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Center for Real Estate Quarterly

3rd Quarter 2007

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An Urban Development Journal

Urban Strengths: What unique strengths differentiate our multidisciplinary real estate development program partnered with our business school and based in the School of *Urban* Studies & Planning in the College of *Urban* & Public Affairs from those traditional programs based in business schools? We can build on our urban strengths. PSU is not only the largest and most urban university in Oregon. It is more urban than its counterparts at the Universities of California, Washington, Washington State and British Columbia, against the latter three of which we compete in development competitions. In fact, it is more urban than Princeton, my alma mater, Harvard or Yale. Portland has earned a reputation as an innovator in metropolitan, transportation and downtown planning, urban mixed-use development, public-private partnerships, green building and other sustainable development. We can, should and do focus on these subjects. Universities are acting as major urban developers and we can help lead in these efforts. As I teach our students in the *Urban* Center, through whose *Urban* Plaza runs the Streetcar between the Transit Mall and Light Rail lines, we are at the very heart of the urban area where the academic and professional development communities meet physically, and now through this journal, intellectually. For me, we go beyond what the term real estate traditionally conveys. Simply stated, we teach urban development.

Real Estate: Words both reveal and conceal. The term real estate derives from the Latin words ***res***, meaning thing and ***status***, from the verb ***stare***, to stand. But it is more than the status of the thing. Some suggest it also derives from ***regalis***, meaning royal, ***royale*** in French and its Spanish cognate ***réal***, so that the meaning is royal estate. They suggest that it derives from the feudal principle introduced by the French-speaking Normans who introduced feudalism to England in the 11th century that all property belonged to the king. The roots are of more than etymological value because the value of real estate largely depends upon factors beyond the status of the thing itself, but rather upon the uses and intensity to which it can be developed. And those in turn depend to a large degree on the urban character of its location, market and public decisions.

Urban Values: Oregon's Urban Growth Boundary battles in the last three decades reveal how important it is to developers to be located within it. But as developers of places like North Bethany and Damascus are discovering, unless there is public investment in urban infrastructure, those urban property values cannot be realized. In fact, over the entire history of this country, public decisions and investments in railroads, roads, water and sewer lines, schools, hospitals and parks largely determined where urban property values could be realized. But urban property values also depend upon the broader meaning of urban values.

Urbanity: I use the term "urban" in its best sense deriving from the Latin "***Urbanitas***", urbanity, a place of civility, diversity, community, discourse and communication. Urbane places can exist beyond downtown, the NW 23rd, Pearl, South Waterfront, Hawthorne, Belmont, East Burnside, Alberta and other thriving urbane districts, in new urban centers like Orenco and Fairview, in many planned growth centers within the Urban Growth Boundary, and beyond in places like Hood River, Astoria, Ashland and many smaller towns rediscovering their sense of community with the help of young developers, some of whom are our graduates. Developers who create urbane places maximize both private profit and public pleasure.

Development: The word development stems from the Latin ***de*** and ***volvere*** meaning literally to unroll, almost as an architect and developer would unroll plans and unfold and expand physical places, and it is the quality of those concepts and plans that create urban value. Urban development is the process of developing populated settlements, essentially the only type built in market economies. But we must look to the Greeks for holistic notions of economy and ecology. Both **eco**nomy and **eco**logy stem from the Greek word ***Oikos***, meaning house, the latter term being the study of the house and the former the management of it. Economy and ecology are two sides of the same coin and one cannot have one without the other. Progressive developers realize that quality projects provide both public good and private profit. They sustain both long-term profits and healthful environments for people. Sustainable development profits both public and private sectors.

Progressive Developers: For over a century and a half, Portland has benefited greatly from progressive developers who realized that they profit most when the public wins. Three nearby examples show how well…the Park Blocks, the Brewery Blocks and the Fox Blocks.

Park Blocks: In 1849, before Portland was even incorporated, Daniel Lownsdale created and dedicated to the public the whole row of Park Blocks on which our campus and the entire

cultural district is focused. But he did it for good private profit motives too. His property was at the far fringe of the Portland settlement and the string of Park Blocks vastly increased the urban value of his property onto which they faced. It was also Lownsdale who championed the small 200-foot by 200-foot blocks of his native Louisville. Those small blocks create more corners, which are more valuable for retail uses, but also provide more access, more parking and more public right-of-way for public infrastructure, including sidewalks and street trees. Again, Lownsdale planned and developed so that both the public and private sectors win, and he later served as Mayor bringing his skills and urban values with him to serve the public.

Fox Blocks: A century and a half later, on one of those very same Park Blocks, Tom Moyer showed the same acumen, development skill and public spirit when he purchased Park Block 5 when its previous owners were going to construct a 12-story above ground parking structure, blocking views from his Fox Tower and competing with his underground parking. Then he donated the surface to the City for a new park, retaining subsurface rights for a 676-space underground parking structure and development rights at a 9:1 floor area ration [FAR] that he was able to transfer to the Zell Park Block 4 to enable him to build a 415-foot tall, 35-story building. It is his 1477-space interconnected multi-block, shared parking structure that enabled him to develop the Fox Blocks to their highest density around a public park that will make his investments the 100-percent retail, office and housing location for decades to come.

Brewery Blocks: Just a few years before, Bob Gerding and Mark Edlen created the new heart of the Pearl District by defying conventional wisdom and building a 1,300-space multi-block, shared parking structure under the Brewery Blocks that supports not only intense development on those five blocks but also a wide array of other restaurants, shops and office space nearby. The result less than eight years after starting was a bidding war for the sale of just three of those blocks at the highest price paid for downtown property. Developed more sustainably than any downtown buildings before, the Brewery Blocks and plazas provide substantial public benefits and higher tax base.

Value Creation: The objective of developers is to create value. Urban development creates the highest values. But it is critical to realize that value creation goes beyond short-term balance sheets and optimistic *pro forma* projections. As Lownsdale, Moyer, Gerding and Edlen show, designing buildings that advance urban design, fit into the urban fabric, use long-lived materials, sustain their inhabitants and create places that are urbane create the highest and best public as well as private urban values.

Urban Infrastructure: It is in this spirit that our lead article in this issue is about the urgent need to find smarter regional solutions to the problems of our decaying urban infrastructure that supports development all over the metropolitan region. David Bragdon, the President of the Metro Council, our innovative elected regional government, outlines the scale and scope of the problems of deferring maintenance for too long, leading to decaying infrastructure combined with the need to build new infrastructure to house the one million additional residents that will grow our metro area from two to three million in the next two decades. Bragdon notes that *"Infrastructure investment has always been a stimulus to private developers; as it declines, so do many development opportunities."* And Bragdon argues that *"For over a decade, far too much of our energy has been spent on how and where the urban growth boundary is moved…we need to shift the focus of our efforts from regulation to investment."* Says Bragdon, *"Public investment is necessary to make private investment possible and profitable, and private investment is what ultimately builds a great community."*

Multi-Block Underground Shared Parking: I then take a finer grained look at the parking infrastructure that is needed to support the most dense, mixed-use urban projects. The best way to do that is through multi-block underground parking garages that are needed to make shared parking work. Traditionally, planners have criticized the automobile and the amount of space dedicated to parking and streets. However, having higher density, maximally occupied parking is the best way to support higher density uses in downtown buildings. No rational developer wants to build any more expensive and unprofitable structured parking than is absolutely necessary to capture a market and satisfy lenders and equity investors. I outline a whole array of specific benefits conveyed by multi-block underground parking garages and detail specific examples in the Brewery Blocks and Fox Blocks where innovative developers Gerding-Edlen and Tom Moyer challenged conventional thinking to create very successful mixed use projects. And I show how public and private objectives can be mutually reinforcing and work for the benefit of each, as well as for increased urbanity for the public.

Industrial Development Trends: Then Roger Qualman, Partner at Norris Beggs & Simpson, outlines an array of trends in industrial development in the metro area. He notes that with increased globalization, firms need larger and higher cubic space industrial distribution centers to make an efficient global supply chain. But he notes that we have few sites large enough, located close to transportation corridors, and that combined with traffic congestion in those corridors, our area is adversely affected. He explains that the energy efficiency of rail transport has made those sites with rail access more valuable. But new rail infrastructure is needed to accommodate the rapid growth of rail transport. And he concludes that rapidly rising construction costs along with increased demand will lead to rising industrial rents and sales prices.

