opportunities that are critical to strengthening our economy and getting Oregonians back to work.

It is time to stop this downward spiral, protect property owners and revive Oregon's real estate market. Oregon's economy is struggling. A real estate transfer tax, basically a sales tax on real estate, will place an unfair burden on property owners trying to buy or sell in a tough market, will reduce equity and increase the cost of residential and commercial real estate. The result will be even more jobs lost during this recession.

This past year, the legislature approved the largest tax increase in Oregon history, resulting in $733 million in new taxes by increasing personal and corporate income taxes. Unfortunately, this gives Oregon the dubious distinction of having the highest marginal income tax rate in the nation. In addition, this legislation changed the tax structure for businesses that have no taxable income to a sliding scale between $150 to $100,000 based on a company's gross sales, not net profits. This disproportionately impacts high-volume sales, low-margin businesses, including those within the real estate industry.

Today, Oregon faces a staggering $3.5 billion budget deficit when the legislature convenes in January 2011. With local governments across Oregon currently facing budget shortfalls in the millions, there is tremendous pressure to override the statutory limitations and allow cities, counties and even the state itself to impose a new sales tax on real estate. In Oregon, real estate owners are a tempting target for cash-strapped government programs.

The Oregon Association of REALTORS® has chosen to lead an effort to gather signatures on a measure that will permanently prohibit the imposition of a real estate transfer tax here in Oregon. As a chief petitioner on this ballot initiative, I am working closely with my colleagues in the real estate industry to take a proactive position to protect real estate owners and stop new transfer taxes.

The following are some frequently asked question regarding real estate transfer taxes.

Does Oregon currently have a real estate transfer tax?

The state of Oregon does not impose real estate transfer taxes; however, Washington County in the Portland metropolitan area does impose a 0.1 percent tax on the sale of real property. Current law does not allow any additional local governments to impose a transfer tax; however, a simple majority of the legislature could remove this prohibition. In addition state legislature is not precluded in any way from imposing a statewide transfer tax.

How would a real estate transfer tax work?

Each level of government that imposes a tax would charge a percentage of the sales price (rates typically vary from 0.1 percent to 4 percent) when a home or real property is sold, thus there could be multiple layers of taxation on a single transaction. The tax is imposed whether or not you make any profit on the sale.

What is the current threat to property owners?

Oregon currently faces a $3.5 billion budget deficit -- which may be larger when the legislature convenes in January. Local governments across the state are dealing with severe budget shortfalls as well. Oregon homeowners are a tempting target for taxes on the sale and transfer of real estate. There have been ten attempts to authorize such a tax during the last few legislative sessions.

Why is it necessary to amend the State Constitution?

A constitutional amendment is the only way to truly protect Oregon families and businesses from a real estate transfer tax being imposed in the future, stealing the equity that they have carefully build up over time. Amending the constitution allows the people of Oregon to have a voice in stopping the unfair imposition of a real estate transfer tax.

Does this measure take away any existing revenue from state or local government?

No. This proactive measure does not negatively affect current school funding, local government funding or state revenues in any way. Instead, it prohibits the state and local governments from imposing a new real estate transfer tax in the future.

Does this measure protect both residential and commercial property from a real estate transfer tax?

Yes. The measure explicitly prevents a sales tax from being imposed on the transfer of any interest in real property including agricultural, commercial and residential property.

Barry Cain is the president of Gramor Development and a chief petitioner on a ballot initiative to prohibit a real estate transfer tax in Oregon, www.protectoregonhomes.com.

OFFICE MARKET ANALYSIS

KYLE SMITH

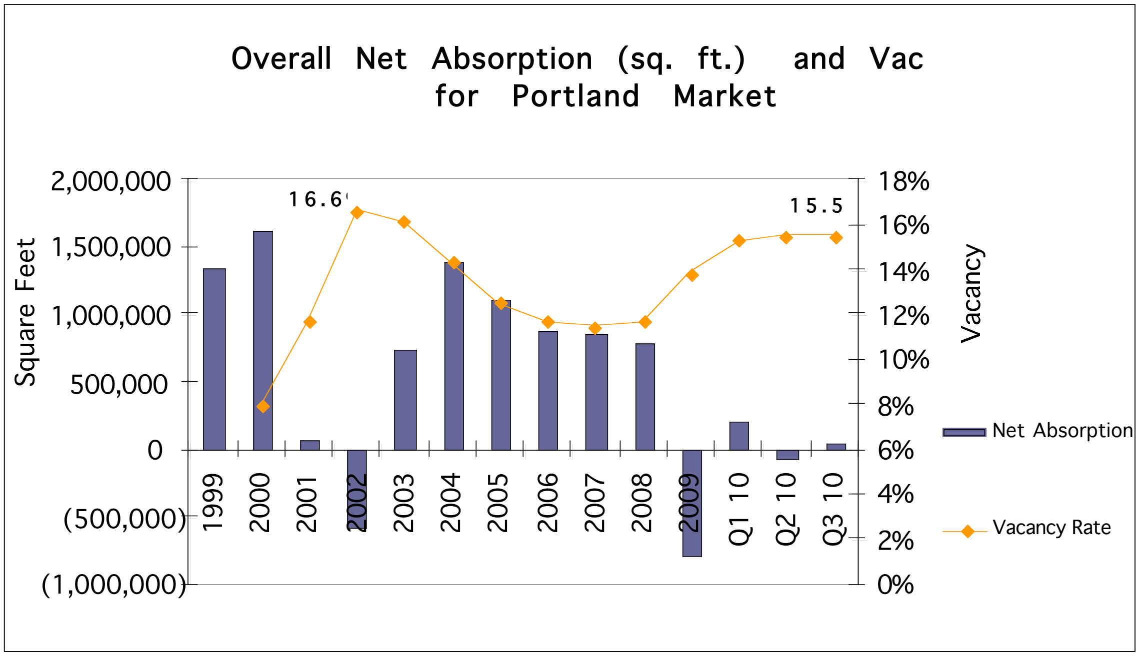
Regional Multiple List Service [RMLS] Fellow
& Certificate of Real Estate Development Graduate Student

Grubb & Ellis reports that the market wide office vacancy rate remained stable during the third quarter at 15.5 percent, with positive net absorption of 42,000 square feet. The metropolitan area Class A market vacancy rate dropped 50 basis points to finish the quarter at 15.1 percent. Class A vacancy rates remained lower than Class B, which has a vacancy rate of 17.3 percent.

Norris, Beggs & Simpson (NBS) published very different net absorption numbers from Grubb & Ellis and reported a decline in vacancy rates. NBS has total market vacancy at 19.3 percent, with the Central City submarkets at 12.13 percent and the Suburban submarkets at 24.06 percent. NBS reports a positive net absorption of 292,449, lead by Vestas' 133,260 square foot lease of the Meier & Frank Building and PECI's 73,422 square foot lease of three floors in First & Main. With this lease the office portion of First & Main is fully occupied.

According to the summary chart above, the CBD Class A vacancy rate median of 8.6 percent continues to remain lower than the overall CBD vacancy rate which increased by 10 basis points to 11.6 percent. The suburban market has had the opposite relationship. Suburban Class A has and continues to have higher vacancy rates than the overall suburban market. Class A vacancy in suburban submarkets dropped by 130 basis points to 23.3 percent while market wide vacancy is 20.5 percent.

Figure 1: Positive net absorption while overall vacancy rate remains stable



The seasonally adjusted unemployment rate for September was 10.6 percent in Oregon, which is up from the 10.5 percent June 2010 rate. The Portland metropolitan area's seasonally adjusted unemployment rate was 10.2 in August, down 20 basis points from the previous month, but up 20 basis points from June. An estimated 121,173 residents were unemployed in the metropolitan area, which is 9,139 less than August 2009 and about 10,300 less than the beginning of the year. Portland did experience job growth in the professional and business services sector during August with 1,000 new jobs added.

The Oregon Employment Department reported that construction employment in the metropolitan area is down 11.6 percent from September 2009 with 5,400 less people employed. Construction employment was 46,600 in September of 2010, which is down annually but has been increasing since the beginning of 2010.

New commercial construction permits issued in Portland decreased by $9.2 million to $36.1 million during the third quarter and the value of all construction permits declined about 12.3 percent from $78.8 million during the second quarter to $70.2 million during the third.

Table 1: Office Market Vacancies and Asking Rents, 3rd Quarter, 2010

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	-	16.10%	15.50%	19.30%	16.10%
Previous Quarter	16.10%	18.00%	15.50%	19.50%	17.10%
Third Quarter 2009	15.40%	15.90%	14.10%	17.10%	15.70%
Third Quarter 2008	10.70%	11.90%	11.60%	13.40%	11.80%
CBD and Downtown Vacancy	-	11.60%	10.70%	12.10%	11.60%
Previous Quarter	11.00%	11.90%	10.70%	12.70%	11.50%
Third Quarter 2009	10.00%	11.70%	9.80%	11.10%	10.60%
Third Quarter 2008	7.60%	8.50%	7.60%	9.00%	8.10%
CBD Class A Vacancy	-	-	8.70%	8.40%	8.60%
Previous Quarter	N/A	-	9.20%	8.70%	9.00%
Third Quarter 2009	6.30%	9.00%	6.20%	6.70%	6.50%
Third Quarter 2008	4.60%	5.60%	4.80%	5.60%	5.20%
CBD Class A Asking Rents	-	$26.69	$26.50	N/A	$26.60
Previous Quarter	N/A	$26.34	$27.03	N/A	$26.69
Third Quarter 2009	N/A	$25.79	$25.86	N/A	$25.83
Third Quarter 2008	$26.91	$26.61	$26.48	N/A	$26.61
Suburban Vacancy	-	20.50%	18.40%	24.10%	20.50%
Previous Quarter	21.50%	21.10%	19.50%	23.90%	21.30%
Third Quarter 2009	20.30%	19.90%	17.40%	20.20%	20.10%
Third Quarter 2008	13.60%	15.30%	14.00%	15.60%	14.70%
Suburban Class A Vacancy	N/A	-	20.10%	26.50%	23.30%
Previous Quarter	N/A	-	22.10%	27.10%	24.60%
Third Quarter 2009	N/A	22.60%	20.60%	22.60%	22.60%
Third Quarter 2008	N/A	15.80%	15.60%	N/A	15.70%
Suburban Class A Asking Rents	N/A	$23.15	$22.94	N/A	$23.05
Previous Quarter	N/A	$23.09	$23.65	N/A	$23.37
Third Quarter 2009	N/A	$24.04	$23.84	N/A	$23.94
Third Quarter 2008	N/A	$24.46	$24.11	N/A	$24.29

Figure 2: Oregon Employment and Construction Employment

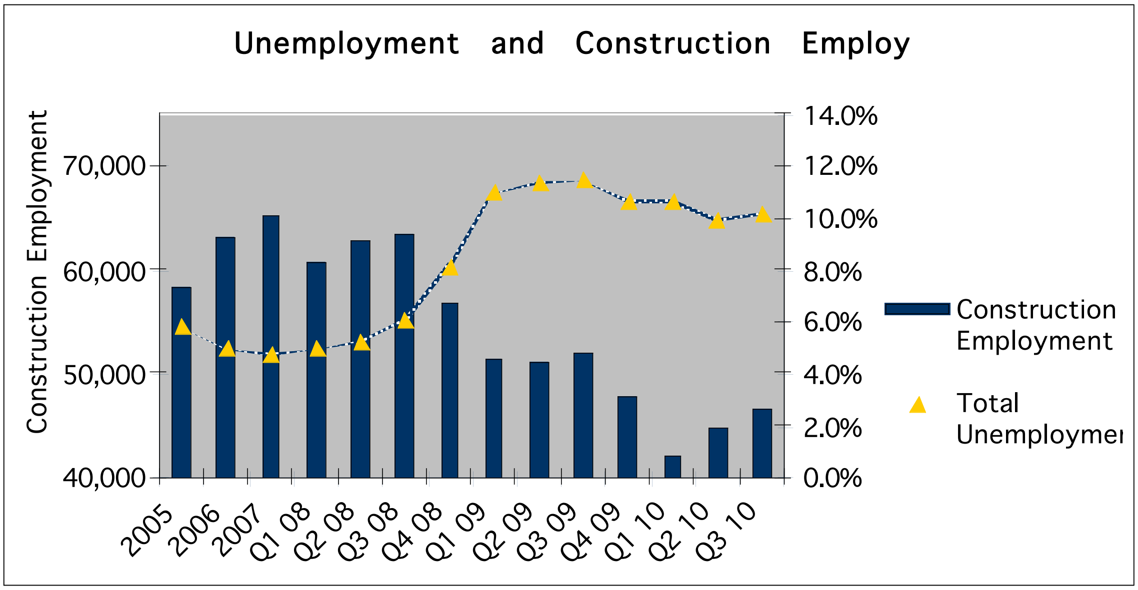
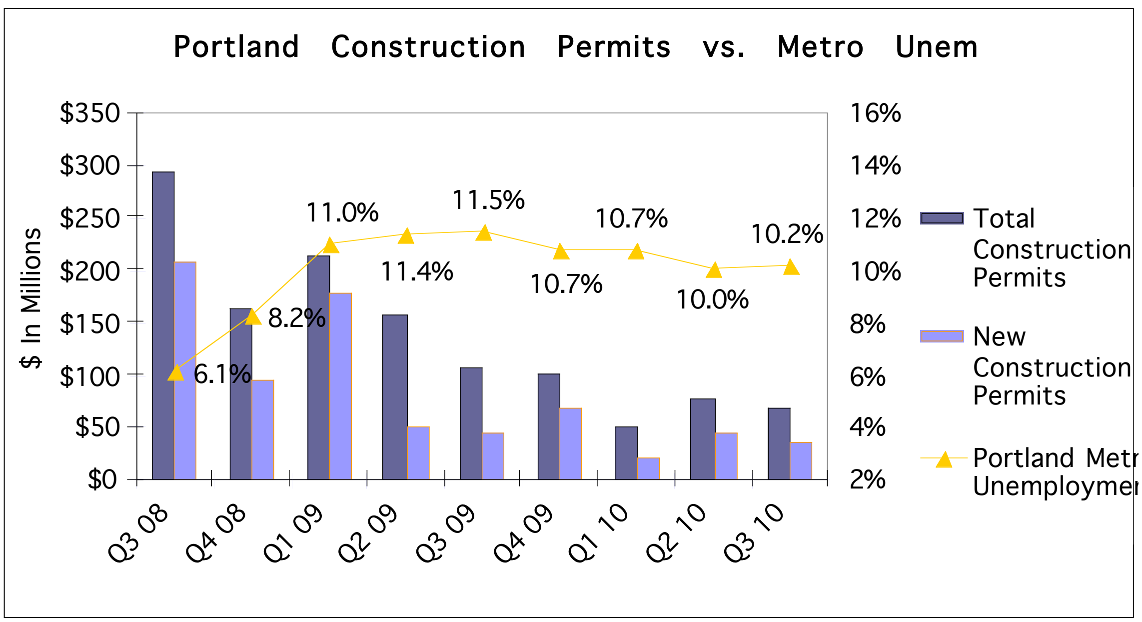


Figure 3: Portland Construction Permits and Metropolitan Unemployment



CBD TRENDS

Grubb & Ellis reports that CBD Class A vacancy ended the third quarter of 2010 with an 8.7 percent vacancy rate which is a decrease from the 9.2 percent vacancy rate posted during the second quarter. CBD Class A vacancy rates are expected to decline during the fourth quarter also due to NWEA moving into its new headquarters on Everett Street. Grubb & Ellis is forecasting that the CBD Class A office market will have a vacancy rate of 7.5 percent at the end of the fourth quarter. There is currently 62,200 square feet of space under construction in the CBD.

The Daily Journal of Commerce reported that there is a shortage of large Class A space in the CBD that may force some companies to look at splitting up operations into multiple buildings or relocate to the suburbs over the next 36 months. The CBD has only one Class A space which is larger than 40,000 square feet, while six comparably sized spaces exist in the suburbs. The article goes on to report that there are more than ten companies in the CBD that need 50,000 square feet or more which have leases expiring in the next 36 months.

Figure 4: Office Vacancy, Metropolitan All Classes and CBD Class A

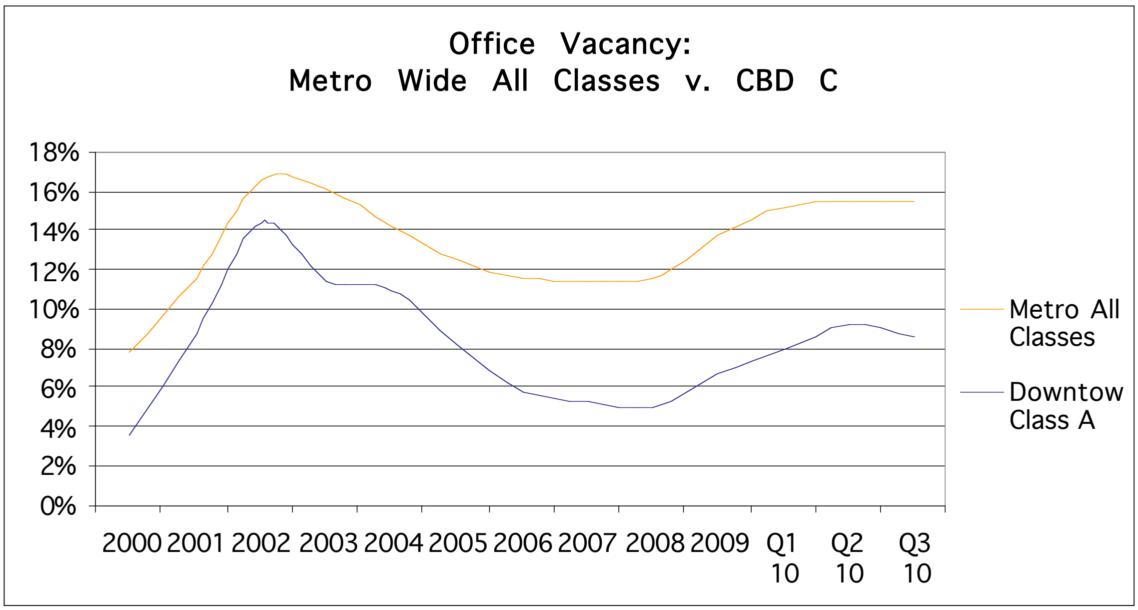


Table 2: Suburban Office Submarkets, Ranked by Vacancy Rate

Submarket	Vacancy Rate
Camas	41%
Tualatin/Wilsonville	34%
Sunset Corridor	29%
Cascade Park	26%
Columbia Corridor	24%
Washington Sq/Kruse Way	21%
Orchards	20%
SW/Beaverton/Sylvan	17%
Johns Landing/Barbur Blvd	17%
Vancouver	16%
Clackamas Sunnyside	15%
Northwest	12%
St. Johns/Central Vancouver	12%
Vancouver Mall	9%
Eastside	8%
Hazel Dell/Salmon Creek	7%

SUBURBAN TRENDS

Suburban office vacancy dropped by 80 basis points during the quarter to a median rate of 20.5 percent as shown in the brokerage report summary. Suburban Class A asking rents continued to decline and dropped $0.69 during the quarter according to Grubb & Ellis. Washington Square/Kruse Way Class A asking rents remained stable, while they continued to decline in the Sunset Corridor.

The Camas submarket continues to have the highest vacancy rate in the metropolitan area, ahead of Tualatin/Wilsonville (34.0%), Sunset Corridor (29.3%) and Cascade Park (26.2%). Hazel Dell/Salmon Creek (7.1%), Eastside (8.2%) and the Vancouver Mall (9.1%) continue to post the lowest submarket vacancy rates.

Table 3: Total Vacancy for Select Suburban Submarkets

Submarket	Current Market Size (Sq. Ft.)	3Q 09 Vacancy	4Q 09 Vacancy	1Q 10 Vacancy	2Q 10 Vacancy
Washington Square/Kruse Way	6,147,968	20.60%	21.10%	21.90%	21.70%
Sunset Corridor	4,213,199	27.40%	28.00%	28.10%	27.60%
SW/Beaverton/Slyvan	3,530,939	15.80%	16.50%	16.60%	17.30%
Eastside	2,735,967	7.40%	8.60%	7.80%	7.60%
Johns Landing/ Barber Blvd.	1,758,613	14.80%	15.10%	14.30%	14.40%
Tualatin/Wilsonville	1,665,195	27.90%	28.30%	29.20%	36.10%

According to NBS the suburban submarket posted positive 4,006 square feet of absorption. It is the first time there has been positive net absorption since the third quarter of 2008. The Sunset Corridor submarket will benefit from Nike's lease of 200,000 square feet and the vacancy rate in Central 217 decreased by 400 basis points because of the 45,000 square feet leased at Lincoln Center by Axium Software, Bridgewell Resources and others.

Table 4: Major Lease Transactions, 3rd Quarter, 2010

Lessee	Property	Submarket	Size (SF)
Nike	Tektronix Campus	Sunset Corridor	191,573
Vestas	Meier & Frank Depot Building	Northwest	133,260
PECI	First & Main	CBD	73,489
Bridgewell Resources	5 Lincoln Center	Tigard	32,088

Stoel Rives extended its lease at the Standard Building because of the stalled construction of Park Avenue West. The law firm previously planned to move to the new building, and by extending its current lease has increased the uncertainty on when construction may resume on Park Avenue West.

Table 5: Vacant and Occupied SF, by Submarket

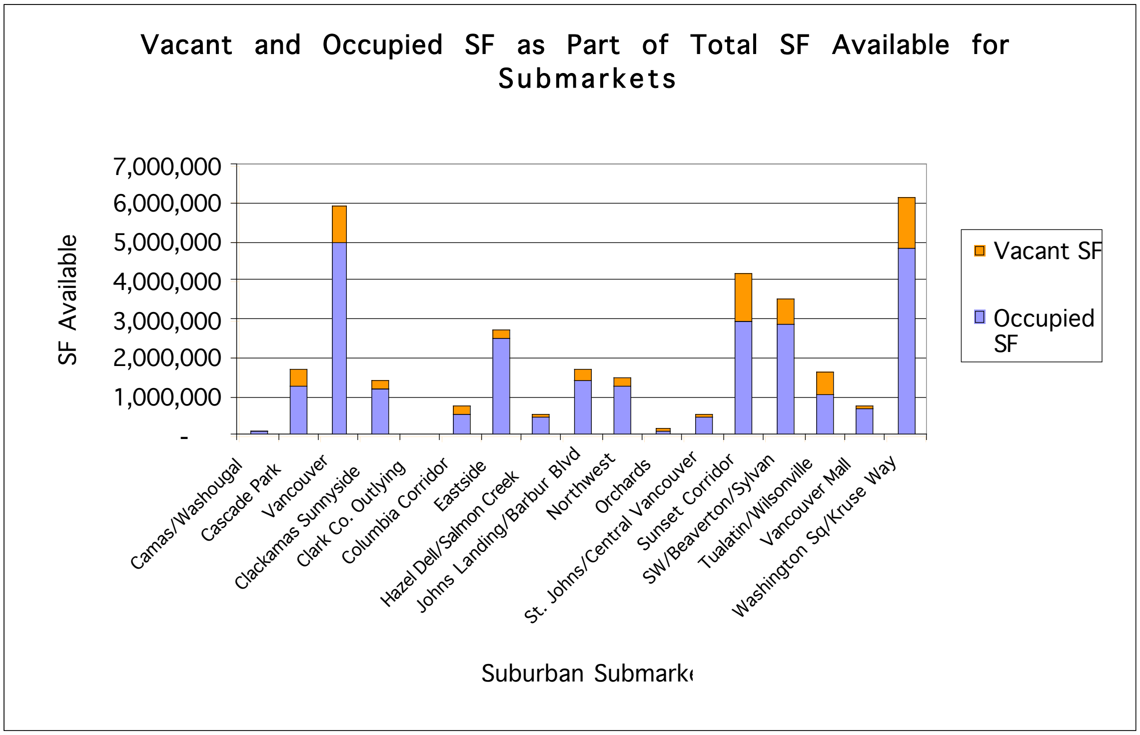
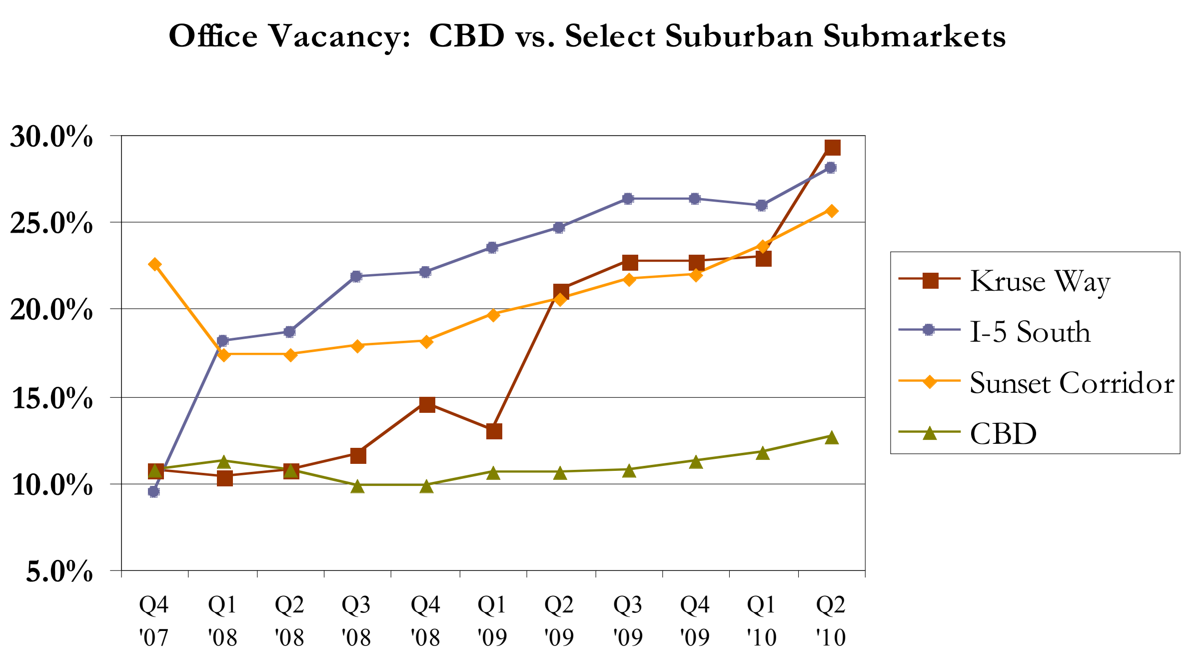


Table 6: Office Vacancy, by Submarket



RETAIL MARKET ANALYSIS

KYLE SMITH

Regional Multiple List Service [RMLS] Fellow
& Certificate of Real Estate Development Graduate Student

Retail vacancy rates dropped 150 basis points during the third quarter to finish at 6.5 percent; however there was negative absorption of 40,732 square feet according to the Norris, Beggs & Simpson retail report. The Central City submarket experienced another vacancy decrease, which dropped the rate down to 9.3 percent.

There is 236,276 square feet currently under construction in the metropolitan area. The spike in total construction was caused by the 215,000 square foot Progress Ridge Town Square which is being built between Tigard and Beaverton. The project will be anchored by Cinetopia and New Seasons and is reportedly 75 percent pre-leased. Gramor Development has broken ground and secured financing for the center. Progress Ridge Town Square will be next to the newly opened Big Al's Family Bowling and Entertainment Center.

In August, Gramor Development broke ground on Lacamas Crossing, a Costco anchored retail development in East Vancouver. The site will contain a 154,000 square foot Costco and 27,000 square feet of additional retail space to hold 15 additional businesses. Lacamas Crossing will be located at the intersection of Northeast 192nd Avenue and Southeast First Street. The development will employ about 500 people and will cost $40 million to construct. Gramor is also working on a Fred Meyer anchored development in Wilsonville which will have about 100,000 square feet of retail space. The Wilsonville and Vancouver sites are not reflected in Norris, Beggs & Simpson's construction data.

Figure 1: Negative 32,200 SF Net absorption in Southeast/East Clackamas and Negative 35,000 SF in Eastside

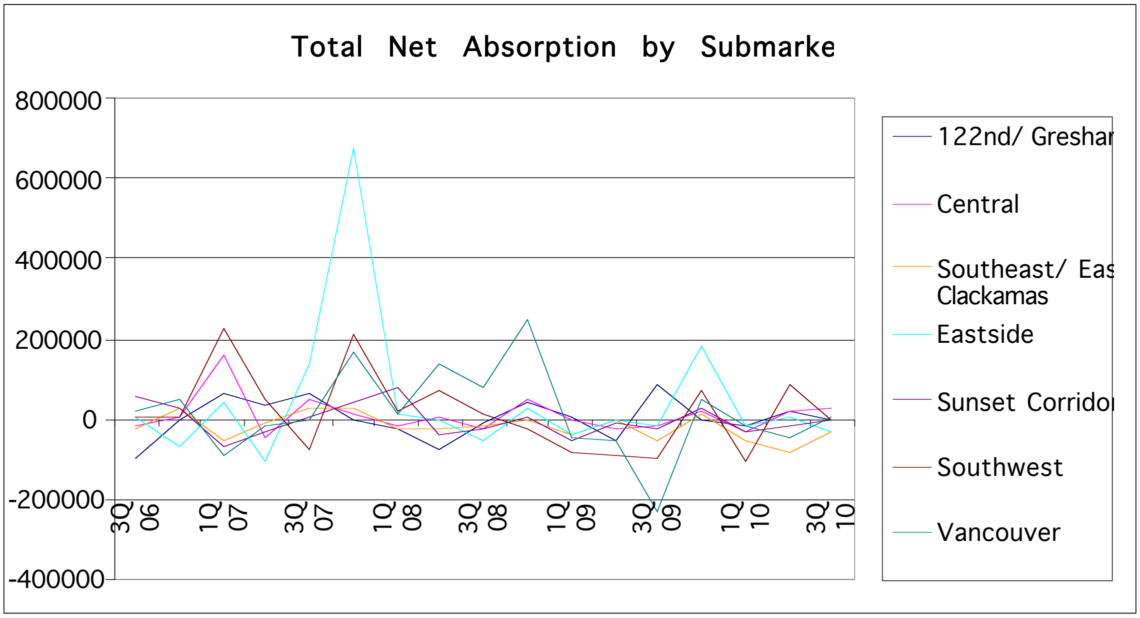


Figure 2: Vacancy Rate Drops to Lowest Level Since 1st Quarter 2009

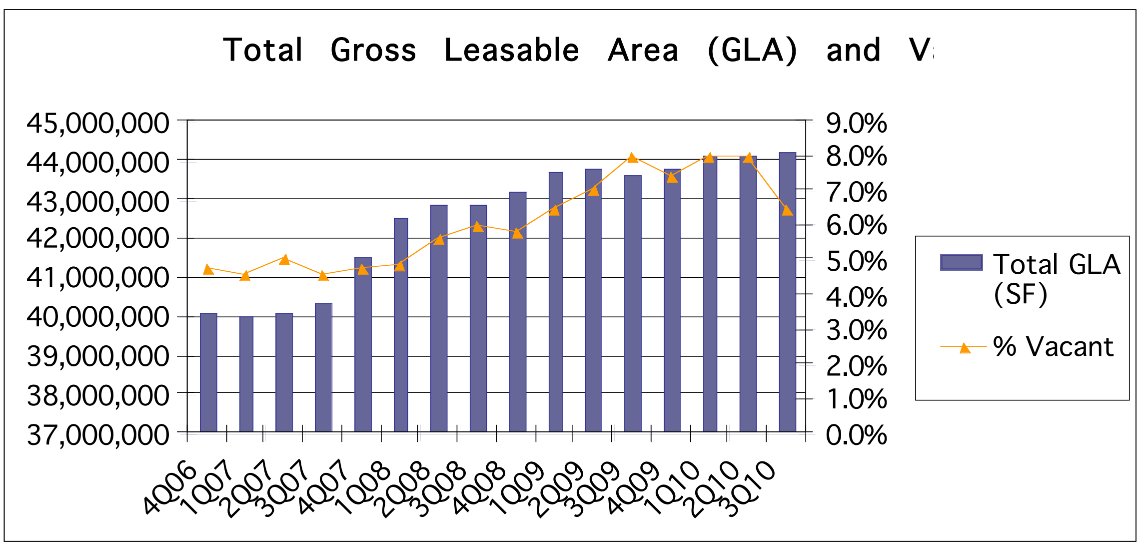


Figure 3: Construction Spike from 215,000 SF Progress Ridge Town Square

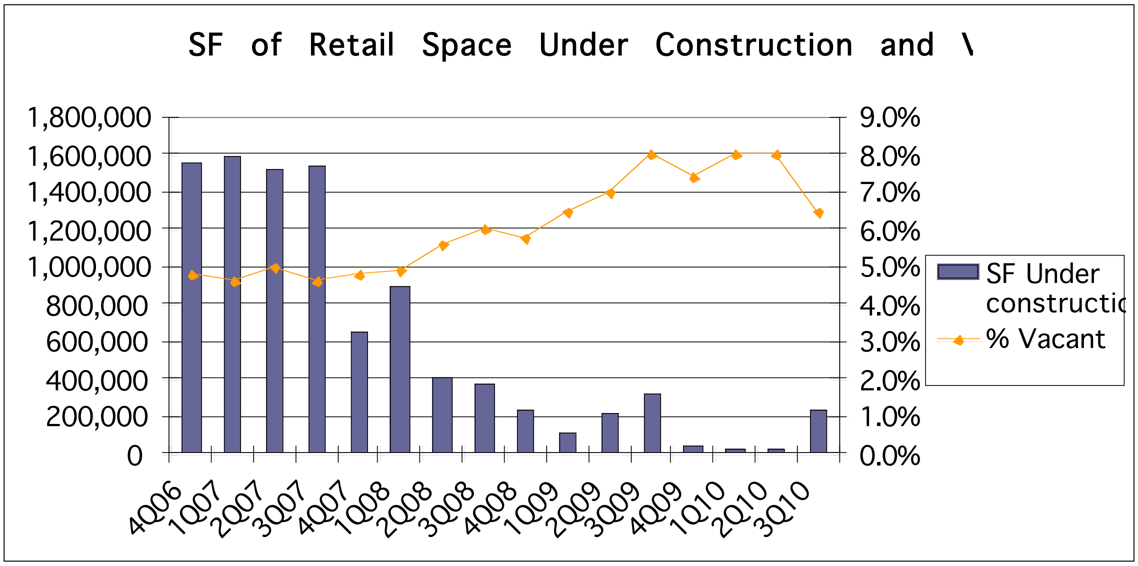
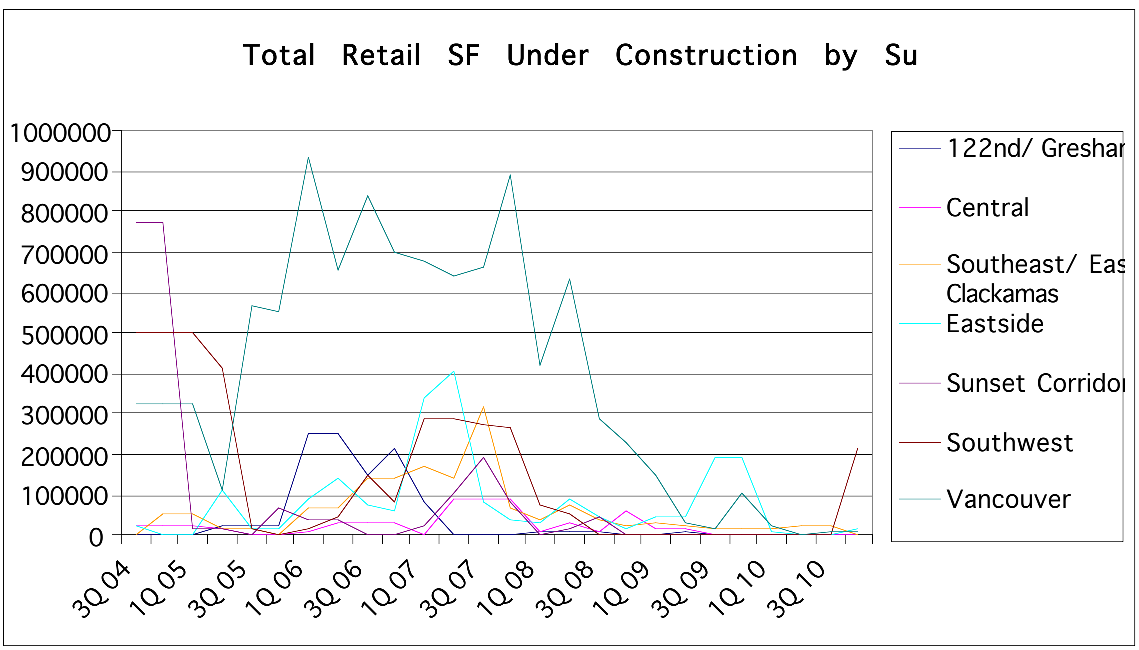