Outside Investor Patterns: Lisa LaManna, First Vice President at CB Richard Ellis Investment Properties, surveys outside investor patterns over the last decade. She notes several large transactions that have aroused substantial notoriety, but except for a period of heavy investment during 1998 to 2001, correlated with high local cap rates, total outside investment has been balanced by substantial local real estate investment. Yet during the past decade more than 50 percent of all investors who purchased commercial real estate in excess of $10 million in the Portland metro area were from outside the region. She expects this trend to continue.

Student Publication: This issue we introduce a new feature – the opportunity for graduate students in our Certificate in Real Estate Development program to publish some of their original research work. Greg LeBlanc compiled data for the past 3 ½ years on downtown condominium sales for three competitive neighborhoods, Northwest Portland, the Pearl District and the South Waterfront and reached several conclusions on the basis of the data that may be of some interest to the Portland real estate community. We commend Greg for his initiative undertaking original market analysis for a case study on a condominium development project in my Real Estate Development I class, and modifying it for this issue.

Market Updates: Professor Gerard Mildner updates the U.S. economy and housing market analysis showing that the problems of the housing market are less severe in the Northwest than the nation. Oregon Association of Realtors Fellowship winner and Certificate of Real Estate Development graduate student Karen Thalhammer has assembled and analyzed third quarter data on the office and housing markets. She analyzes and charts available data from multiple sources showing a downturn in housing markets but stability in office markets.

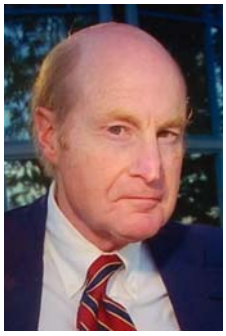
Personal Note: On a personal note, over 25 years ago when Dean Nohad Toulan and Departmental Chair Sumner Sharpe asked me to formulate the first course on the Development Process, reflecting my experience both as a lawyer and a development director for the Rouse Company building mixed-use urban projects, little could I have imagined that we

would now have a multidisciplinary Center For Real Estate with over 30 professors teaching 26 courses to over 130 students seeking Certificates of Real Estate Development, another in Urban Design, and with a master's development degree on the way.

Nor could I have expected that teaching the first development planning workshop on the adaptive re-use of the Memorial Coliseum just five years ago could have blossomed into nine such workshops which are now supported by NAIOP [National Association of Industrial & Office Properties] and BOMA [Building Owners & Managers Association].

Nor could I have imagined that in our second year of conferences, we would attract over 600 people from the development community at our breakfast and have support from a wide array of participants from that community, including support to hold our intercollegiate NAIOP development competition in winters and our BOMA workshop in summers.

Now with this publication, I hope that we can expand our contacts with, and contributions from, the wider development community in a publication that will act as a forum of professional research and opinion on urban development issues important to the development community. That community is diverse incorporating developers and planners, lenders and investors, brokers and economists, architects and contractors, managers and market analysts, lawyers and insurers, engineers and cost estimators, appraisers and assessors, building officials and legislators, power generators and communications providers, architectural historians, tax accountants, tenants, environmentalists, students and professors. In short, our development community involves all those involved in shaping our physical community. As Winston Churchill observed, *"We shape our buildings and then our buildings shape us."* Towards that end, please contact me via email at machtw@pdx.edu with any suggestions for new articles.



Respectfully yours,
William P. Macht
Professor Will Macht
Editor, Center for Real Estate Quarterly
Associate Director, Center for Real Estate

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Oregon Association of Realtors®

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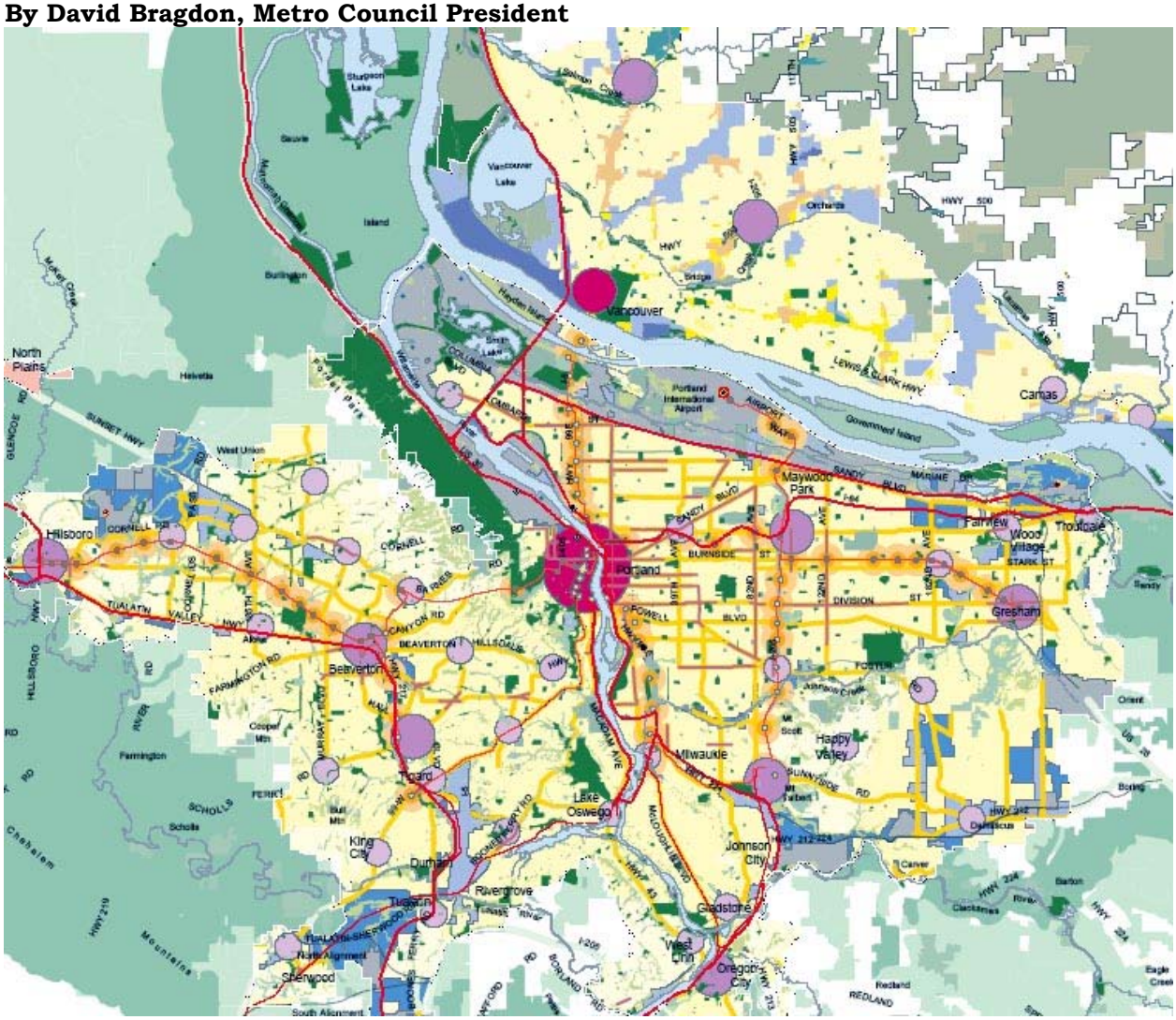
Infrastructure: Toward Smarter Regional Solutions

By David Bragdon, Metro Council President



In October of last year, most of the Portland area's mayors, county chairs, and Metro councilors attended a "regional roundtable" where they received a stern and animated lecture on the need to make significant investments in the region's infrastructure.

Mike Gleason, a former city manager for several Oregon communities, pegged the funding shortfall for the repair and replacement of existing assets and the growth-related expansion of critical urban support systems at tens of billions of dollars over the next half-century. If we fail to make these investments, Gleason said, "people will die." Several in the room snickered.

Nobody's laughing now.

In fact, recent infrastructure disasters elsewhere have, perversely, created a window of opportunity for those of us who have long called for new financial strategies and a heightened resolve if we want to avoid similar shocks here at home. The streets and sewer lines that allow our communities to function are already aging rapidly and will require replacement before we know it.

Nationally, the American Society of Civil Engineers has estimated the cost of repairing the nation's roads, bridges, dams, water systems, and airports at $1.6 *trillion* over the next five years alone; if Oregon represents only one percent of that backlog, we face a five-year price tag of $16 billion, or over $3 billion a year. A single project, the replacement of the obsolete I-5 bridge over the Columbia River, could cost as much as $6 billion.

But the collapses and explosions that have rocked other areas of the country do not fully reflect the nature of the challenge that faces the Portland-Vancouver region. Even as we pursue the resources for deferred maintenance of our existing public infrastructure, we face the stark demographic dilemma of how to welcome the estimated one million new neighbors who will be joining us here over the next 25 years. This faster-than-expected population growth will have a transformative effect on our region, making the need for decisive action even more urgent. Not only will our actions, or lack thereof, affect every developer, contractor, lender and broker, they will affect every resident of the metropolitan area.

The Portland region prides itself on its foresight in planning for growth. Our quirky obsession with planning has helped to protect our livability and made us a poster child for urban development wonks worldwide. But we have reached a watershed where the limits of the traditional tools of planning have become apparent; the methods of the past increasingly seem ill-suited to the challenges of the future. Planning and undertaking infrastructure repair and improvements jurisdiction by jurisdiction and system by system is simply too costly and inefficient in an interconnected metropolitan region.

While our vaunted penchant to plan ahead gives us a leg up on many other regions, the best plan in the world is not worth the butcher paper it's written on unless it is accompanied by the investment to make it real. Without a new commitment and new creativity in using strategic public investments to support and leverage private investment, we will be unable to maintain the quality of life that our residents have come to expect.

On the other hand, if we seize the moment while "infrastructure" is the issue *du jour*, we have the opportunity to chart an innovative new course that will enable us to take control of our future, rather than just letting it happen to us. Pipes, pavement, and even parks and plazas are not the point. Ultimately, the goal of a successful public investment strategy should not be to build "public facilities": it should be to build great places to live, work, and play.

Where We've Been

In 1995, the Portland region adopted the 2040 Growth Concept, a long-range plan to guide growth for the next half-century. This innovative blueprint for the future is based on a set of shared values that continue to resonate throughout the region: thriving neighborhoods and communities, abundant economic opportunity, clean air and water, access to nature, preservation of farms and forestland, and a sense of place that, taken together, are the reason people love to live here.

The 2040 Growth Concept remains a landmark accomplishment. It acknowledges that population growth is a fact of life, but expresses the region's aspiration to "grow up, not out." The goal is to avoid the kind of costly and wasteful sprawl that affects so many other urban areas around the country by accommodating population growth as much as possible within the existing urban area, and expanding the urban growth boundary (UGB) only when necessary.

The 2040 vision is to accommodate a substantial portion of this growth through infill and redevelopment in nearly 40 designated urban, regional, and town centers throughout the

region, as well as in key transportation corridors and employment areas. The benefits of this approach include

- more efficient provision of public infrastructure and services, which saves tax dollars
- healthy long-term property values
- higher tax bases
- protection of farmland and natural areas from unnecessary urban expansion
- development and revitalization of economically vibrant, walkable, mixed-use neighborhoods
- more transportation choices and shorter commutes
- improved air quality.

Implicit in the 2040 concept is the understanding that compact development is not only more sustainable and more livable than low-density sprawl, but more fiscally responsible as well.

Where We Are

A decade later, the region has enjoyed some notable successes. From Gresham to Milwaukie to Lake Oswego to Hillsboro to Portland, redevelopment is injecting new energy into city centers. Over 8,100 acres of natural areas have been preserved thanks to funding approved by the voters in 1995, and thousands of acres more will be protected thanks to a $227 million bond measure passed last year. New light rail lines, streetcars, trails, and highway and rail improvements have been brought on line to respond to the region's growth.

Public and private investments like these have real quality-of-life benefits for the region's residents. To cite just one recent example: thanks to smart land use planning and transportation investments, Portland-area drivers log roughly 20 percent fewer miles each day than the national average, saving the region's economy $2.6 billion a year, according to a recent report. Public opinion research shows that residents of the region continue to strongly support the direction that was mapped out in the 2040 Growth Concept.

However, these successes run counter to the prevailing winds with respect to public investment over the last two decades. During that time, changes in public attitudes, the nature of the economy, and the political climate have had major impacts on public finance.

Infrastructure investment has always been a stimulus to private developers; as it declines, so do many development opportunities.

Funding streams are drying up for federal, state, and local programs that historically supported public initiatives and infrastructure. As a share of GDP, total government infrastructure spending has declined by one-third since its peak in the 1960s. Private infrastructure investment has also dwindled as profit margins have declined and as financial markets have become increasingly fixated on quarterly results instead of long-term value. Inflation and population growth have further reduced the purchasing power of existing resources. Meanwhile, new resources are increasingly difficult to identify, especially in light of voter-approved restrictions on how revenues can be raised. Infrastructure investment has always been a stimulus to private developers; as it declines, so do many development opportunities.

Here are just a few of the specific challenges the region faces with respect to public finance and the funding of future development:

- **Decaying infrastructure:** For too long we have lived on the investments of previous generations, seeking to minimize current expenditures and neglecting the long-term stewardship of our public assets. Deferred maintenance has caught up with us.

  - Since 1965, the amount governments have spent on transportation, sewers, and water systems for every dollar of private residential construction has declined from 39 cents to 25 cents.

  - According to the American Society of Civil Engineers, 38 percent of Oregon's major roads are in poor or mediocre condition.
  - Portland alone has a $422 million backlog of unmet maintenance needs for existing transportation facilities; in the absence of new revenues to address these needs, that backlog is growing at a rate of $9 million a year.
  - A recent study indicates that based on currently anticipated levels of transportation funding, the cost of traffic congestion to the economy of the Portland region will rise to $844 million a year, or $782 per household, by 2025.
  - Since Oregon's gas tax was last increased in 1993, its purchasing power has declined by 42 percent. Help will not come from the federal gas tax; the Congressional Budget Office estimates that the Highway Trust Fund will be bankrupt by the end of 2009.
  - Thirty percent of TriMet's bus fleet is older than the standard replacement age of 15 years. The cost of replacing these buses is $75 million. On average, TriMet needs to replace 41 buses a year, at an annual cost of $16.4 million.

  - Within 20 years, four of Multnomah County's six Willamette River bridges will be 100 years old. The county's 20-year capital program for these bridges will cost $450 million, but only $131 million in federal, state, and county revenues has been identified.
  - The $6 billion potential cost to replace the I-5 Columbia River bridge is more than we currently have available for all regional highway investments over the next 20 years.
  - The City of Portland is spending $1.5 billion over a 12 – 15 year period to update its antiquated sewer system to modern standards.
  - Ten percent of Portland's public school buildings will be 100 years old within a decade. The average age of these buildings is almost 70 years, as compared to the national average of 45.
  - Enrollment in the Beaverton school district is growing at the rate of approximately one elementary school a year.
  - Most of Portland's prime infill and redevelopment sites (e.g., Pearl, South Waterfront, Central Eastside, West End) require complete replacement of 100-year-old transportation, sewer and water infrastructure originally built and paid for by private developers but now in the public domain.

- According to the EPA, Oregon's 20-year need for drinking water infrastructure will amount to $2.7 billion (1999 dollars).
- The EPA estimates that in 2000, nearly $1.5 billion was needed to meet Oregon's then-current wastewater and stormwater management needs.

- **Rising construction costs:** The costs of providing and maintaining public infrastructure are escalating rapidly even as traditional sources of funding are disappearing. Especially since Hurricane Katrina, skyrocketing construction costs have affected every public works project, but failure to maintain critical infrastructure only means that repairs will be even more costly in the future.

- **Mixed results in centers:** The region's infill efforts may outpace those in many other areas of the country, but in many cases our local governments lack sufficient tools to make redevelopment pencil out. While some of our designated centers and corridors have blossomed into lively and attractive neighborhoods, others have failed to attract new investment and have therefore languished, undermining the region's ability to achieve its objectives. Overall, primarily due to a lack of funding, Metro and other jurisdictions have not invested enough to implement the 2040 vision, especially when it comes to investing in centers. The result is that significant areas are at risk of remaining blighted, vacant, or underdeveloped. Moreover, failure to accommodate growth in centers will increase pressure to urbanize rural lands.