Figure 4: 13,600 SF of Construction Begun in Eastside Submarket



Camping, hunting and fishing big box retailer, Cabela's is looking to build a 125,000 square foot store in north Wilsonville, but the city voiced many concerns about the proposed development. The city's primary concern was the impact on traffic. They believe the 32 acre site would be better as an industrial site, not retail. The government affairs director for Wilsonville said that they learned a lesson with Fry's that having destination retailers (without a presence in other parts of the city) locate down south is not appropriate. He added, “We have the most congested portion of Interstate 5 in the region”. The site in question is zoned Residential-Agricultural-Holding, which means its 30 buildable acres are unzoned until there is a development proposal. Cabela’s has looked at about 12 different sites in the Portland metropolitan area, and this Wilsonville site is reportedly the favorite.

The city of Hillsboro is looking at cutting fees in half for improvements that are made to storefronts downtown. The proposed fee cut would only apply toward projects that qualify for the city’s storefront improvement grant program. The program allows business’ which want to make storefront improvements within the downtown district to apply for a $25,000 grant. Under the current system grant recipients are paying a portion of the money right back to the city in the form of land use and planning fees. Planning supervisor Colin Cooper said, “This move will let the grant money do what it’s supposed to do—improve storefronts.”

INDUSTRIAL MARKET ANALYSIS

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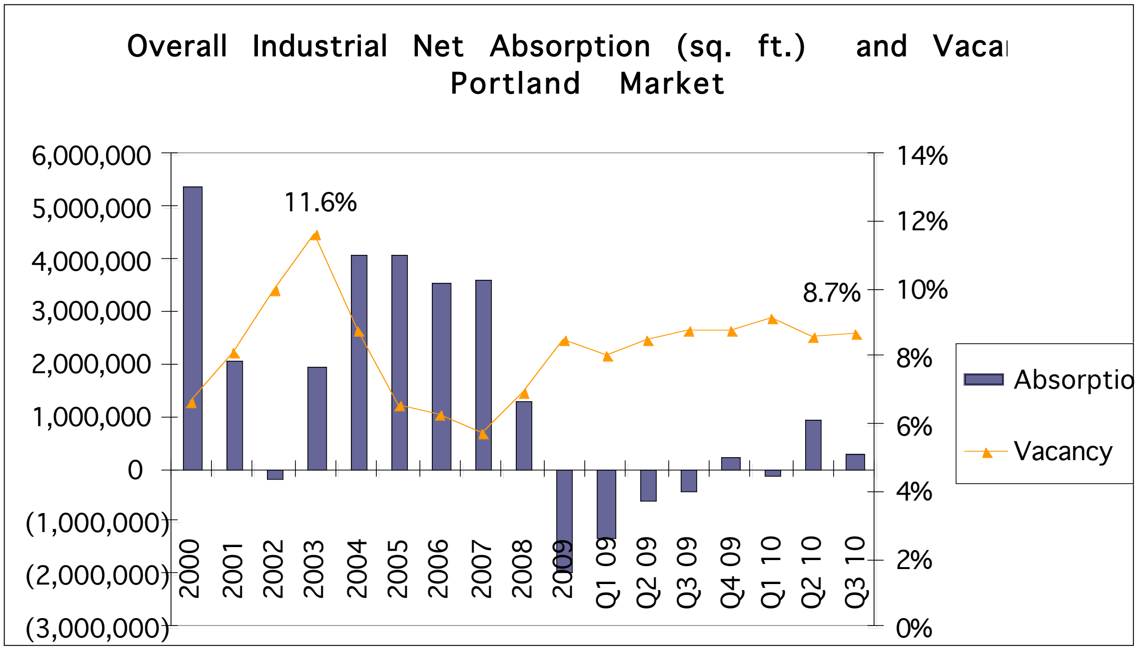
The Portland metropolitan industrial market experienced a slight vacancy rate increase and positive net absorption during the third quarter of 2010 according to Grubb & Ellis. During the quarter vacancy increased by 10 basis points to 8.7 percent, and there was positive net absorption of 276,809 square feet. Year-to-date net absorption in the metropolitan area is about 1,130,000 square feet, so if the trend continues through the forth quarter the market could absorb 1.5 million square feet for the year. The market gave back about 1.7 million square feet of space during 2009 and the positive net absorption of the last two quarters have been reabsorbing that space.

Norris, Beggs & Simpson (NBS) reported different market data and conclusions in its Industrial/Flex Report then Grubb & Ellis did, which is common because they rely on different data sources. According to NBS, industrial vacancy remained stable at 15.2% with a positive net absorption of 9,992 square feet, while R&D/Flex vacancy increased by 70 basis points to 18.9 percent with 66,775 square feet of negative net absorption.

According to Grubb & Ellis, the warehouse and distribution sector of the market had positive net absorption of 600,341 square feet and vacancy decrease of 10 basis points to 8.4 percent. The R&D/Flex market posted a 323,532 square foot negative net absorption and a 100 basis point vacancy increase, bringing the sector to 9.8 percent vacancy. R&D/Flex rents have dropped $0.06 to $0.71 after increasing $0.03 per square foot during the second quarter of 2010. The Clackamas submarket posted the largest changes with vacancy rates dropping from 8.4 percent to 5.7 percent during the quarter according to Cushman & Wakefield. Clackamas tenants absorbed 200,000 square feet of additional space

Figure 1: Slightly increased vacancy rate with positive net absorption for the second straight quarter



Construction deliveries to the market totaled 606,000 square feet. The 415,000 square foot FedEx regional distribution hub was responsible for most of that space, and its delivery drops the construction pipeline down to only 60,000 square feet. None of the deliveries in the construction pipeline are speculative.

TA Associates sold is portfolio of Portland properties totaling 475,000 square feet, to Denver based REIT Industrial Income Trust. The trust reportedly paid $28 million for the properties, indicating a cap rate change of between 50 and 100 basis points from the ProLogis portfolio which was sold in June of 2009. Other than that transaction, there was little sales activity during the quarter. There was however a few land sales like Farwest Steel's purchase of 20 acres at the Port of Vancouver. The land was purchased for $5.1 million and the company plans to build a $30 million facility there.

Table 1: Industrial Market Vacancies and Rates, 2nd Quarter 2010

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-wide Vacancy	-	8.60%	8.60%	15.20%	8.60%
Previous Quarter	8.20%	8.70%	9.10%	14.60%	8.90%
Second Quarter 2009	8.10%	8.00%	8.50%	13.90%	8.30%
Second Quarter 2008	5.80%	6.30%	6.70%	N/A	6.30%
Warehouse/Distribution Vacancy	-	10.00%	8.50%	N/A	9.30%
Previous Quarter	-	10.40%	9.10%	N/A	9.80%
Second Quarter 2009	N/A	7.70%	8.60%	N/A	8.20%
Second Quarter 2008	N/A	5.80%	6.80%	N/A	6.30%
R&D/Flex Vacancy	-	10.00%	8.80%	18.20%	10.00%
Previous Quarter	-	-	9.20%	18.00%	13.60%
Second Quarter 2009	N/A	9.60%	7.90%	15.10%	9.60%
Second Quarter 2008	N/A	9.20%	6.50%	N/A	7.90%
Asking Monthly Shell Rates	-	N/A	$0.41	N/A	$0.41
Previous Quarter	$0.39	N/A	$0.41	N/A	$0.40
Second Quarter 2009	$0.40	N/A	$0.41	N/A	$0.41
Second Quarter 2008	$0.39	N/A	$0.42	N/A	$0.41
Asking Monthly Flex Rates	-	N/A	$0.77	N/A	$0.77
Previous Quarter	$0.75-$1.00	N/A	$0.74	N/A	$0.74
Second Quarter 2009	$0.85-$1.05	N/A	$0.80	N/A	$0.80
Second Quarter 2008	$0.85-$1.06	N/A	$0.82	N/A	$0.82

Figure 2: 415,000 sf FedEx distribution hub delivered during third quarter

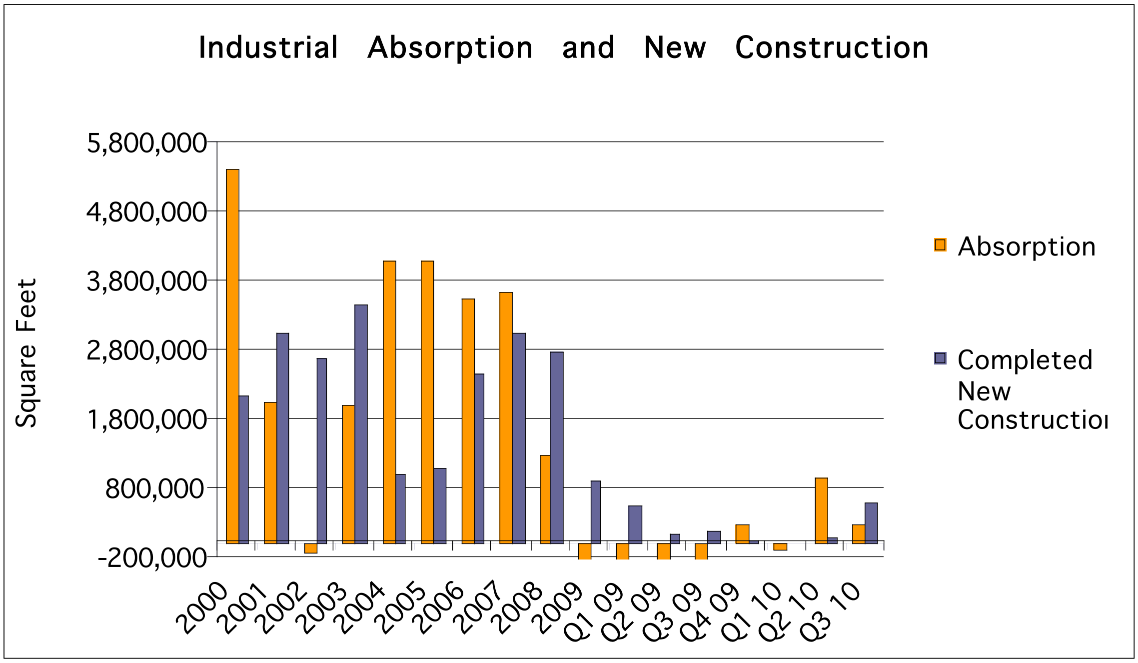


Table 2: Major Industrial Lease Transactions, 3rd Quarter 2010

Tenant	Property	Size (Sq. Ft.)	Submarket
Sunlight Supply	2501 Kotobuki Way	92,640	Central Vancouver
PFX Pet Supplies	Columbia Corporate Park	70,000	North/Northeast
Sky High Sports	11101-11131 SW Greenburg Rd.	45,000	Southwest 217
SERVPRO of Tigard/Tualatin	Nelson Business Center	38,505	Southwest I-5
Greenberry Industrial	Columbia Business Center - Bldg 40	32,576	Central Vancouver
Total		278,721	

Metro has been discussing adding additional industrial land within the Urban Growth Boundary and have said they would make a decision by the end of the year. Some are concerned that large parcels of industrial land are rare within the UBG, while those opposed to the proposal point to underutilized and brown field land which could be developed. In a preliminary recommendation, 310 acres of land west of Hillsboro was targeted for potential expansion by Metro. Currently there are only three industrial buildings with more than 200,000 square feet which are available to lease in the metropolitan area. Only one of these is within the city limits of Portland.

LaCrosse Footwear's Danner brand has been manufacturing boots and operating out of its 36,000 square foot Northeast Airport Way Road space for 20 years. An increase in boot orders caused the firm to split its operation between two new sites. One site is a 4,000 square foot building which has commercial space and a repair center. The other is a 59,000 square feet manufacturing center within a new 140,000 square foot building on Portland Way Road. The company spent $9 to $10 million on renovations and construction of the two buildings.

MULTIFAMILY MARKET ANALYSIS

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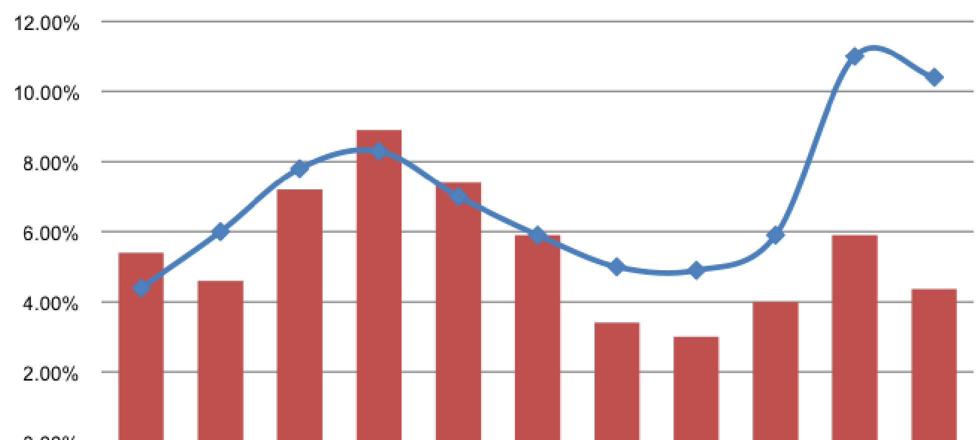
Through the third quarter of 2010 the local multifamily market, according to the Spring 2010 survey by the Metropolitan Multifamily Housing Association (MMFHA), vacancy has dropped to 4.0% percent in the metropolitan Portland market, down from 5.1% in the second quarter 2010. Similar results are seen in a more recent survey completed by Norris & Stevens, a local brokerage firm specializing in multifamily. The summer 2010 Norris & Stevens survey showed that the Portland area vacancy rate dropped to 5.75 percent, down 1.14 percent from the last survey in the fall of 2009. While most submarkets are seeing some concessions to encourage new move in, rents seem to be holding steady or increasing slightly. In the aftermath of major economic changes, apartments are gaining a stronger share of the housing market with many apartment complexes with occupancy above 95%+ or better in many cases. This could be due to families and individuals being force to reevaluate their housing costs and seeking apartments to meet their housing needs. It is crucial for apartments to make strategic decisions to improve the overall value of their property by reducing costs and stabilizing the income stream because the biggest program that that is impact landlords in the multifamily market is tenants who have lost their job and are forced to move out.

According to Norris, Beggs & Simpson's Third Quarter 2010 Multifamily Report, the overall multifamily vacancy rate has decreased to 3.65% from 4.64% in the second quarter of 2010 and is down from 4.11% this time last year. The year to date average vacancy rate is 4.37% for the three quarters of 2010. The average rents for the quarter are $727 ($1.02/SF) for a 1BR/1BA, $739 ($0.83/SF) for a 2BR/1BA, $936 ($0.89) for a 2BR/2BA and $996($0.81) for a 3 BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for $1,582 per unit and seasoned 2 BR/2BA units rent for an average $855 per unit. Decreased vacancy rates have stirred new interest in multifamily investment. The Daily Journal of Commerce reports on a survey of 1,500 apartment complex owners in the Portland-metro area conducted by a local multifamily investment real estate firm HFO, it is found that 24% of respondents would consider buying an apartment complex in the next six month with 46% saying they would consider is the right deal arose; 65% said they were looking for apartment properties within five miles of downtown with the recently 2% decrease in vacancy from the second quarter and 49% said they are able to make a minimum down payment of $1 million for their next apartment venture.