- **Stagnant transportation funding:** The days when the federal government paid ninety cents on the dollar for highway construction are long gone. The federal and state highway trust funds are shrinking and increasingly are focused on maintenance and preservation rather than system expansion. Although it is important to take care of what we have, maintenance does not help address future growth pressures. State funding was stagnant for a decade; recent transportation packages have bonded against existing revenue streams rather than raising new funds, borrowing from the future while still failing to adequately address the backlog of current needs. As a result, increasing congestion is undermining the region's changing economy and degrading the quality of life for many residents.

- **Increasing transit operations costs:** The region has been able to maintain a strong program of investing in transit capital by successfully competing for discretionary federal funds, but operating funds are affected by inflation and by the cost of expanding services to the fast-growing elderly population.

- **No funds for growth-related infrastructure:** Bringing land into the urban growth boundary (UGB) does not in and of itself make that land part of the real estate market. The first step toward making land available for development after it is brought into the urban growth boundary is to complete concept plans and comprehensive plans. However, local governments have lacked the funding to undertake this work. Metro recently adopted a temporary construction tax to support the planning of land brought into the boundary since 2002, but a long-term solution is needed.

  Even when the resources can be found to complete needed planning, we lack the upfront dollars to build the roads, water lines, sewers, and schools necessary to turn raw land into

living neighborhoods. Without these facilities, land cannot become part of the urban fabric. A case in point is the North Bethany area, which was viewed as prime residential land when it was brought into the UGB but which is lying fallow as local officials cast about for a way to raise $250 million just for two north-south and two east-west arterial roads.

- **Underserved employment land:** Even high-value employment land is affected by the shortfall of infrastructure finance. The state's recent efforts to identify "shovel-ready" industrial sites have revealed that there is not a shortage of land *per se*, but a shortage of land with the transportation links and other infrastructure needed to support industrial development.

- **Density without amenities:** In some cases, dense development is being built without accompanying public investment in the amenities like parks, public spaces, and services that make it livable, leading to backlash.

- **Policy distorted by fiscal considerations:** Land use decisions, and specifically UGB expansions, are increasingly being driven by fiscal pressures on local governments. Local financing restrictions, especially property tax limitations, force local governments to shun high-cost affordable residential development and chase high-value job development instead. This trend has been exacerbated by the significant reduction of state and federal resources to help fund highway, sewer, and water infrastructure. The result is that newly urbanizing areas are increasingly expected to pay their own way.

- **Fiscal inequity:** The lack of funding mechanisms to build needed infrastructure raises questions about how much of the burden should fall on existing residents vs. those who will live and work in the newly developing areas. System development charges (SDCs) do not cover all the costs created by growth: state law prohibits their use for schools, libraries, and fire and police stations, and in any event communities generally choose not to charge the maximum SDCs allowed by law. As housing markets soften and wages stagnate, it is more and more difficult for developers to simply pass along increasing SDCs to homebuyers.

One million more

On top of all that, the region's population is increasing much faster than previously projected. The current population of the Portland region, including Clark County, Washington, is about two million. New projections indicate that within 25 years, we can expect to be joined by one million new neighbors, for a total of three million.

Growth of this magnitude will have a transformative impact on our region. Preparing for that future will take more than a few incremental adjustments to business as usual like tweaking the height limits in our centers, or even more expensive options like bringing a few thousand acres into the UGB. It will require us to develop entirely new ways of getting things done.

Taking a new look

In short, the region faces a "perfect storm" of an exploding population arriving just as the growth management and public investment tools of the past are losing their effectiveness and in need of renewal. Paradoxically, to protect what we love about living in the Portland region, we will need to embrace change. In this spirit, the Metro Council has been pursuing a major initiative to take a new look at the choices we face as a region.

To be sure, the Metro Council continues to support the underlying philosophy and overall direction of the 2040 Growth Concept, and public support for its key elements – compact

development, growth in centers, transportation choices, farmland protection – has remained consistently strong over time as well.

However, one thing we have learned is that "planning doesn't make it so." If the 2040 Growth Concept involved a regional decision about what we want the future to look like, our current work represents a concerted effort to decide how we are going to get there and to jump-start the process of *implementing* the region's plan so it can be made real. The added population pressure we face dramatically increases the urgency of this work.

Our current efforts diverge in several critical ways from the approach we have been taking under the 2040 plan.

The major purpose has been containing the "evil" of sprawl. The major tool was regulation. Relatively little attention was paid to creating the best antidote to sprawl: upward mixed-use growth in vibrant cities.

For over a decade, far too much of our energy has been spent on how and where the urban growth boundary is moved. The major purpose has been containing the "evil" of sprawl. The major tool was regulation. Relatively little attention was paid to creating the best antidote to sprawl: upward mixed-use growth in vibrant cities.

Creating good things is a much harder job than preventing bad things. It is more difficult to build great cities and a great region than to just draw a line and spend years in court fighting about it. Government planners drawing blobs on a map do not create new communities or regional centers. Actual investment, mostly from the private sector, does.

That's why the Pearl District and South Waterfront experience explosive growth while several designated centers like Gateway, Rockwood, and Tigard have so far failed to develop into the vibrant communities they want to be. That's also why almost none of the land brought into the UGB since 1998 has been urbanized; areas like Pleasant Valley and Damascus, and even land viewed by the development community as highly desirable like North Bethany, take years to get off the ground after they are brought into the boundary.

Public investment is necessary to make private investment possible and profitable, and private investment is what ultimately builds a great community.

The key realization that unites most of the challenges listed above is this: public investment is necessary to make private investment possible and profitable, and private investment is what ultimately builds a great community. Whether we want to stimulate redevelopment in centers, build new communities on the region's edge, or knit the region together and connect it to the rest of the world economy with a robust transportation system, the question we will face again and again is: what is the right mix of public investments needed to stimulate private markets to build the region envisioned in the 2040 Growth Concept?

We need to shift the focus of our efforts from regulation to investment.

Investing in our communities

To answer this question, we need to shift the focus of our efforts from regulation to investment. At the most basic level, this means identifying new resources to support the planning and infrastructure we need as the region grows, even as we learn to get more out of the tools we already have at our disposal. It means understanding market forces, and how they are conditioned by public action to shape our communities. There's no point in pretending our zoning system will encourage redevelopment if our fiscal and taxation systems discourage it.

The bottom line is that the bottom line – how and where we pay for growth – is an integral part of our efforts to make our region the greatest place to live, work, and play.

That's why a major focus of the Metro Council has been a project known as "Investing in Our Communities." Through this project, we hope to address questions like:

- Where will the funds come from to rebuild outdated or inadequate roads, sewers, and other infrastructure needed to support the kind of development and redevelopment the region has prioritized in centers and corridors?

- How can we accelerate the reuse of brownfields and other abandoned industrial sites?

- How will we counterbalance the subsidies and other advantages that have historically favored expansion at the region's edge?

- When expansion of the UGB is required, how will we make the investments needed to ensure that newly urbanizing areas can be effectively integrated into the fabric of the region?

Public investments may take the form of direct infrastructure development, or they may consist of subsidies or tax incentives to support the private sector. Either way, attracting private investment is key. Those who have achieved some success at this – and there are many examples throughout the region – have recognized that private investment follows public investments in infrastructure, and that tax and regulatory policies that have promoted growth at the region's edge must be replaced with policies that attract investments into centers. We will need to do this on a much larger scale to fulfill the region's vision.

Promoting collaborative solutions

Metro's work on public investment is just getting started. The Metro Council has begun to consider a set of principles to inform these efforts. For example, these principles could include such ideas as developing return-on-investment standards for public investments, prioritizing maintenance and stewardship of existing assets, seeking efficiencies of scale, ensuring fair distribution of burdens and benefits, and addressing fiscal disparities between communities.

We also contemplate a definition of "public infrastructure" that goes beyond the traditional focus on roads, sewers, and water systems and even beyond schools, libraries, and fire and police stations. A broader definition would also embrace amenities like parks, plazas, streetscapes, and other public spaces. These public investments create value for developers and investors when they commit their private funds to new and existing urban areas. These

private investments, in turn, create "urban living infrastructure": the specialty grocery stores, restaurants, and theaters that make those areas attractive places to live and work.

Already, the "Investing in Our Communities" work has taken form in several ways:

- We have conducted a multi-year project called "Get Centered" that has brought together developers, lenders, planners, economists, and local officials to learn how vibrant centers create value for all and to discuss how to get them built.

- We have sponsored visits by infrastructure experts like Robert Puentes of the Brookings Institution to highlight critical issues.

- We have sponsored a forum and published a report on how to more effectively deploy and target one existing financing tool, systems development charges, both to promote greater financial equity and to stimulate development in urban centers where developers might otherwise face financial hurdles.

- We have recently published a "Community Investment Toolkit" addressing the effective use of a panoply of financial incentives like the state's vertical housing program, tax exemptions for transit-oriented development, funding for brownfield assessment and cleanup, urban renewal, and local improvement districts.

The periodic update of the Portland area's Regional Transportation Plan (RTP), as required by federal law, will provide an interesting case study on the infrastructure challenges we face. With the current RTP update, we are trying to be more rigorous and realistic than we have been in the past about what transportation facilities we can actually afford and which ones provide the best return on investment, rather than simply creating a wish list and calling it a plan. At the most basic level, this is an exercise in asking ourselves, "what do we really need, and how can we pay for it?"

Through this Metro-led process, area leaders will soon adopt a vision for the region's transportation system and develop a list of projects to achieve that vision over the next three decades. Our staff is also working to identify revenues that can reasonably be expected during the planning period. Comparing our revenues to our vision will force us to confront what we anticipate will be a yawning gap between our aspirations and reality.

The irony is that we pay either way: either right now, in higher taxes and fees that would be necessary to fund our preferred system, or over time, by having to drive on poorly maintained, congested roads that will cost even more to repair and replace later, with all the impacts to economic vitality, safety, driver frustration, car repair needs, and air quality that that implies.

Conclusion

Metro's analysis of the region's infrastructure needs is just getting started. In the coming months, we will be conducting research that identifies the size of the funding gap for maintaining our traditional infrastructure as well as the costs of developing and maintaining new public facilities needed to successfully implement the vision of the 2040 Growth Concept.

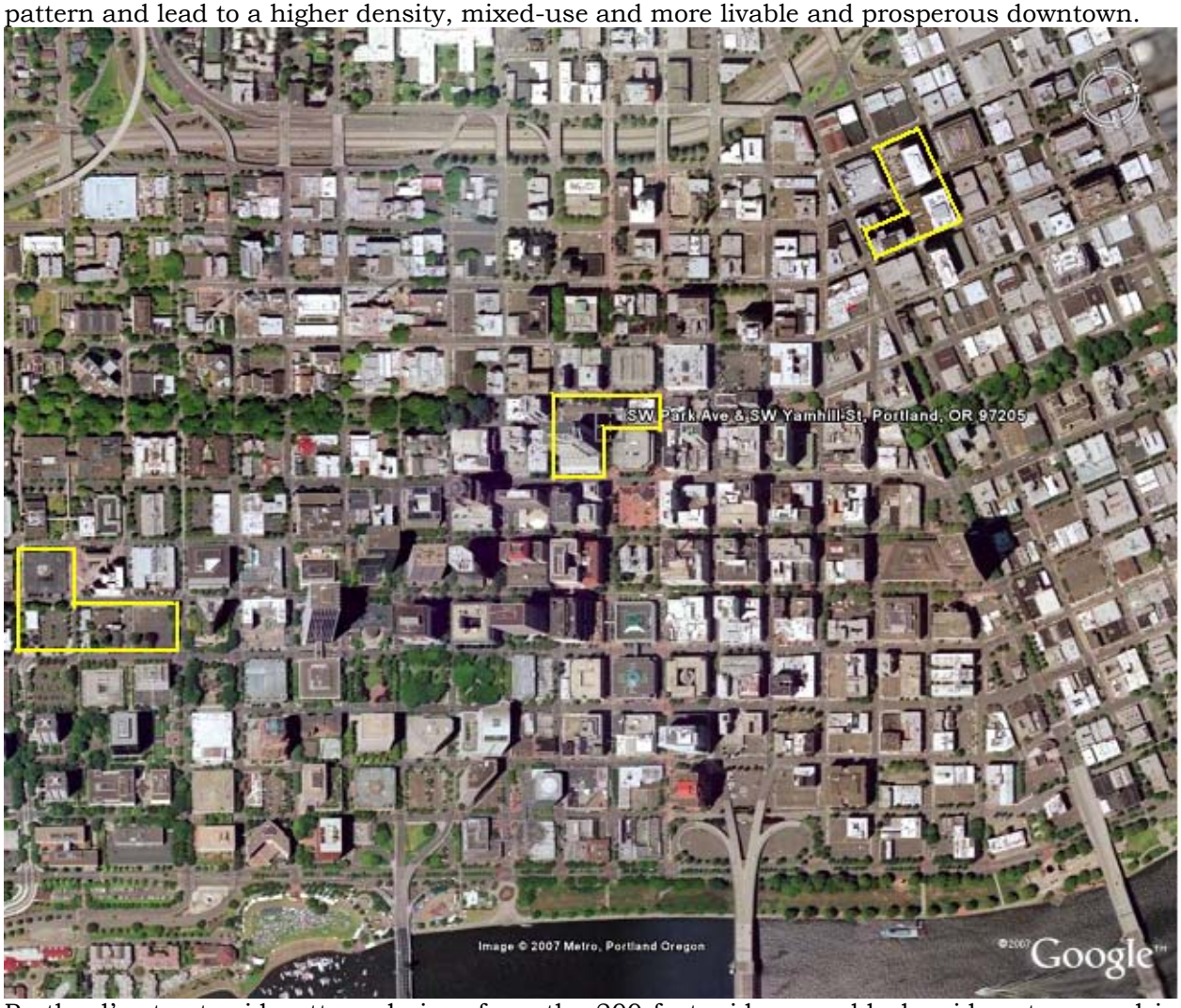
As a government, Metro does not own or operate any pipes or pavement; the infrastructure we offer is a regional table at which we convene the many interests who need to develop collaborative solutions to regional challenges. A year ago, at the event where Mike Gleason lectured us to get serious about infrastructure finance, one theme emerged repeatedly: whatever solutions emerge from our work, they must be solutions where everyone wins. With that in mind, we will be working with local governments, public and private service providers, business leaders, and lenders to develop a strategy for focusing public investment on the types of facilities that support vibrant and sustainable communities.

The ideas and solutions to our problems won't come from Washington, D.C. or Salem. This region has the capacity, the smarts, the financial wherewithal, and – I am confident – the political will to invest our public assets in a way that charts a new and successful course for our region.

Multi-Block Underground Shared Parking: A Critical Stimulus for Mixed-Use Density

Professor William P. Macht, Associate Director, Center for Real Estate

The city of Portland owes a great deal of its character to its small 200-foot by 200-foot city blocks. Many city planners and urban historians identify the city's small grid system as a source of the downtown's vitality and livability. However, the small grid pattern also creates significant inefficiencies for the provision of high density automobile parking and significant barriers to more intensive development of Portland's downtown. In this article, I will explain how multi-block development of underground parking can complement Portland's development pattern and lead to a higher density, mixed-use and more livable and prosperous downtown.



Portland's street grid pattern derives from the 200-foot wide cross-block grid system used in the Dewitt Clinton 1811 plan for New York City and the 200-foot by 200-foot square blocks incorporated in Louisville, Kentucky, the hometown of Daniel Lownsdale, who became one of Portland's founders and largest landowner. The many corners of small blocks make exceptional retail locations, and the small blocks ensure light and airy streets and smaller buildings at a more human scale. Pedestrians are able cross Portland's downtown more easily with the small

block grid pattern. Small blocks can also stimulate development in smaller increments, phased with market demands which often lead to under-building larger blocks.
Unfortunately, the 200-foot wide street grid is less than ideal for automobile parking. A normal two-sided parking row (or "parking bay") that is designed for perpendicular parking is 60 feet wide. The 60-foot width commonly allows 20-24 feet for a drive aisle (10-12 feet for each driving lane) and 18-20 feet in depth for each space. However, the division of 200-foot blocks by the 60-foot module leaves 20 feet remaining, creating at least a 10% inefficiency in the number of spaces that can fit into a given block. When building cores and ramps are inserted, inefficiency multiplies. Adding these inefficiencies to the high cost of building underground parking underground creates significant burdens for downtown developers.