Figure 1: Unemployment and multifamily vacancy, Portland metropolitan area



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Vacancy	5.40%	4.60%	7.20%	8.90%	7.40%	5.90%	3.40%	3.00%	4.00%	5.90%	4.37%
Unemployment	4.40%	6.00%	7.80%	8.30%	7.00%	5.90%	5.00%	4.90%	5.90%	11.00%	10.40%

Vacancy Unemployment

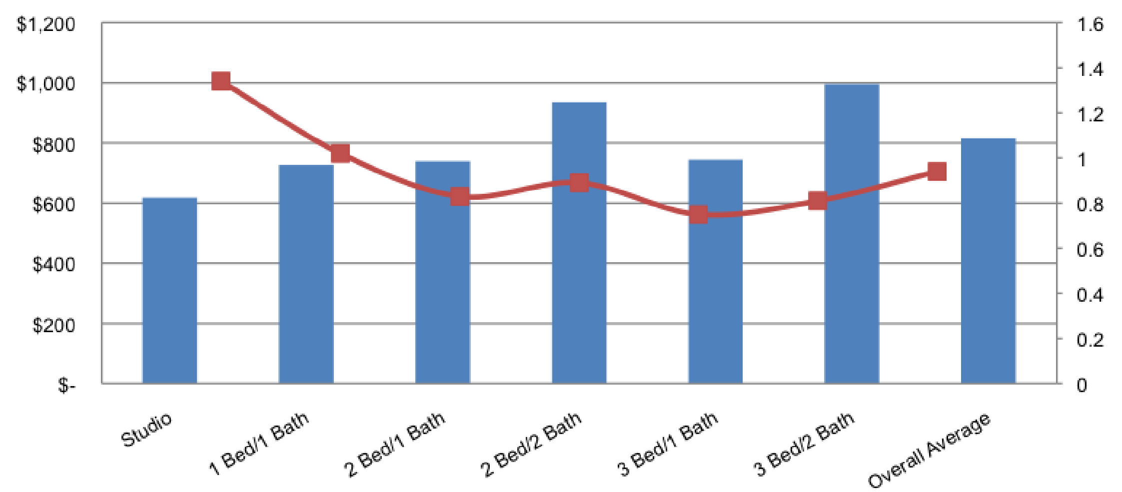
Source: Norris, Beggs & Simpson

Unemployment rates are positively correlated with vacancies as shown in the chart below, and dramatically rose from 5.9 % in 2008 to 11% in 2009, but have declined to 10.40 for 2010 YTD which also shows the decrease in vacancy rates. While unemployment rates have decreased for 2010, we have actually lost 7,500 wage and salary jobs since January 2010. On the up side, IBM recently announced that they will be adding 600 jobs in Beaverton, Daimler announced they will continue manufacturing trucks at their Swan Island plant, Greenbrier will be adding 260 jobs, and Vestas decided to proceed with a $66 million headquarters project in the Pearl.

The drop in the local vacancy rate reflects similar conditions in the national apartment market. Data released by Reis Inc., a New York real estate research firm, showed that the national multifamily vacancy rate fell to 7.2% from 7.9% a year earlier and 7.8% in the second quarter.

Rent rates increased by $9 overall to $815 from last quarter, or $0.94 per square foot. The largest increase for quarter three was downtown where overall rent increased by $26 to $1,374, or $1.64 per square foot.

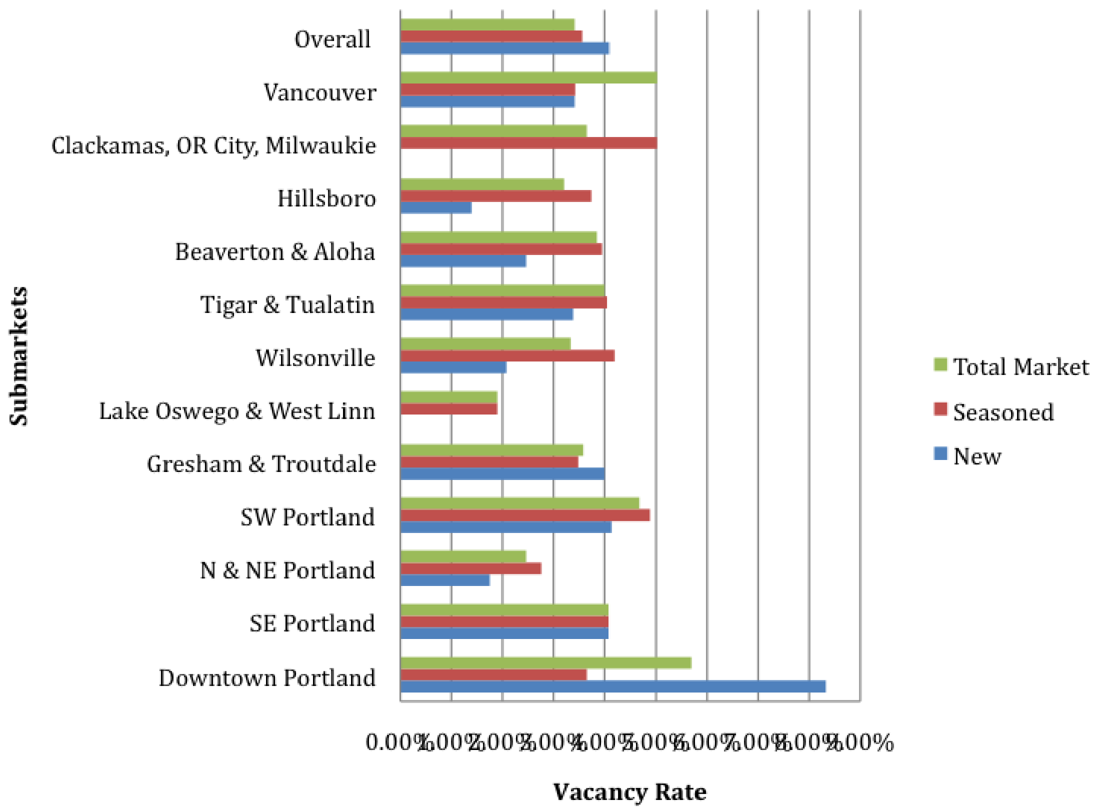
Figure 2: Average rent and price per square foot, 3rd Quarter, 2010, Portland metropolitan area



Source: Norris, Beggs & Simpson

The downtown Portland submarket shows the highest total vacancy rate at 5.7%, while Lake Oswego/West Linn has the lowest submarket vacancy at 1.90%. Downtown Portland has the highest new unit vacancy at 8.33% while Lake Oswego/West Linn have the lowest vacancy rate at 0%.Clackamas, OR City and Milwaukie have the highest vacancy rates for seasoned units at 5.02% while Lake Oswego/West Linn have the lowest at 1.90%.

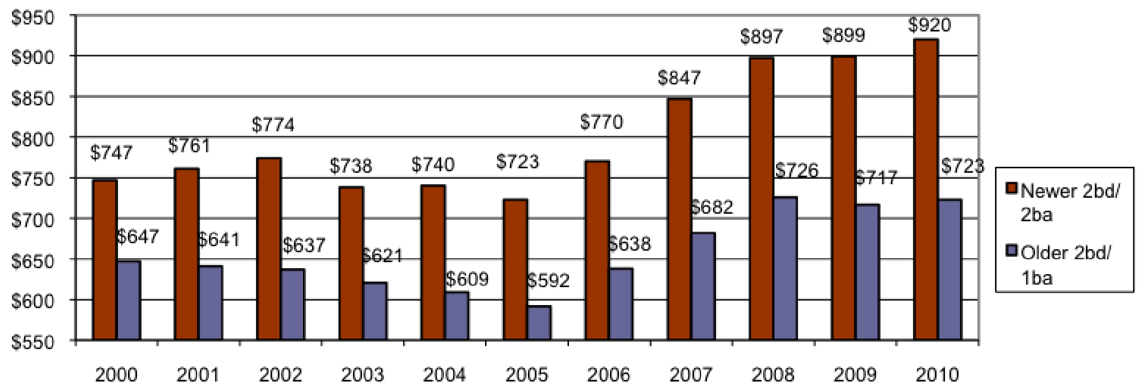
Figure 3: Vacancy rates, 3rd Quarter, 2010, Portland metropolitan area, by submarket



Source: Norris, Beggs & Simpson

The recent Norris & Stevens survey shows asking rents for older two-bedroom/one-bath units to have decreased slightly from 2008 from $726 to $723. Asking rents for newer two-bedroom/two bath units have increased slightly over this time period, going from $897 per month to $920 per month in 2010.

Figure 4: Average rents, Portland metropolitan area



Source: Norris & Stevens

Norris, Beggs & Simpson's list of major apartment sale transactions for the 3rd quarter qhich include four transactions for 100 units. These include the Clackamas Village (372 units) in Clackamas for $20.7 million, the Twin Creek Apartments (220 units) in Clackamas for $17 million, Pine Square (127 units) in N/NE Portland for $6.135 million, and 539 SW 13th Ave. (132 units) in Downtown Portland for close to $2 million.

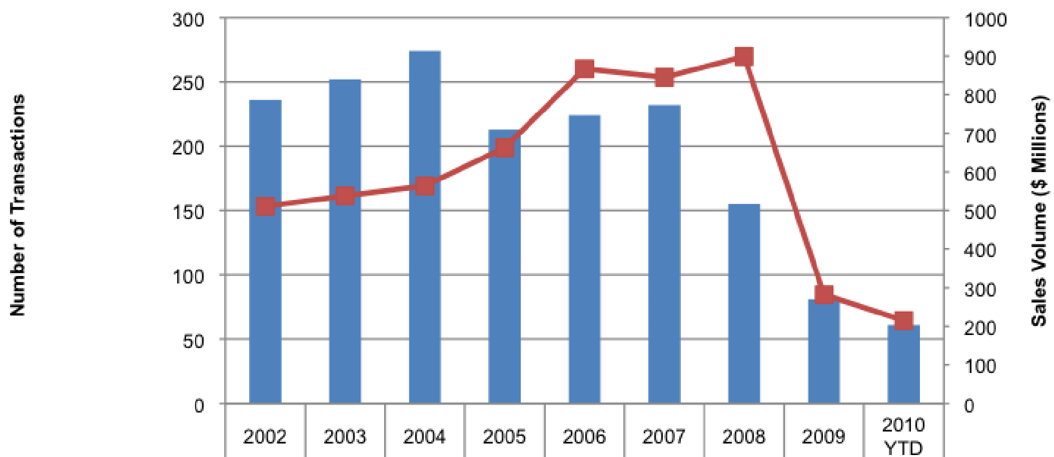
Table 1: Major sales transactions, 3rd Quarter, 2010, Portland metropolitan area

Building	Buyer	Price	Units	Price/Unit	Submarkets
Clackamas Village	The Matteson Companies	$20,700,000	372	$55,645	Clackamas
Twin Creek	South Court Properties	$17,000,000	220	$77,273	Clackamas
Pine Square	Pine Square Investments, LLC.	$6,135,000	127	$48,307	N/NE Portland
Mississippi Avenue Lofts	Winkler Development Corporation	$5,925,000	32	$185,156	N/NE Portland
Jeanne Anne	Housing Authority of Portland	$2,765,000	46	$60,109	Gresham/Troutdale
Reedville Meadows	Reedville Meadows Apartments, LLC.	$2,005,000	28	$71,607	Beaverton/Aloha
539 SW 13th Ave.	DP Alder House, LLC.	$1,971,660	132	$14,937	Downtown Portland

Source: Norris, Beggs & Simpson

Despite the recent large multifamily sales, apartment sales volumes volume were down significantly in 2009 relative to the prior six years as well as the number of transactions within the current market is still down significantly from levels seen in 2002 through 2008. The graph below shows the sharp drop-off in transactions and total dollar value in 2009 and continuing through the third quarter of this year. Sales volume for 2010 year to date is at $215.1 with only 61 transactions as compared to $254 million and 77 transactions for 2009. But while YTD 2010 has continued to be a challenge, there has been noticeable improvement in the second and third quarter. Through the first eight months of 2010, there was been 61 apartment sales for $251.1 while there was a total of 81 sales for $281.8 million in 2009. 2010 sales volume is off by around 60% from the $800 million per year average from 2003 to 2008.

Figure 5: Multifamily transactions and sales volume, Portland metropolitan area



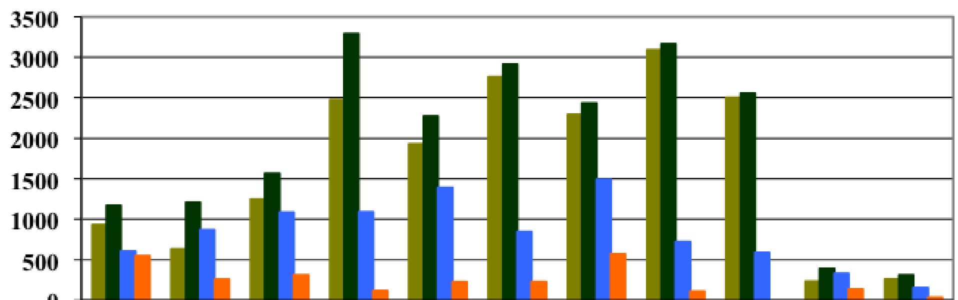
	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
Number of Transactions	236	252	274	213	224	232	155	81	61
Sales Volume	511	538	564	663	867	845	899	282	215.1

Source: Barry & Barry

Apartment construction has followed a similar trend to multifamily sales with 2010 being the slowest year for apartment construction since the early 1960’ s. Permits have been issued for just 460 apartment units in the four county metro areas for 2010 through July vs. an average of around 4,000 units per year for the previous ten years according to Mark Barry and Phillip Barry.

As shown by the graph above, multifamily permits experienced a strong drop-off in 2009 when only 235 multifamily units were permitted within the city. This was well below the yearly average of 1,982 permits issued between 2000 and 2008. Through the first six months of 2010, only 312 multifamily units have been permitted in Multnomah County, with 152 units and 35 units permitted in Washington and Clackamas County, respectively. Based on these numbers, 2010 will be another slow year for apartment construction. Factors contributing to the current void 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 5.1 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 residential permits issued



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
Portland	932	632	1,246	2,473	1,926	2,755	2,295	3,088	2,499	235	263
Multnomah Co.	1,171	1,208	1,564	3,289	2,275	2,914	2,431	3,166	2,551	390	312
Washington Co.	606	870	1,087	1,092	1,392	847	1,493	720	589	332	152
Clackamas County	550	261	312	116	229	230	572	108	0	135	35

CONDOMINIUM AND ATTACHED MARKET

The number of condominium sales in the Portland metropolitan market is up 17.17% to 348 transactions from 297 transactions in the second quarter of 2010. Suburban East number of transactions is up 47.7% while Suburban East is up 65.4% and Vancouver is up 100% to 74 transactions from 37 transactions. The number of transactions is up annually as well from the third quarter last year for the four submarkets reported with the highest increase in Vancouver at 12.12% followed by Suburban East at 10.26%, Suburban West at 7.21% and Inner PDX at 4.5%.

The Portland metropolitan area's price per square foot is at $150, a decrease of 5.3% quarterly and down 15.4% from 2009. The median price per Portland metro condominium unit is $182,178 down 8.9% from last quarter which was reported at

$199,999 and down 3.5% from the same time last year, reported at $188,700. Vancouver, at a price per square foot of $110, is up 4.5% for the quarter but down 0.5% for the year. Vancouver's median price per condominium is up to $25,450 a decrease of 19.1% for the quarter and 1.2% decrease from third quarter 2009.

Recently developments in the attached market include the 88 new townhomes development in Summer Creek subdivision in Tigard by the Pulte Group, Inc. out of Bloomfield Hills, Michigan. While national development firms have tended to stay away from this region, market demand is far outweighing the difficulties of strict development guidelines and many are now seeking to establish a presence in Portland-metro area. While there are interests for new developments, current developers are still resorting to sizeable discounts through biddings to move their units. In late October, thirty more Portland condominiums hit auction block with starting bids at $165,000 for waterside units that was initially priced at $840,000.