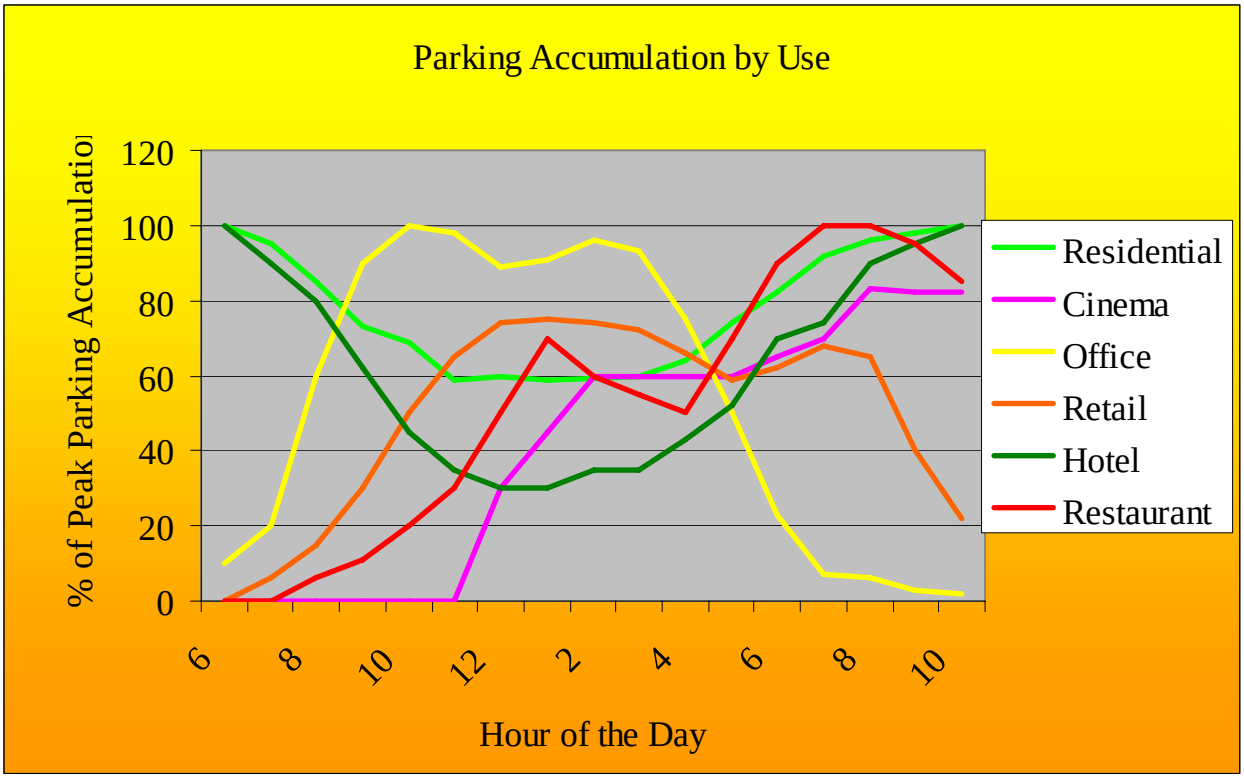
A second source of inefficiency arises when a parking garage becomes utilized only or primarily by those who live or work in the buildings above. Each type of real estate development (i.e., office, hotel, residential, retail, etc.) has a different pattern of parking utilization and vacancy. Some uses are predominantly weekday uses or weekend uses, while others are evening uses or overnight uses. Usually office and retail parking is only occupied about eight hours of any day (only slightly longer for hotel and residential uses). As a result, for about two-thirds of the day, and all weekend for office use, an investment of up to $50,000 per parking space lies fallow.

The high cost of developing parking is a difficult issue for both city planners and real estate developers in Portland. City planners aim to reduce the total quantity of parking downtown in order to encourage greater use of transit. However, developers also share the objective of reducing the quantity of parking they need to develop because Portland parking rates simply do not fully amortize the investment of their construction. Even if faster and more frequent transit can reduce vehicle miles traveled, in very few of the largest cities has it been possible to eliminate automobile ownership. And any car owned by a downtown resident must have a parking space, regardless of how much the resident drives it. So any way that will reduce those effective capital costs and increase occupied parking density should be a shared public and private policy objective.

One of the best ways to reduce the inefficiency of Portland's small grid pattern and promote high quality downtown development is to develop multi-block underground parking. There are many sound reasons for the City of Portland to adopt public policies and strategies to accomplish this result.

Shared Parking. Parking built under multiple blocks creates a common pool of shared parking which can directly serve and access any building built above it and, to a lesser extent, development on neighboring blocks. As a general rule, residents of a condominium or apartment structure have a strong preference to buy or rent only where they can move groceries and belongings directly into an elevator serving the building in which they live, and to a lesser degree, work or visit. While this is generally universal, it is particularly pronounced in rainy places like Portland.

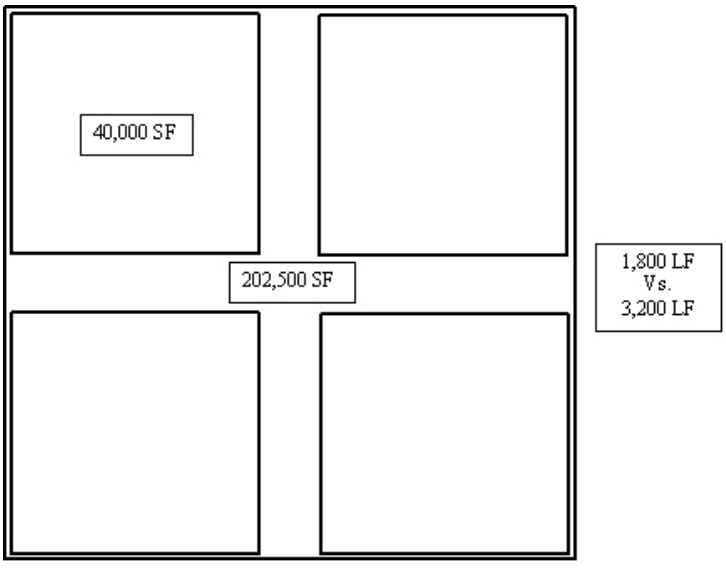
Mixing uses vertically in a high rise building creates such problems as accommodating different floorplate size demands, integrating plumbing chases through several different uses, separating entrances and lobbies, and even finding lenders willing to finance more complicated and more expensive mixed-use structures. However, this can be simplified when the mix of uses is horizontal rather than vertical. An active mixed-use environment can be created with fewer design difficulties, cost premiums and financing challenges.



Shared parking saves money when constructing a mixed-use building since the same parking spaces can serve different uses at different times. For example, an ideal mix is office and hotel uses since peak daytime office parking demand is close to a mirror image of evening hotel demand. Therefore a significantly smaller common pool of parking can accommodate both.

Yet design and construction parameters make building a single hotel-office property difficult. But a horizontal mixture of a hotel tower and an office tower above a common parking pool is very feasible. Parking demand for one expands as the other contracts. Residential, retail, restaurant and entertainment uses each have separate parking demand curves and design parameters that can complement one another in a manner to build the smallest feasible pool of multi-block underground parking.

Space Efficiencies. Multiple block underground parking offers major space efficiencies in floorplate size, layouts, ramp design, retaining wall length and costs, among others. For example, a single 200-foot by 200-foot block underground parking structure will need 800 lineal feet of retaining walls. Four separate blocks will require 3,200 lineal feet of retaining walls. But a multiple four-block underground parking structure with a 50-foot right-of-way of streets above them will require only 1,800 lineal feet of retaining walls, 44 percent less. Moreover, the four single blocks will create a total of only 160,000 square feet of parking versus 202,500 square feet in the multi-block structure, or 27 percent more space.



Floorplate Efficiency. The impact of the increased space is magnified because it allows much greater efficiency in parking layouts. The most efficient layout for a single 200-foot by 200-foot block is double-loaded diagonal parking at an angle of 50 degrees for 8.5-foot wide parking spaces in bays that are 50 feet wide. A parking bay is measured from the tip of one parking space to the tip of the one opposite it, including the drive aisle. That layout produces a theoretical maximum of 144 spaces per block, excluding any elevator cores or other service functions. Four separate blocks therefore yield 576 maximum spaces.