Figure 7: Number of transactions, condominiums

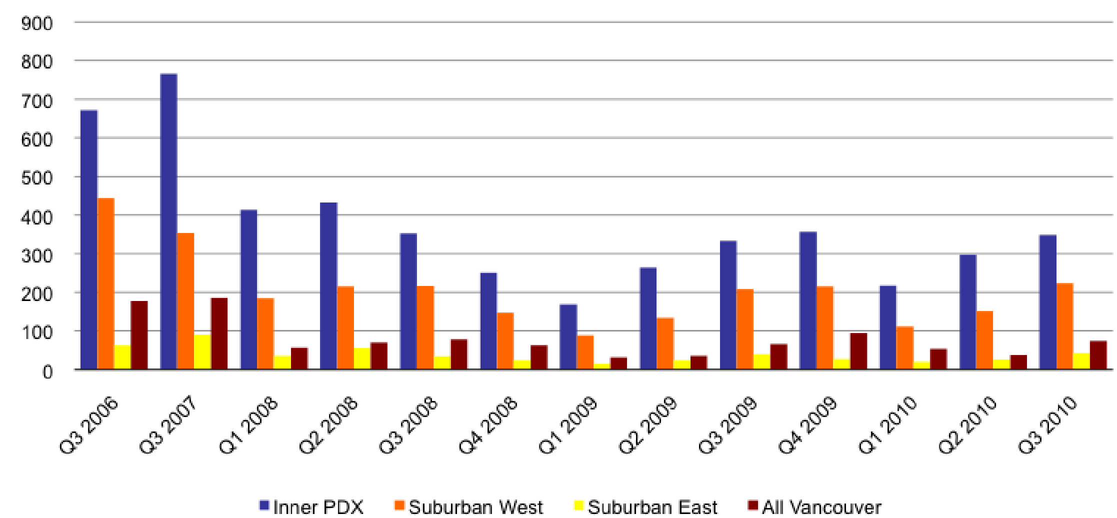
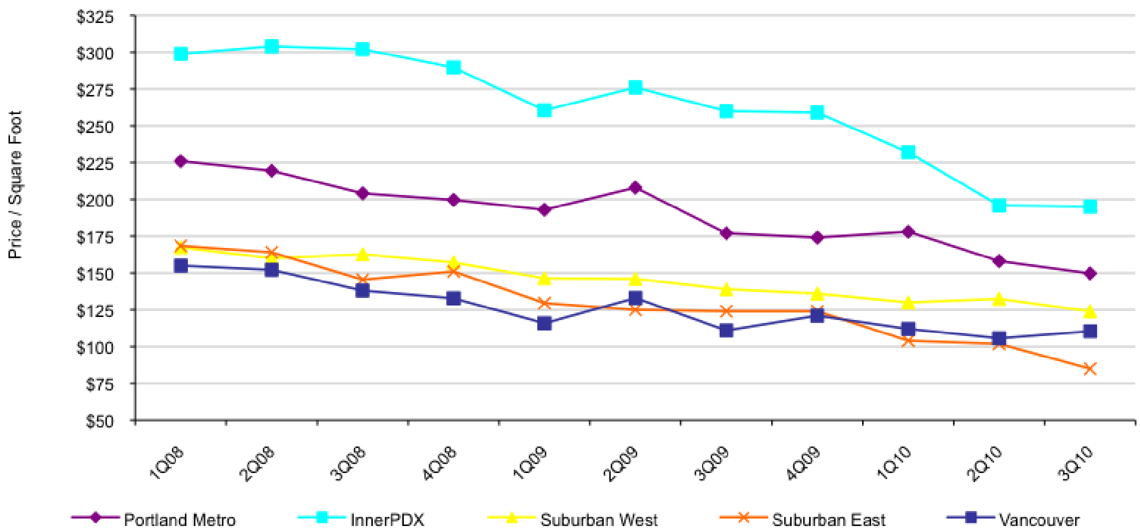
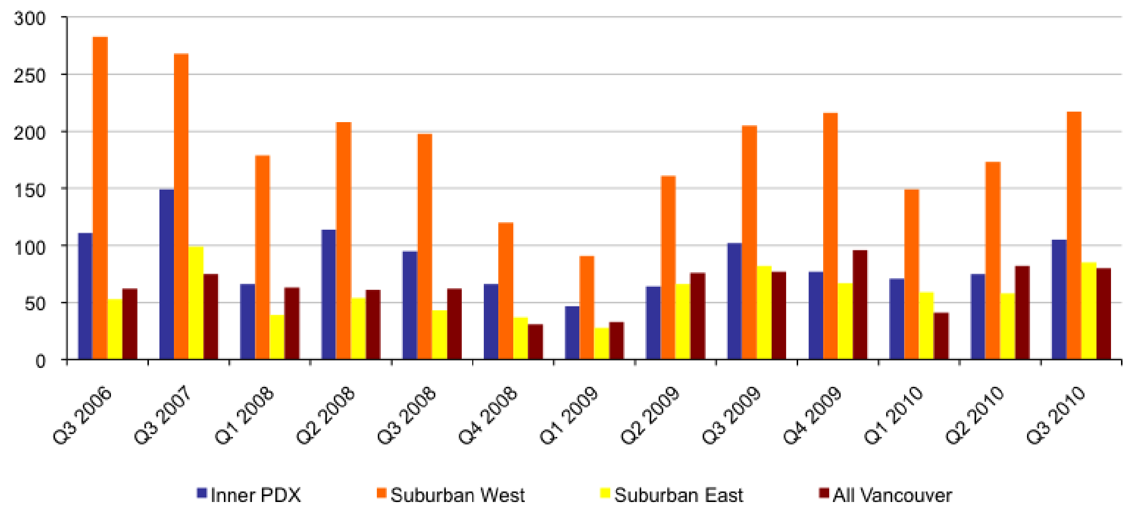


Figure 8: Median price per square foot, condominiums



Results for single-family attached housing are down both quarterly and annually. The number of attached home sales in the Portland metropolitan area decreased 42% from the second quarter to 250 transactions and 37.2% annually from 398 transactions during the third quarter of 2009. The median sale price has decreased 17.8% to $220,000 from $267,800 from the second quarter and has increased 0.02% from the same time last year. The Vancouver area number of transactions decreased to 80 from 82 in the second quarter. For Portland metro, the price-per-square-foot is down 5.1% to $115 and down 12.1% from 2009. Vancouver is at $98 per square foot, and saw a quarterly decrease of 1.7% and an annual decrease of 11.3%. The median price for attached homes in Vancouver is $169,900.

Figure 9: Number of transactions, attached single family



HOUSING MARKET ANALYSIS

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National housing market statistics reflect an increase in value from the prior year, bucking the multi-quarter trend of declining sales prices. Median home prices were up 3.7% annually in August, but for the western part of the United States have decreased by 2.5% from $220,200 to $214,700. During this same time period the Portland metropolitan area experience slightly declining median sales prices and sales volume. The median sales price dropped 0.9% annually from 247,500 to 245,300 and the number of transactions in the metropolitan area decreased by 25.7%.

Home prices have been ticking up with July being the fourth straight month fueled by the homebuyer tax credits, but now with the peak buying season over, a record number of foreclosures and jobs concerns, many cities are concerned about the potential of declined prices in the year ahead.[1] Whiles prices were up in July, August was the second worst month for sales in more than a decade. It was up 7.6% in August from July but down 19% from August 2009. The low housing prices and record low mortgage rates, at 4.32% on a 30-year-fixed mortgage in early September, in 1971 has not been enough to life the housing market. Homebuilders have also kept construction low to avoid competing with the nearly 4 million vacant homes on the market.[2]

[1] "Home prices tick up for fourth straight month." Oregonian. September 28, 2010.
[2] "Home sales inch up, remain low." Oregonian. September 23, 2010.

Table 1: Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
August 2009 Median Sales Price	$172,200	$220,200	$247,500
August 2010 Median Sales Price	$178,600	$214,700	$245,300
% Change in Median Sales Price	3.7%	-2.5%	-0.9%
% Change in Number of Sales August 2009-August 2010	-19.0%	-16.1%	-25.7%

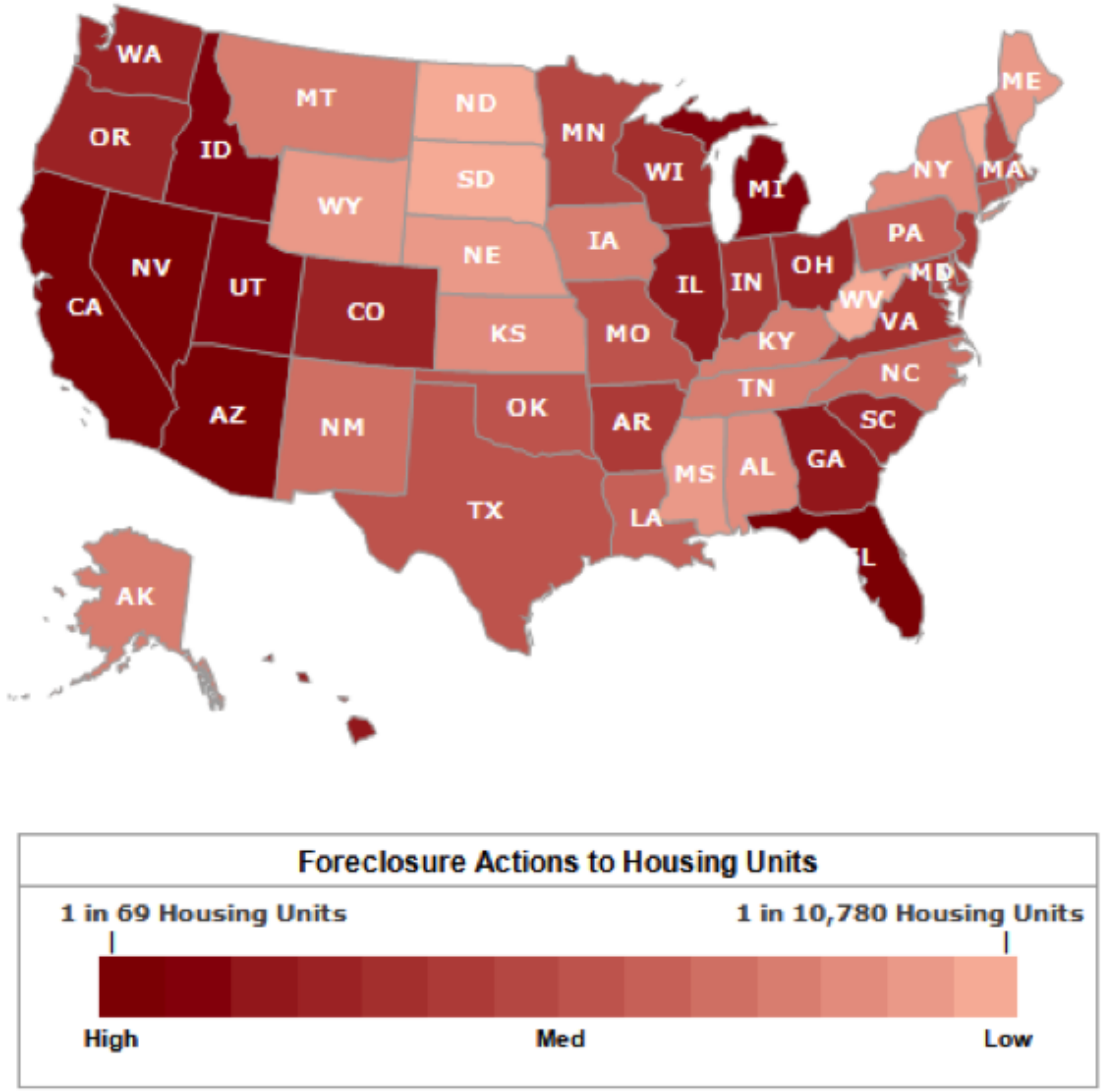
Source: National Association of Realtors and RMLS

Standard & Poor's Case-Shiller Index for Portland was 148.33 for the third quarter (August), down -0.3% from the first June, up 0.5% from May and -1.2% annually. The 20 city composite is up 3.2% compared to the same time last year. The index data shows that in the major U.S. metropolitan cities, home prices slowed in July as compared to June.

While the 20-composite shows that family homes rose 0.6% from the previous month and 3.2% from the previous year, Portland was one of the seven cities that showed declines from 1.2%, the same time last year. Consumer confidence index published by the Conference Board, based in New York, says its index stands at 48.5 in September, down from 53.2 in August with 90 to indicate a healthy economy level which has not been achieved since the recession began in December 2007. While the current index is a recovery from the all-time low of 25.3 in February 2009, it is similar to the number last year indicating that Americans are downbeat about the business conditions and the job market.

Data published by the leading online foreclosure marketplace – RealtyTrac, shows that there was 930,437 foreclosure filings for the third quarter, which include default notices, schedule auctions and bank repossessions. This is a 4% increase from quarter two and a 1% decreased from the third quarter of 2009. Of every household in the U.S., one in every 139 received a foreclosure filing during the third quarter. For the month of September, 347,410 properties were foreclosed, an increase of 3% from the previous month and a 1% increase from the previous year in September. September also marks the record total bank repossession of 102,134 properties.

Figure 1: Foreclosure Rate Heat Map, September 2010



Source: RealtyTrac

Also during the third quarter, Congress have extended the policy to secure government backed mortgages in pricey real estate areas up to $730,000 till the end of 2011; without these limits, it would have fallen to $625,500. It is proposed that these high limits will help about 60,000 borrowers in prices markets around the U.S. such as New York and San Francisco.

Towards the end of the third quarter, the Obama Administration approved the Oregon Affordable Housing Assistance Corporations plan to use previously allocated money in the amount of $49.3 million to expand options for struggling homeowners due to unemployment and will make available an additional $82.7 million in

Hardest Hit Fund to support this. Since the Administration first accounted the Hardest Hit Fund in February 2010, it was allocated $220 million to Oregon based on population size in an attempt to stabilize the market.

In mid-September, R&H Construction and Colas Construction formed a new company, R&H/Colas Construction to focus on helping smaller, minority-owned subcontractors establish a presence in Oregon. The number of single family building permits issued nationally in August was up 10% annually, with an increase of 7% in Oregon. Every major submarket in Oregon experienced an annual increase in building permits issued with the exception being Corvallis and Medford that dropped 30% and 9%, respectively. Portland Metropolitan area had the largest percentage change (24%) followed by Eugene-Springfield area (18%).

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

	Single Family			Multi-Family		
	Aug-10	Aug-09	% Change	Aug-10	Aug-09	% Change
United States	319.9	291.3	10%	98.3	92.5	6%
Oregon	4.1	3.84	7%	0.99	1.46	-33%
Portland-Vancouver-Beaverton OR-WA	2.46	1.98	24%	0.62	0.59	4%
Salem OR	0.27	0.24	16%	0.22	0.1	116%
Eugene-Springfield OR	0.35	0.3	18%	0.08	0.08	-9%
Bend OR	0.25	0.24	5%	0.01	0.03	-62%
Corvallis OR	0.02	0.03	-30%	0.02	-	-
Medford OR	0.19	0.21	-9%	0.09	0.01	1317%

Source: National Association of Home Builders

PORTLAND

The number of Portland metropolitan area home sales decreased by 28.6% during the third quarter, and buyers closed on purchases of 3,361 existing homes. This is a 19.8% decrease from the third quarter of 2009 when there were 4,191 transactions in the metropolitan area.

Median prices for the third quarter were at $254,000, which represents a 1.6% increase over the previous quarter but and a -1.6% reduction annually. Sales price to original list price are coming closer together, with average sales taking place at 96.31% of the original list price. This is an increase of 4.4% from the previous quarter which was 92.25%, and a 5% increase annually from 91.68%. Sellers in the Portland area have their homes on the market for an average of 75 days before closing, reflecting a 3 day increase from 2009 and a 4 day increase from the second quarter. Price per-square-foot values decreased to $128, a 6% decrease from the previous quarter and a 8% decrease annually.