But in a multi-block structure, the same four blocks could yield a theoretical maximum of 818 spaces of the same dimensions, 242 more spaces, a 42 percent increase in total parking spaces. The space per parking stall, including the drive aisle circulation but excluding ramp inefficiencies would decline from 278 to 248 square feet, a 12 percent reduction. Moreover, fewer spaces would be lost to building cores since the spaces under the streets and sidewalks would have no such building cores penetrating them. In addition, the larger floorplate minimizes the total depth that needs to be excavated for a given number of spaces, as well as the need for multiple ramps and two-way drive aisles which tend to reduce the number of parking spaces for a given square footage. Because fewer levels and ramps are needed, efficiencies rise and costs decline.

Construction and Operation Costs. The multi-block parking garage creates additional savings in construction and operation costs. Excavation of a larger site is significantly more efficient than that of a smaller site. Large earth moving equipment can be used much more efficiently. Moreover, the total depth of excavation need not be as deep to produce an equal or greater number of spaces. Because 44 percent fewer retaining walls need be built, that cost is reduced. Since significantly less space is needed per stall, the cost of concrete floors and ceilings is reduced proportionately.

There are also significant savings in operating expenses. Fewer attendants are needed to operate a multi-block structure. Moreover, entrances and exits can more easily be automated and the costs of installing gates, pay stations, way-finding systems and other technology are spread over more spaces. The Portland airport is a good example of large floorplate parking structure that can be efficiently managed by fewer attendants using modern and efficient gates, pay stations, and way-finding systems.

Density. A major public goal in the Portland region – to increase the density of development – can be enhanced by multi-block parking garages. Traditionally, planners have criticized the automobile and the amount of space dedicated to parking and streets. However, having higher density, maximally occupied parking is the best way to support higher density uses in downtown buildings. No rational developer wants to build any more expensive and unprofitable structured parking than is absolutely necessary to capture a market and satisfy lenders and equity investors.

As a result, we need parking built through more efficient means, such as through multi-block underground structures and shared parking systems, so that parking investment can support more hotel rooms, condominiums, office, retail, restaurant and entertainment space. Accommodating the additional density helps the developer make profits and meets the public's density objective.

The increased density and building values also create a higher tax base for the City and more activity on the streets. So, public and private objectives are mutually reinforcing and work for the benefit of each, as well as for increased urbanity for the public.

Housing Affordability. Multi-block underground parking structures can also be used to reduce the prices of condominiums built above them. Rather than sell parking spaces either

with, or separately from, the condominium, if the developer retains ownership of the parking but conveys a deeded option to rent one space per unit, buyers can choose to exercise that rental option or not, without losing the right to convey the option to the next resale buyer.

Either way, the developer can remove the capital cost of the space from the sale of the condominium unit, which might lower its price by up to $50,000 in the current market. This method is far superior to selling spaces separately since if the first buyer chooses not to purchase a space, then his or her resale is limited to a much smaller niche market of those who do not possess a car, which will have the effect of reducing its resale price.

The effect upon housing affordability is even greater. Since buyers will not need to purchase parking spaces to protect their future resale prices, more buyers will choose to forego both the capital expenditure of buying parking spaces and the high expenses of owning and operating a car. The American Automobile Association (AAA) estimates that it costs an average of $8,000 a year to operate a car. If one adds to that rental of a space in which to park the car at about $165 per month, that adds another $2,000 to its cost. If a buyer were to spend that $10,000 annual cost on buying housing, at a 6.5% interest rate on a 30-year loan, the mortgage equivalent value is $130,000. If one were to purchase a space at up to its $50,000 cost, rather than rent one, the total investment would total over $156,000, a very substantial difference in affordability.

In the event that a buyer does not exercise the deeded parking option, then the developer can rent that space to another resident who wants a second space, subject only to termination in the event that the underlying option owner exercises it later or conveys it to a future resale buyer who does so. The net effect is to increase the effective parking ratio and to create a new income stream for the developer. Some developers may choose to sell the parking structure for a bond-like return supported by the built-in rental demand from the condominium and other mixed-use components of the project.

Another alternative is for the public sector, which owns the land under the streets and sidewalks, to take ownership of the multi-block underground parking structure and manage it as a shared parking pool for all the uses above it, and for the public, subject to absolute deeded rental options to the residents, owners and tenants of the buildings above. The developer would be compensated by a pre-determined purchase price which covers projected costs, but shifts cost overruns to the developer. One virtue of that scheme is that if the economics of private ownership and management are tight, the lower carrying costs of the public sector make the arrangement more feasible and the public can implement policies to ensure that as many units as possible remain more affordable.

Livability. Counter-intuitively, the more parking that is built in multi-block underground parking structures, the less will be the need to use private automobiles for transportation. First, by creating a shared pool of parking spaces, which supports higher density mixed uses above, more residents will have less need to travel elsewhere for many functions.

Second, as illustrated above, since buyers will not need to purchase parking spaces to protect their future resale prices, more buyers will choose to forego both the capital expenditure of buying or renting parking spaces and the high expenses of owning and operating a car. That means that such new residents will have an economic incentive to use transit rather than automobiles.

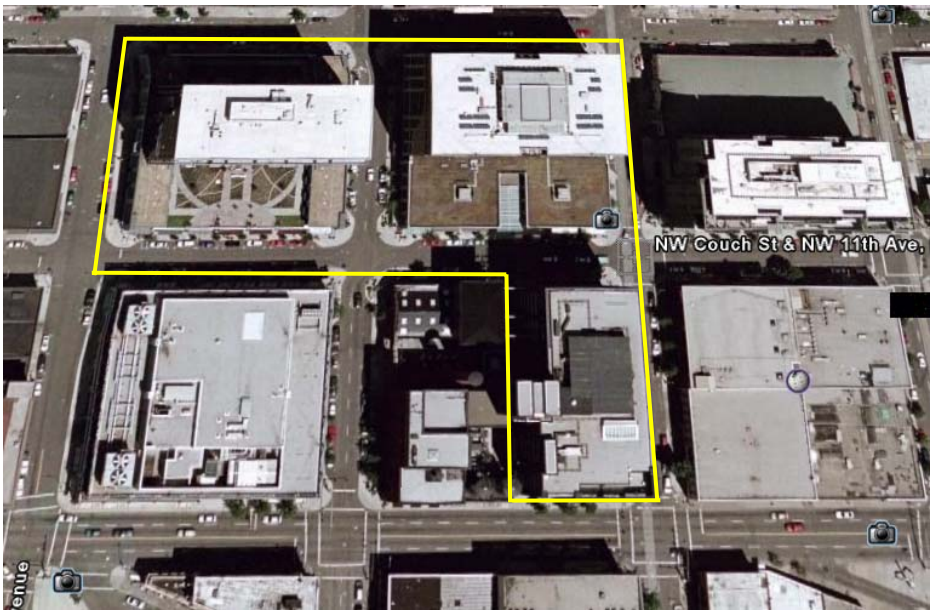
So by entering into public-private partnerships to develop more multi-block underground parking structures, the public sector will be advancing its objective of both building high density environments that are less auto-dependent and more transit-oriented, as well as creating incentives to use transit more frequently.

Another leveraging effect of multi-block underground parking structures is the increased use of car sharing programs like Flexcar. Initially, car sharing companies thought that the largest use of them would be by residents of outlying residential complexes. But they discovered that usage was higher by stationing them at office complexes where they replaced fleet cars for companies and government agencies. That meant that office tenants were freer to use transit for commuting secure in the knowledge that a car would be available for daytime trips needed for business or personal affairs. That also means that Flexcars stationed at office buildings are not likely to be used evenings or weekends.