Figure 2: Single Family Price per Square Foot, New and Existing Detached Homes, Portland Metro (excluding Clark County, WA)

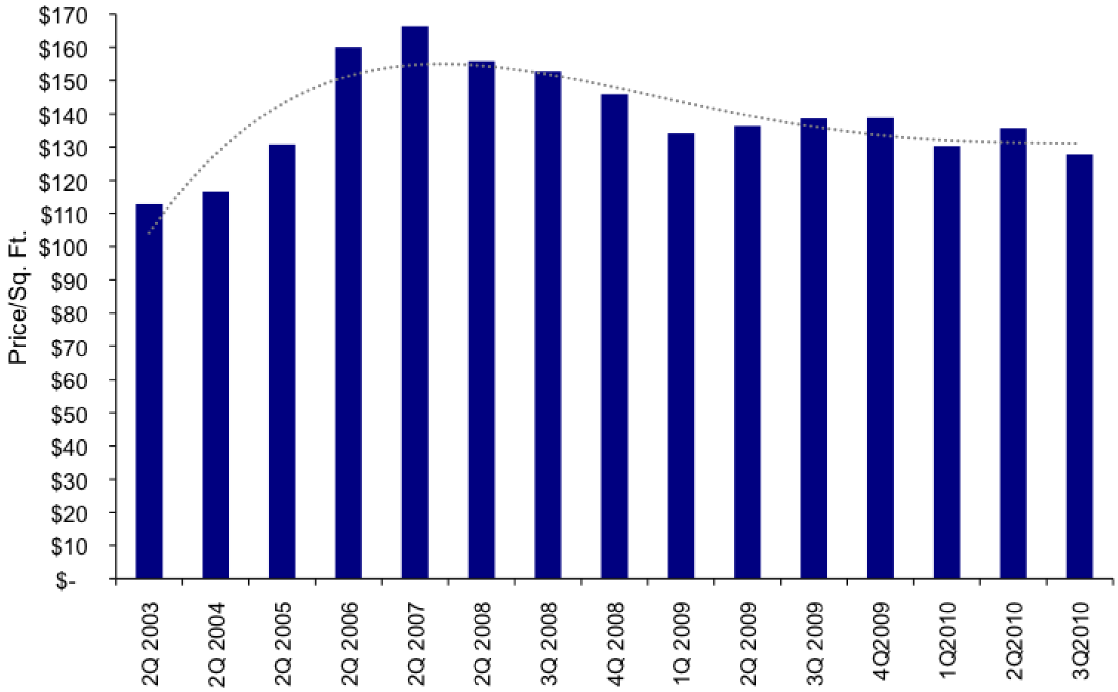
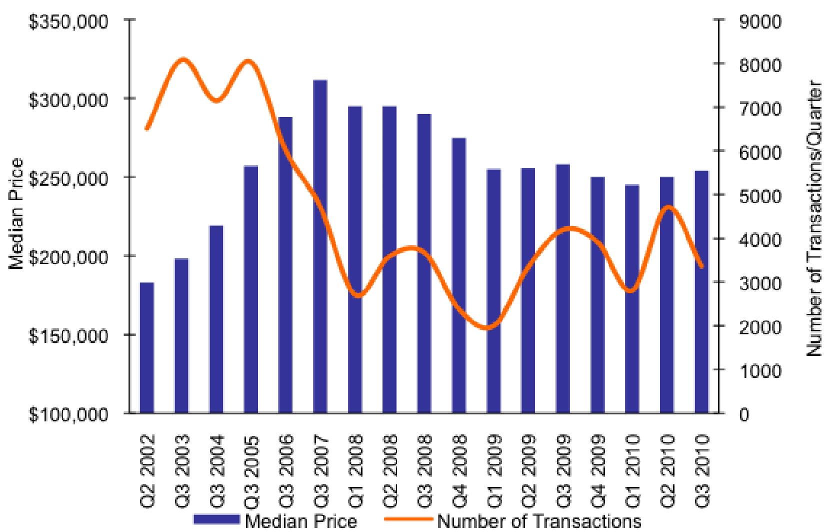


Figure 3: Median Sales Price & Number of Transactions, Existing Detached Homes, Portland Metro (excluding Clark County, WA)



3rd Quarter Median Price: $254,000

Quarterly % Change: 1.6%

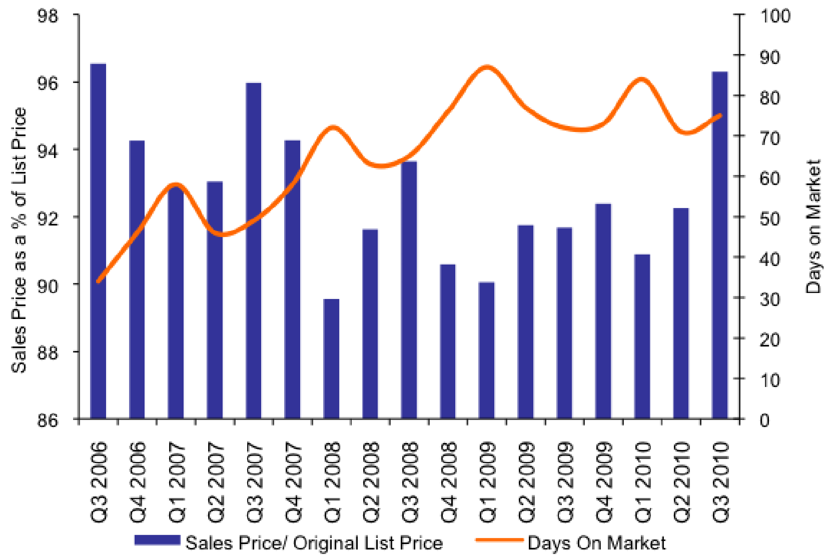
Annual % Change: -1.6%

Number of Transactions: 3361

Quarterly % Change: -28.9%

Annual % Change: -19.8%

Figure 4: Sale Price/Original List Price& Average Days on Market, Existing Detached Homes, Portland Metro (excluding Clark County, WA)



3rd Quarter Sale/Original ratio: 96.31

Quarterly % Change: 4.40%

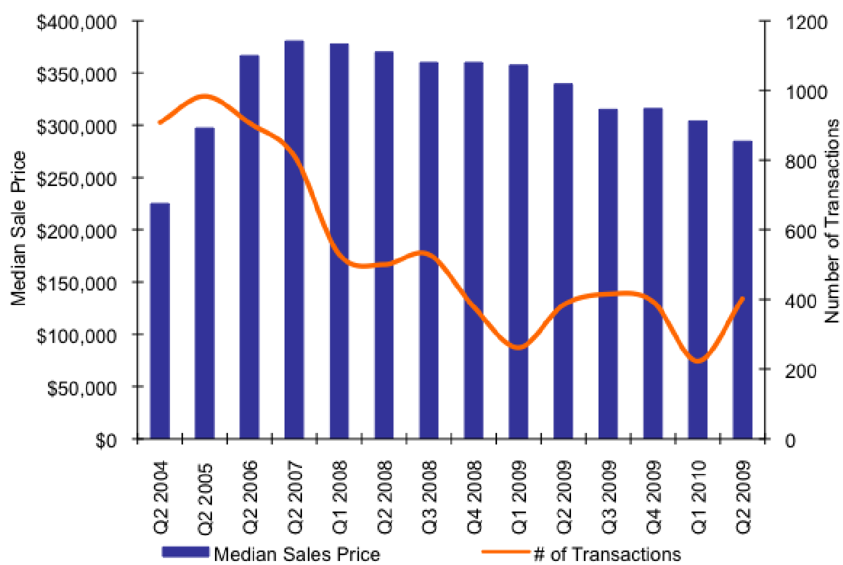
Annual % Change: 5.05%

Days on Market: 75

Quarterly % Change: 5.63%%

Annual % Change: 4.17%

Figure 5: Median Sales Price & Number of Transactions, New Detached Homes, Portland Metro (excluding Clark County, WA)



3rd Quarter Median Price: $309,995

Quarterly % Change: 8.9%

Annual % Change: -1.6%

Number of Transactions: 268

Quarterly % Change: -33.33%

Annual % Change: -35.42%

Seven of the submarkets listed below experienced quarterly price appreciation on existing detached homes, while six submarkets experienced quarterly price depreciation and two of the submarkets experienced no change. Home prices in NW Washington County increased the most at 8.09%, followed by Northeast Portland at 5.82%, Beaverton/Aloha at 4.39%, Milwaukie/Clackamas at 6.76%, Yamhill County at 6.03%, West Portland at 5.35%, Tigar/Wilsonville at 5.25%, Southeast Portland at 1.15% and Northeast Portland at 0.19%.

The Mt. Hood Govt. Camp submarket experienced the highest quarterly depreciation rate at 6.71% followed by North Portland at 2.56% and Beaverton/Aloha at 2.48%.

Figure 6: Appreciation Rates of Existing Detached Homes from Q2 2010 to Q3 2010, Portland Sub-Markets

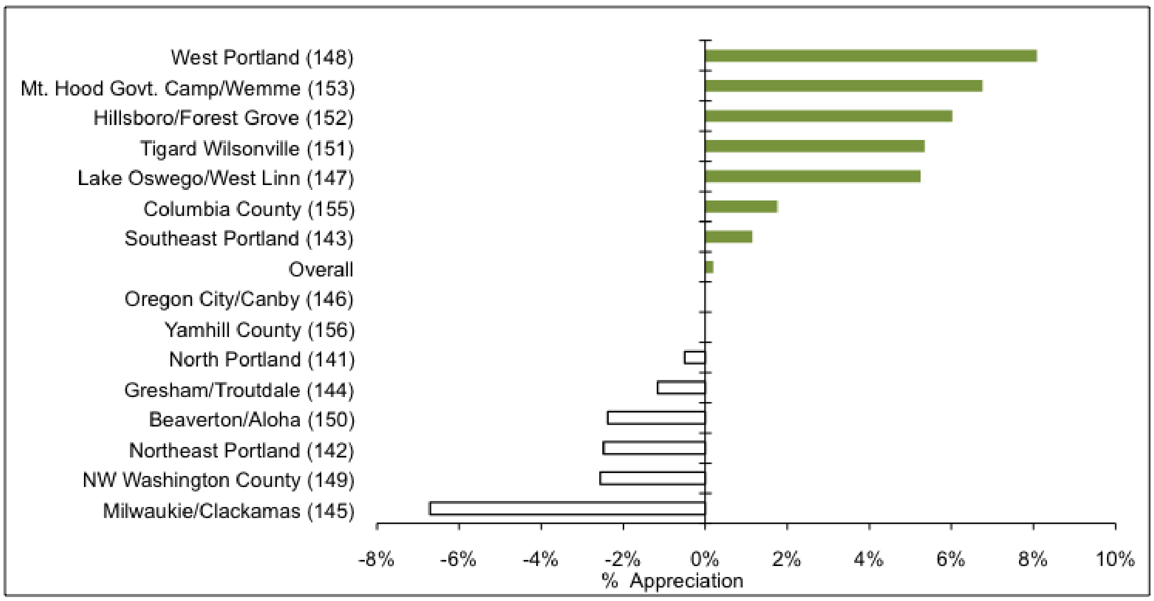
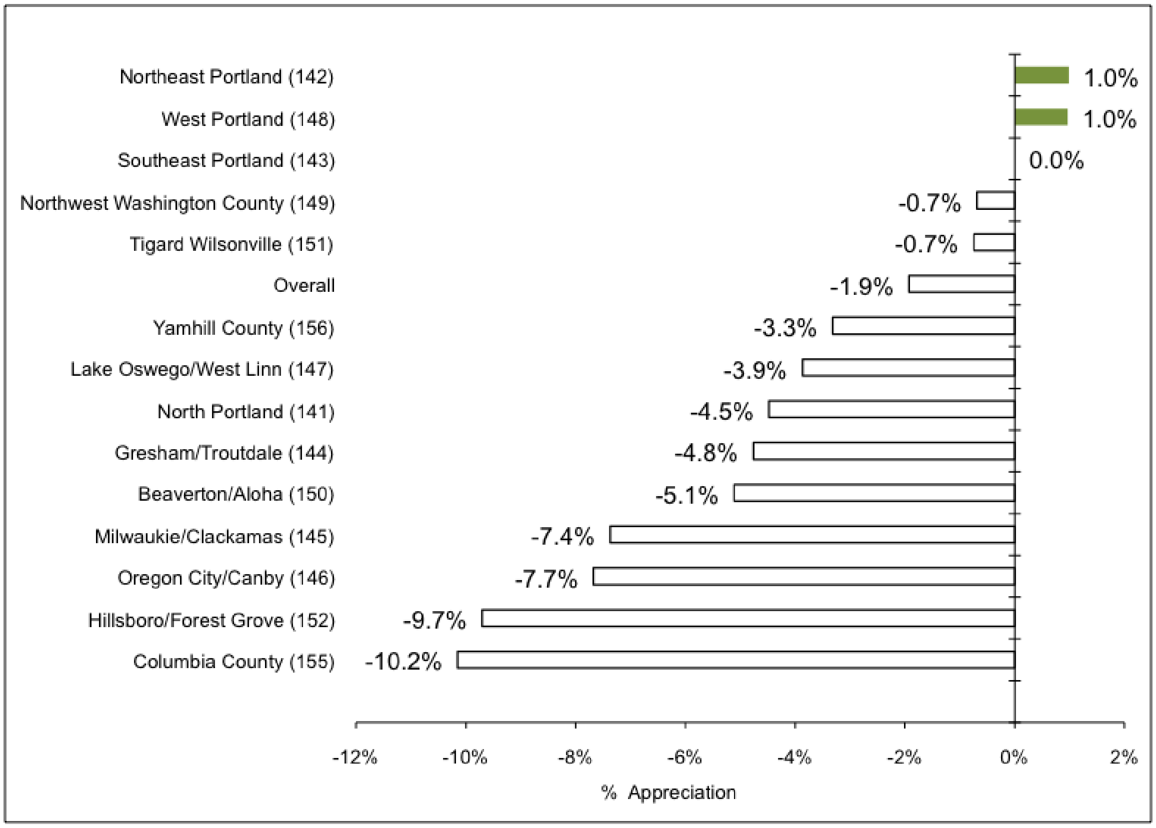


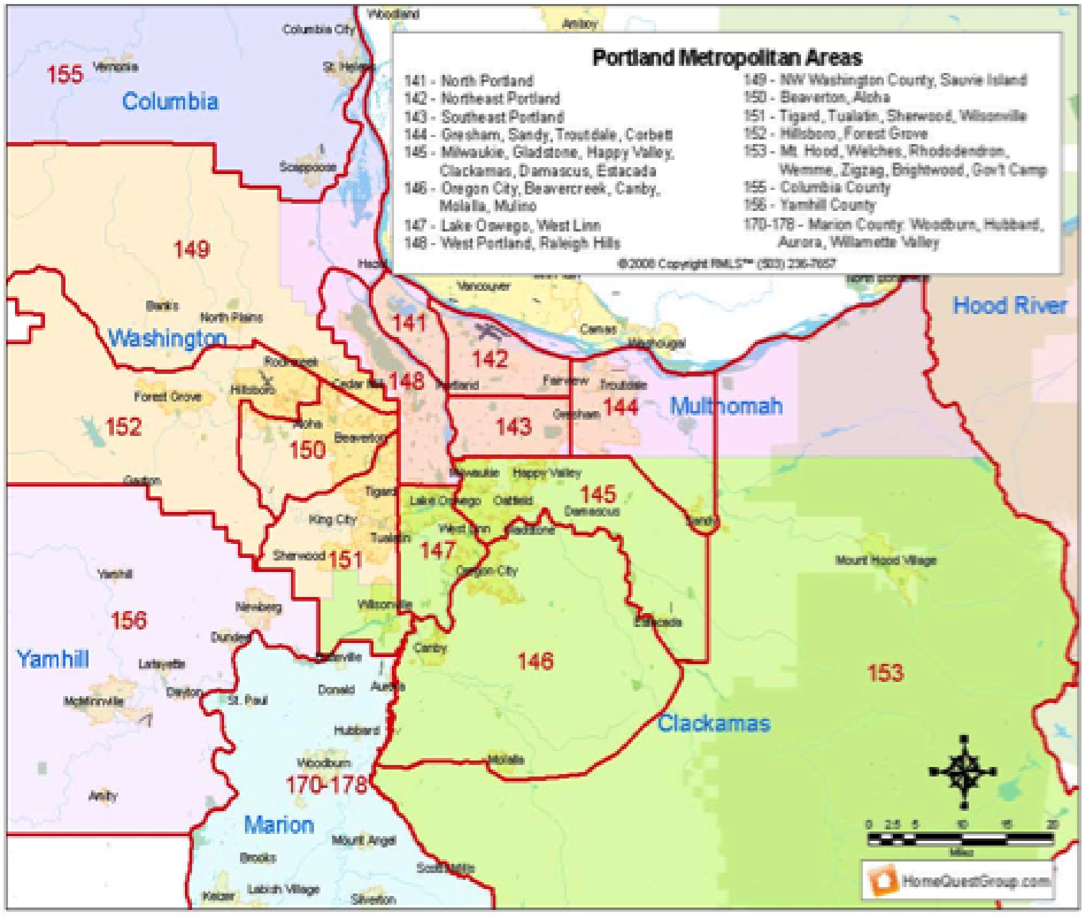
Figure 7: Appreciation Rates of Existing Detached Homes from Q3 2009 to Q3 2010, Portland Sub-Markets



Annual median sale price depreciated for eleven Portland submarkets and appreciated for two other Portland submarkets. Northeast Portland and West Portland median sales price is up 1.0% from the third quarter of 2009.

The largest annual depreciation was experienced in Columbia County at -10.2% and Hillsboro/Forest Grove at 9.7% and Oregon City/Candy at 7.7%.

Figure 8: Portland Metropolitan Areas



Map courtesy of RMLS

VANCOUVER

Vancouver’s median home price was $189,000 resulting in a quarterly decrease of -1.8% and an annual decrease of -7.3% in home values. The number of homes sold throughout the third quarter decreased substantially by 37% to 481, and down 32.6% annually. The average number of days on the market is up to 84 day. Second quarter average number of days on the market was 81, while it was 86 during the third quarter of 2009.

Figure 9: Median Price and Annual Appreciation Existing Detached Homes, Vancouver

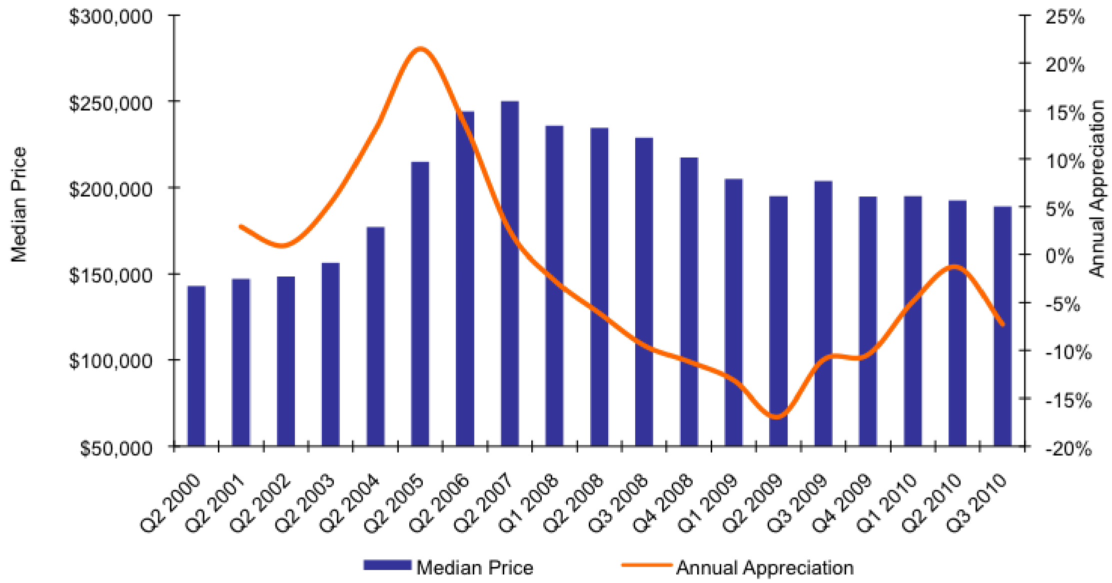


Figure 10: Average Days on Market and Number of Transactions Existing Detached Homes Clark County (excluding Vancouver)

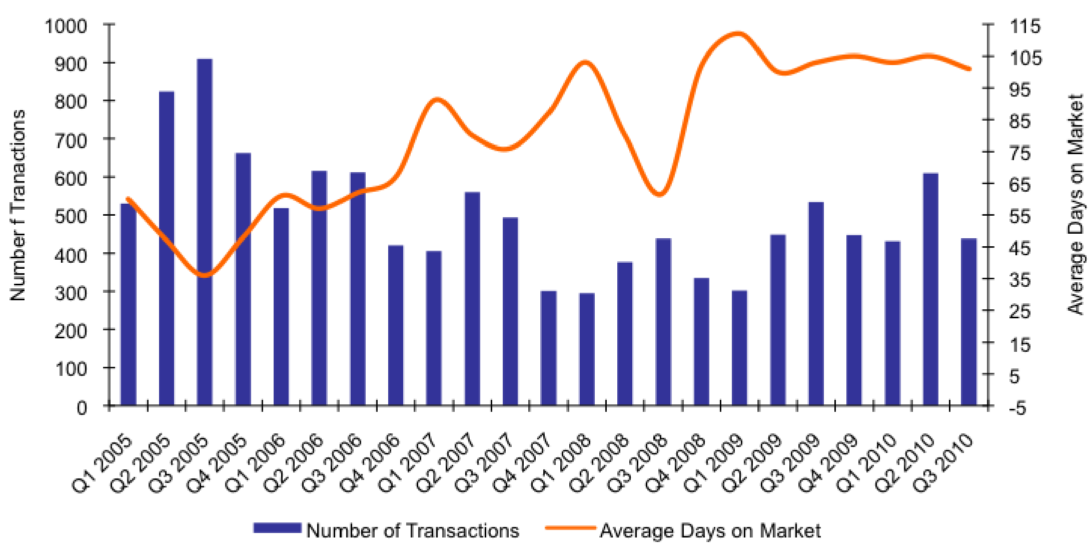
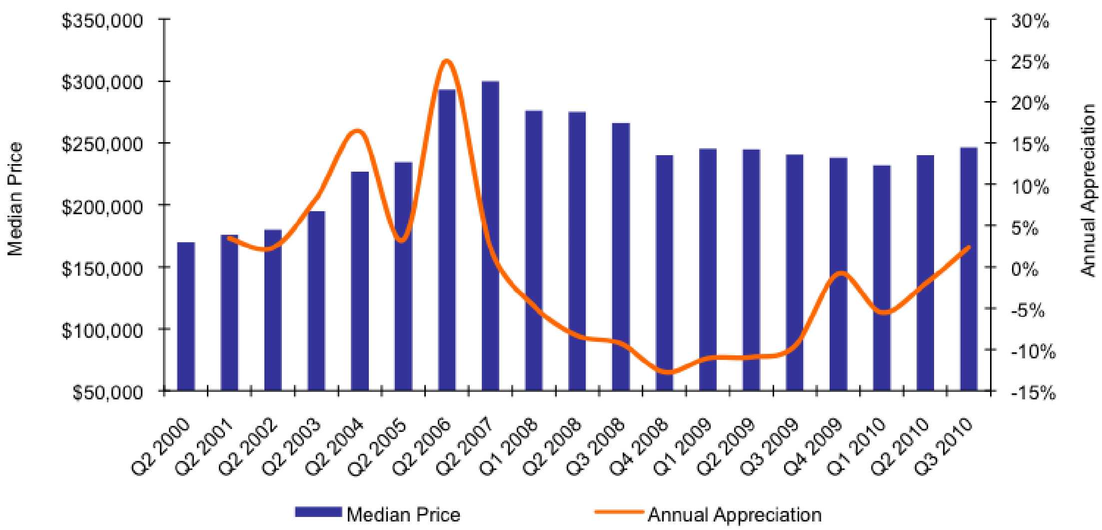


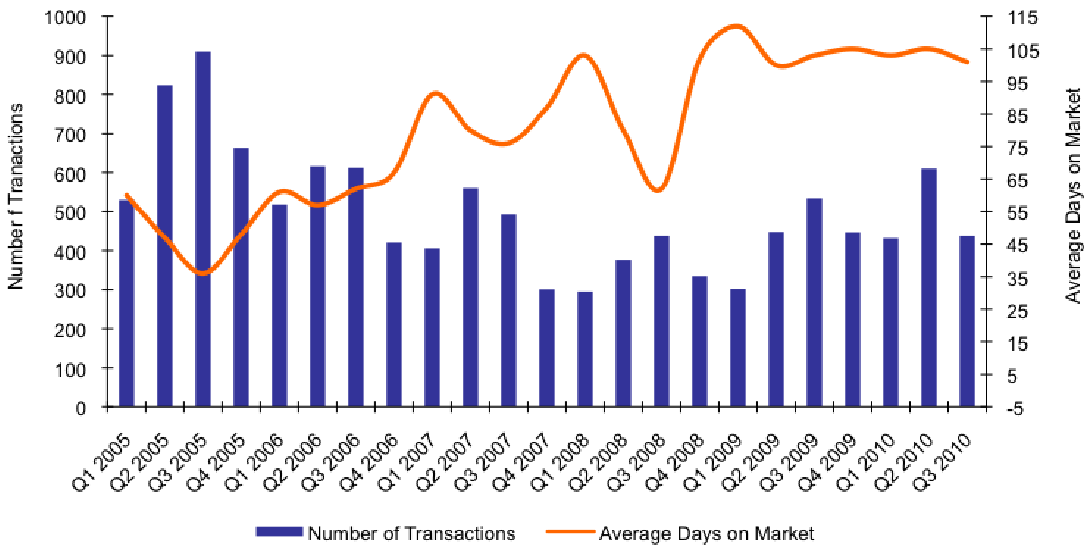
Figure 11: Median Price and Annual Appreciation Existing Detached Homes, Clark County (excluding Vancouver)



In the Clark County suburbs home prices have increased to $246,000. This is a 2.7% increase from the previous quarter's median price, and 2.4% increase annually.

The number of home transactions in Clark County's suburbs is down 28.2% for the third and down 17.98% annually. There were 438 transactions during the third quarter. The average number of day on the market is down from 105 to 101. During the third quarter of 2009 homes averaged 103 days on the market.

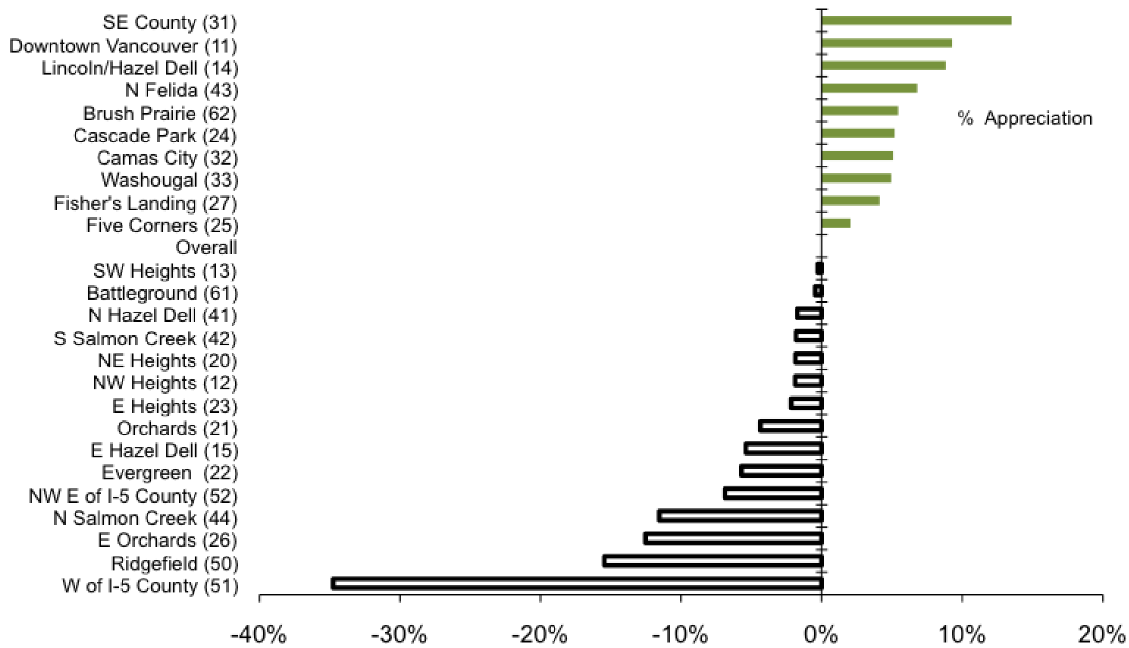
Figure 12: Average Days on Market and Number of Tranactions Existing Detached Homes Clark County (excluding Vancouver)



Ten Vancouver/Clark County submarkets experienced price appreciation for the quarter. The SE County submarket posted the highest gains with an appreciation rate of 13.5% (based on 12 transactions) followed by Downtown Vancouver at 9.3% (in twenty-one transactions) and Southeast County at 8.8%% (in twelve transactions).

Conversely 15 submarkets had price depreciation. The West County, West of I-5 area had the highest quarterly depreciation rate at -15.5% followed by Ridgefield at -12.5% and E Orchards at 11.5%.

Figure 13: Appreciation Rates of Existing Detached Homes Vancouver and Clark County Sub Market from Q2 2010 to Q3 2010



Annual changes show that seven submarkets had high median sale values with SE County (28.1%), North Hazel Dell (7.7%), NE Heights (7.2%) and Washougal (7.1%) submarkets increased the most in value.

Seventeen submarkets had lower median sale values. Southwest Heights (-25.2%), E Heights (-23.2%), W of I-5 (-18.7%) and N Salmon Creek (-18.6) submarkets saw the greatest annual depreciation. Bush Prairie experienced no annual change.

Figure 14: Appreciation Rates of Existing Detached Homes, Vancouver and Clark County Sub Market from Q3 2009 to Q3 2010

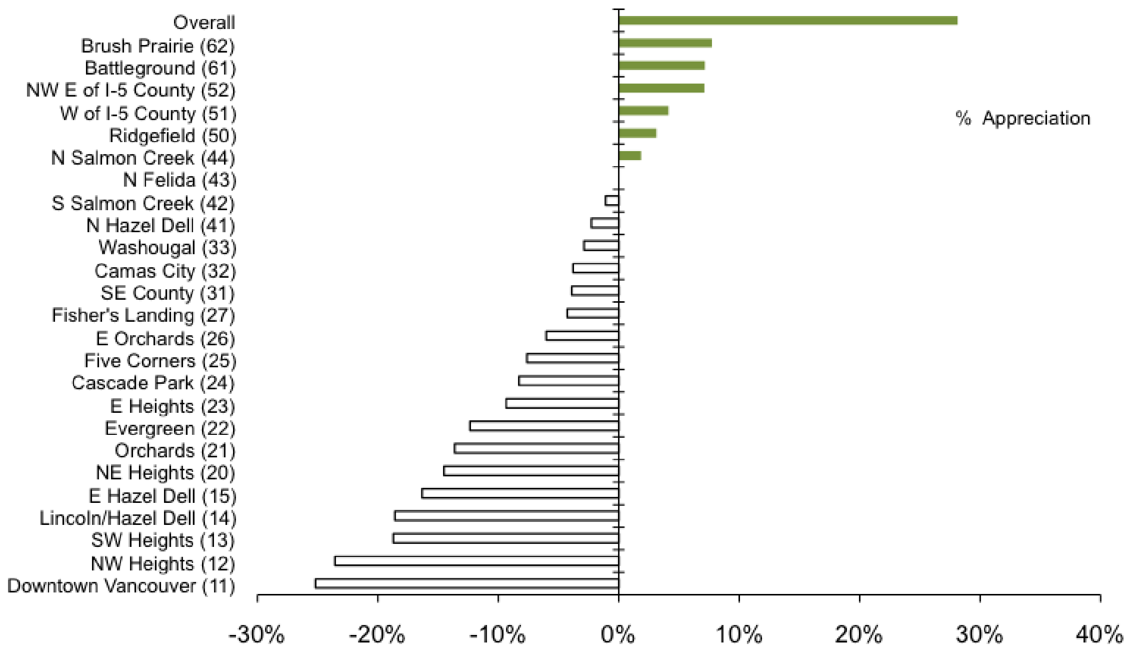
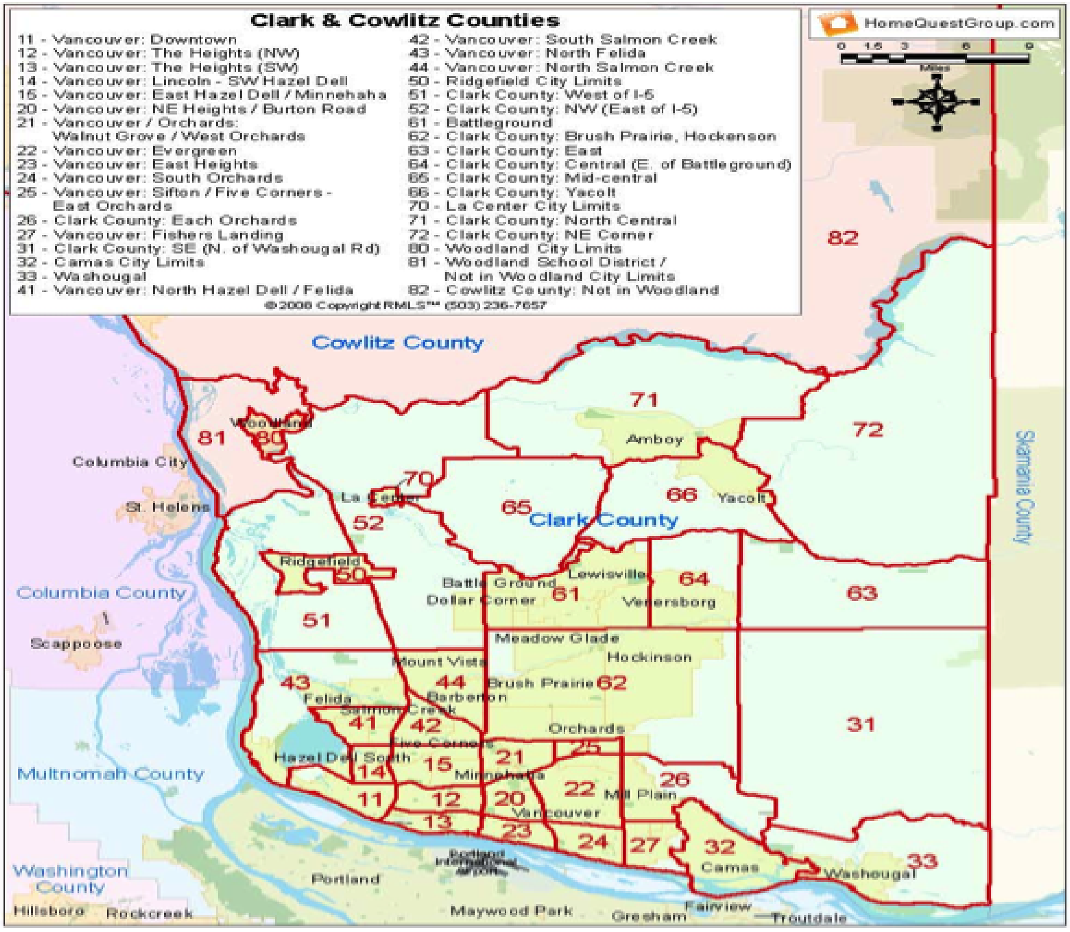


Figure 15: Clark and Cowlitz Counties Submarkets

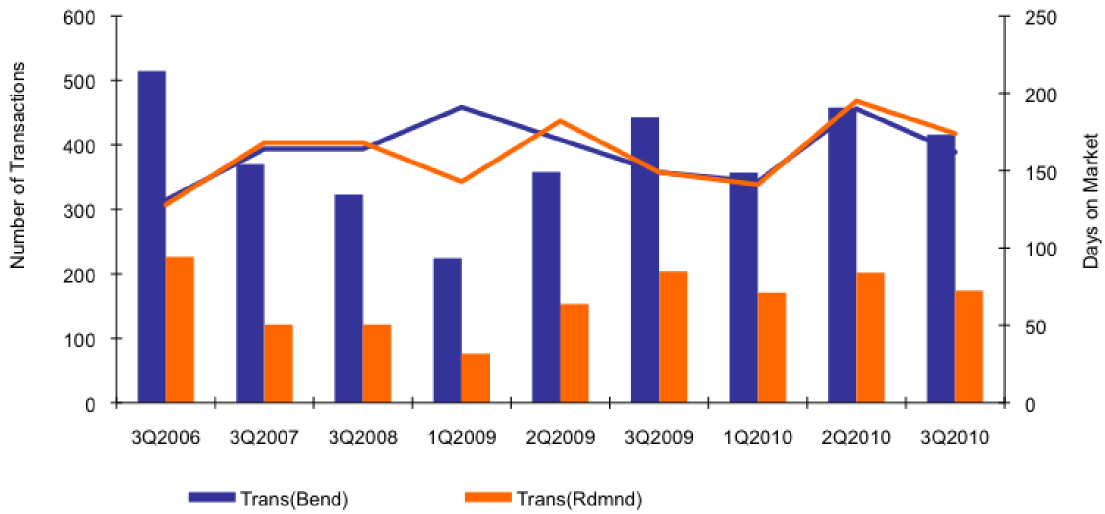


Map courtesy of RMLS

CENTRAL OREGON

Both Bend and Redmond are experiencing decreases from the previous year with respect to the number of homes sold. Bend home sales less than one acre are down 6.1% to 416 while Redmond's decreased 14.7% to 174. More significant transaction decreases were seen with homes on 1-5 acres where volumes decreased by 28.6% annual in Redmond down to 10 sales and by 3.1% in Bend down to 31 sales. The average number of days on market declined from 190 (in the second quarter 2010) to 162 (in the third quarter 2010) in Bend and from 190 to 162 in Redmond for homes on less than one acre. 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.

Figure 16: Number of Transactions and Days on the Market, Single Family Under 1 Acre, Bend and Redmond



The median home prices for both Central Oregon submarkets remained fairly constant during the third quarter after the significant decline during the first quarter of 2010 and are up 0.6% from the second quarter of 2010. However, annually they are down 3.8% in Bend and down 14.6% in Redmond. The declines grow larger once current median home sale prices are compared to their peak during the first quarter of 2007. The median price for homes under one acre in Bend were $344,950 (third quarter 2007) and are now $197,190. The median price for Bend homes with 1-5 acres was $469,900 in 2007 and now is $232,875. The Redmond submarket experienced similar changes in median sale price during this time frame with homes under one acre dropping from $147,500 to $123,900 and homes with 1-5 acres dropping from $447,450 to $272,500 (from the third quarter of 2007 to third quarter of 2010). Price-per-square-foot numbers were positive for both submarkets and subcategories from the second quarter to the third with the exception of homes with 1-5 acres which declined 15.4% to $121/sq. ft. from $143/sq. ft. Homes under one acre increased 3.8% to $110 in Bend and increased 3.9% in Redmond at $79. Price-per-square-foot on homes with 1-5 acres was up 33.6% in Redmond to $151.

Figure 17: Number of Transactions and Days on the Market, Single Family 1-5 Acres, Bend and Redmond

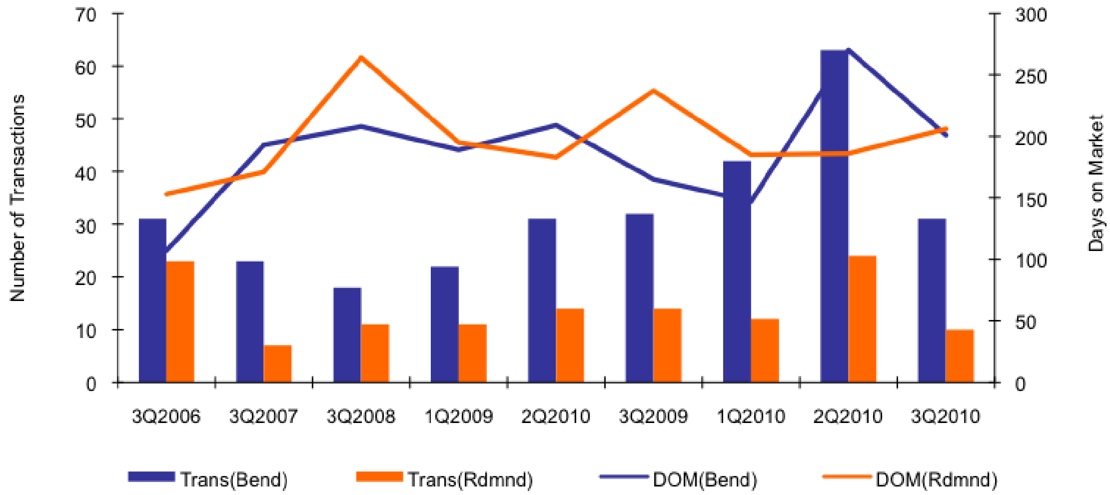


Figure 18: Median Single Family Price and $/SqFt Under 1 Acre, Bend and Redmond

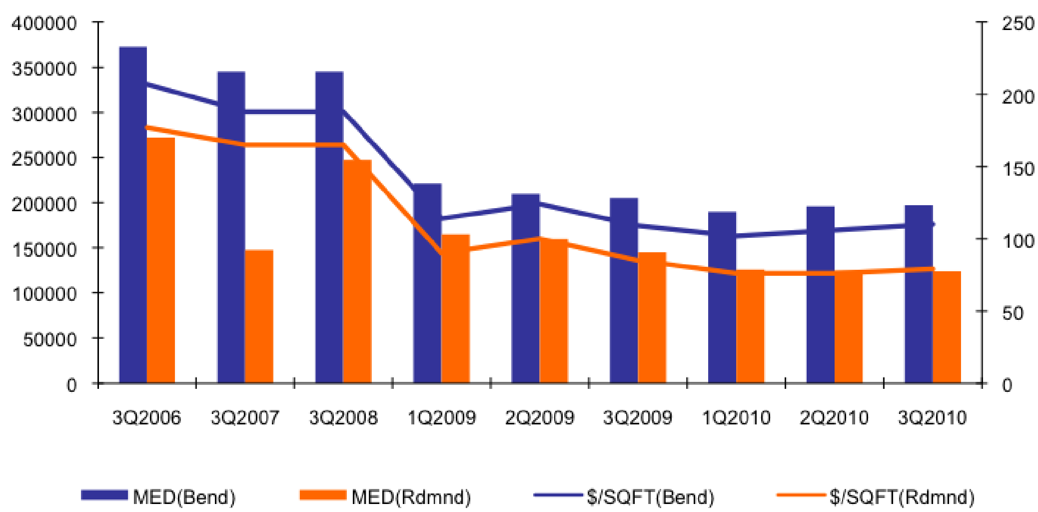
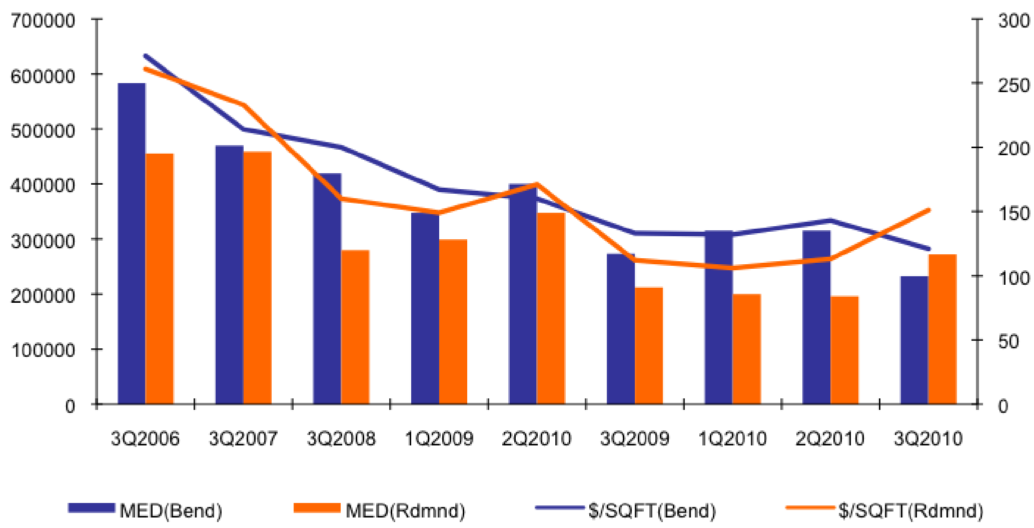


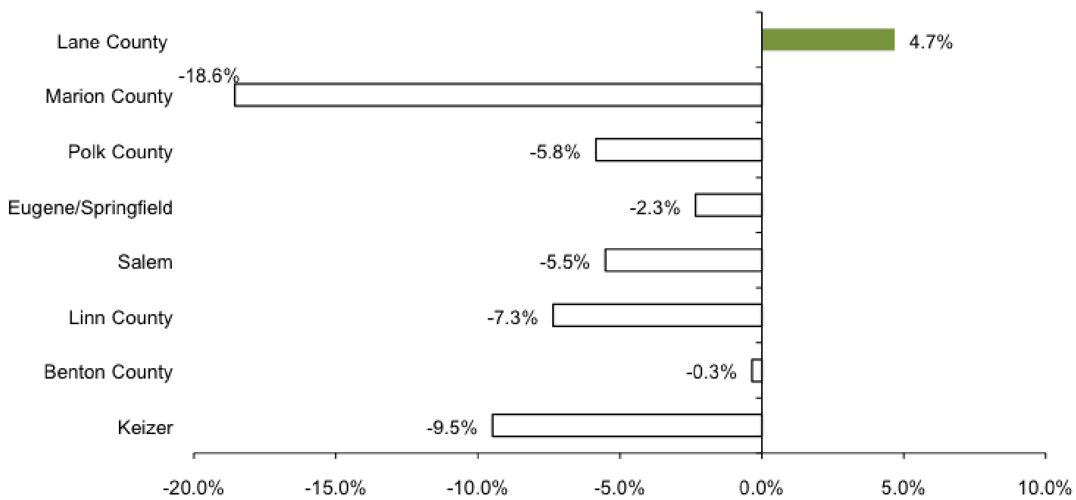
Figure 19: Median Single Family Price and $/SqFt, 1-5 Acres, Bend and Redmond



WILLAMETTE VALLEY

All Willamette Valley submarkets experienced annual depreciation on existing home prices except Lane County (4.7%). Marion County had the highest depreciation of -18.6% followed by Keizer at -9.5%.

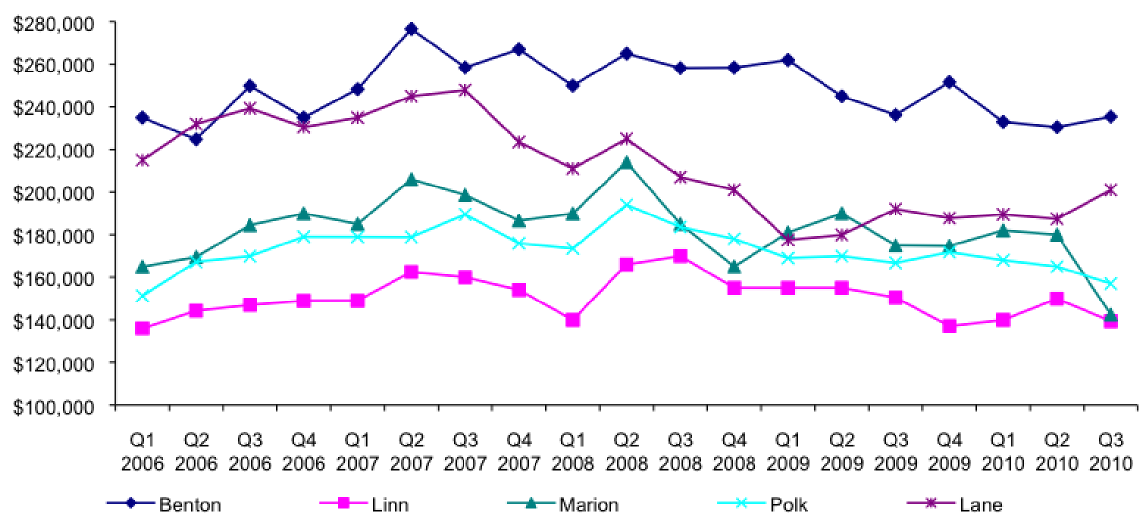
Figure 20: Annual Appreciation Rates of Existing Detached Homes, Willamette Valley from Q3 2009 to Q3 2010



The number of transactions over the past year decreased annually for all of these submarkets with Marion and Benton Counties down the most at 31.3% and 24.7% respectively.

The number of days on the market annually for all of these submarkets decreased with the exception of Marion County, Salem and Eugene/Springfield which was up 12.3%, 6.1% and 3.8%, respectively from the second quarter of 2010. All the submarkets average days on market decreased quarterly with the exception of Linn County and Polk County, which increased 16.8% and 4.1%, respectively; Salem experienced no change in average DOM quarterly. The largest drop in average days on market from the third quarter of 2009 was Lane County which dropped from 122 days to 101 during the third quarter of 2010. Lane County is down 19.8% quarterly.

Figure 21: Median Sales PriceExisting 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, number of transactions and average days on market all decreased from the second quarter of 2010.

Prices declined (-5.5%) from the previous year to $170,000. Meanwhile, the average number of days on market increased to 132 from 140 in the third quarter of 2009. There was no change in the average days on market from the second quarter of 2010.

The number of transactions decreased from the previous year from 431 to 339, as well as a decreased from the second quarter of 2010 from 505.

Figure 22: Median Sales Price and Annual Appreciation, Existing Homes, Salem

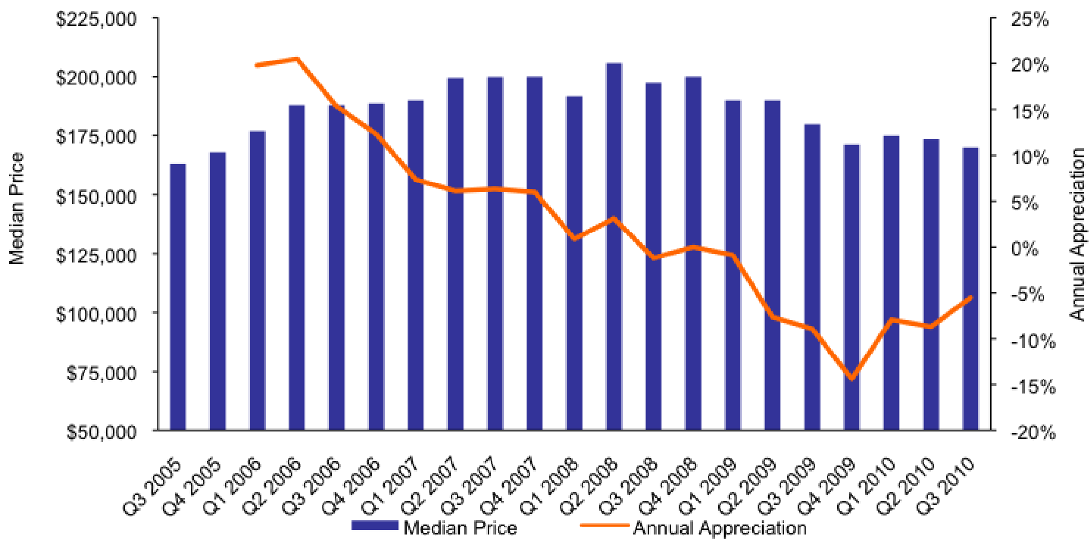
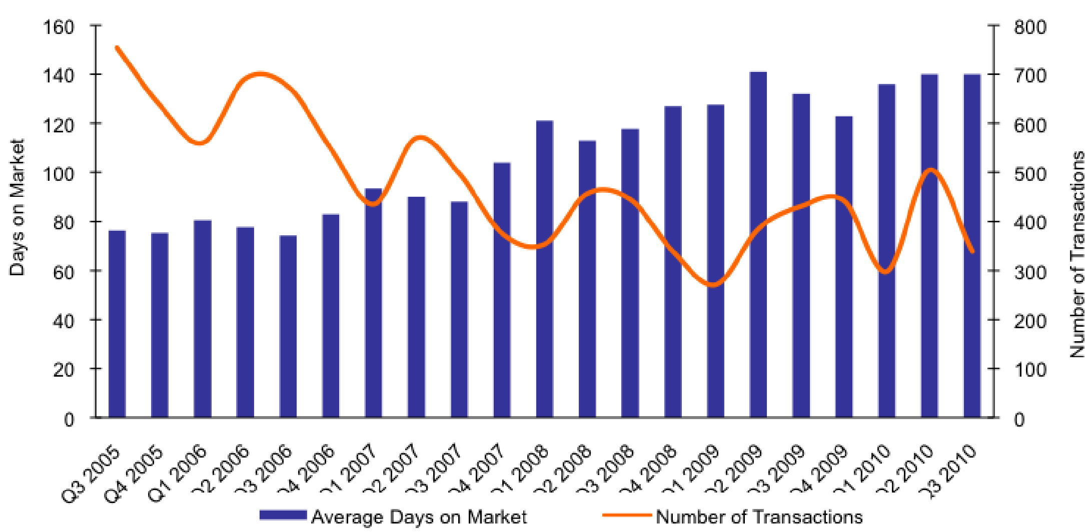


Figure 23: Average Days on Market and Number of Transactions, Existing Homes, Salem



EUGENE/SPRINGFIELD

The Eugene/Springfield area experienced decreasing home prices relative to the third quarter of 2009 and the number of transactions decreased 20.4% annually to 461. The number of transactions year over year have been increasing since the second quarter of 2009 but has decreased from the second quarter of 2010 to the third quarter of 2010. The median price decreased by 2.33% to $210,000.

Figure 24: Median Price and Annual Appreciation Existing Detached Homes, Eugene/Springfield