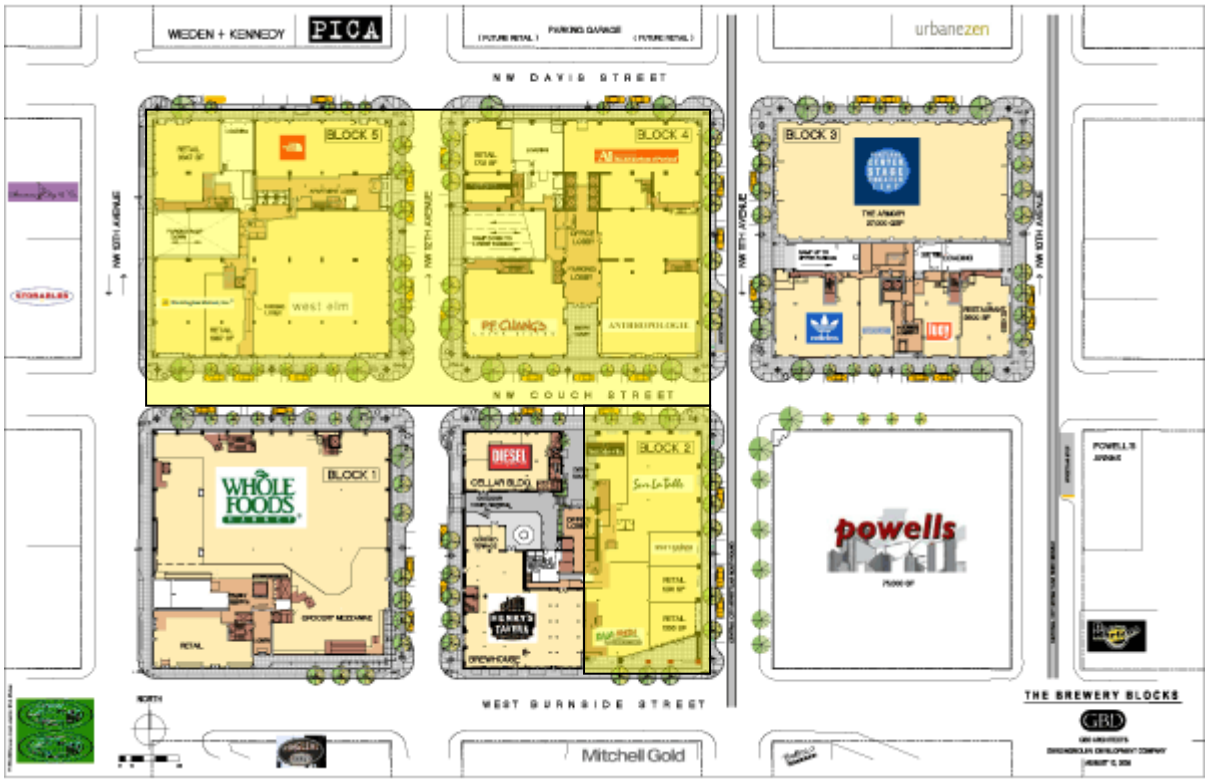
But if such Flexcars are stationed in multi-block underground parking structures with many residential units and hotel rooms as well as offices above, they are more convenient and more likely to be used evenings or weekends. Because a single Flexcar may support about six users, total parking space efficiency can be greatly enhanced. Since multi-block underground parking structures will have higher occupancy because of the shared uses of its spaces, fewer new single use parking structures need be built.

Portland Multi-Block Parking Structures. Until recently, the number of multi-block parking structures in downtown Portland has been quite limited. Underground parking is much more expensive than above ground parking and competes with surface parking. Plus, Portland's 1970's era parking cap made developing large parking supplies in a single building difficult. Buildings like the First Interstate Tower (now Wells Fargo), US Bank Tower and World Trade Center have a multi-block garage, but their effectiveness has been limited due to the single-use nature of the structures above.

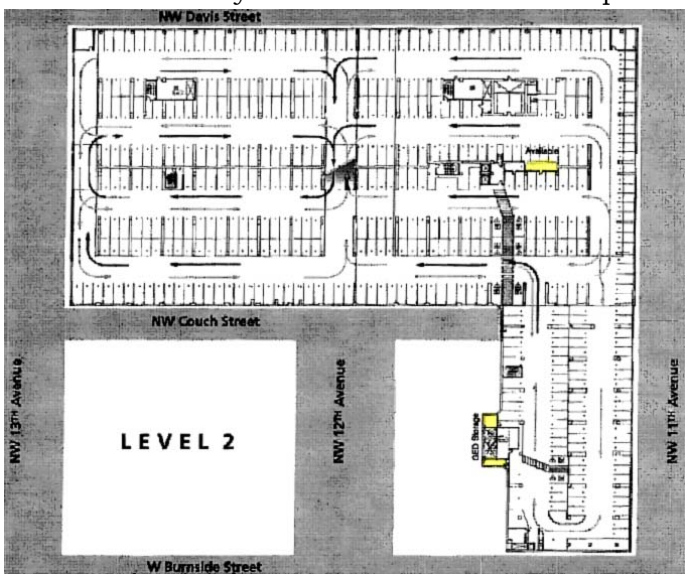
Brewery Blocks. The best local example of a multi-block underground parking structure supporting a mixed use development is the Brewery Blocks project developed by Gerding Edlen Development Company. The Brewery Blocks and its underground parking garage stimulated the resurgence of retail uses in Portland's Pearl District, creating ample supplies of parking that are essential to the restaurants and retail tenants, both as part of the Brewery Blocks development itself, but also for the many shops and restaurants nearby. Shoppers to those venues know that even if they cannot find a place outside their favorite location, they can certainly find a parking space at the Brewery Blocks. And while much attention to the Pearl District's development has focused on the city's Streetcar line, most retailers report that few people shop by mass transit. Nearby automobile parking is essential to their success.



The portions of the five blocks that are supported by the 1,300 spaces in the 2.5 block



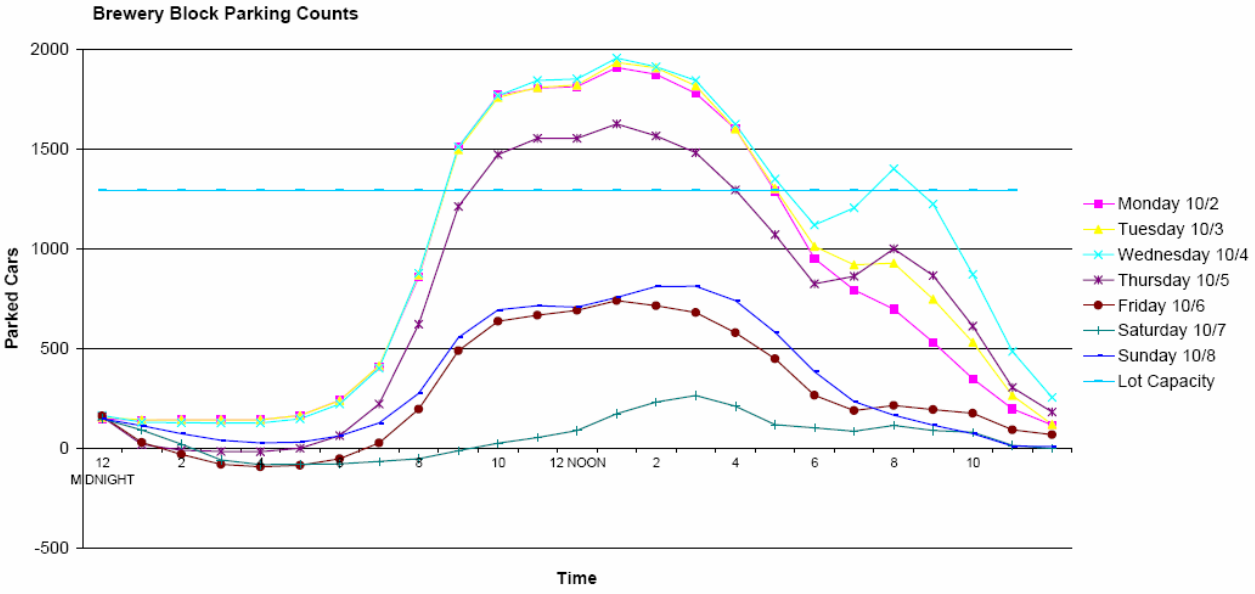
underground parking structure total about 724,000 square feet of which about 153,000 square feet are retail, 433,000 square feet are office, 58,000 square feet are entertainment and 80,000 square feet are industrial with a communications center and central energy plant. In addition there are 242 apartments in about 200,000 SF. The Henry condominiums have a separate parking structure within them.



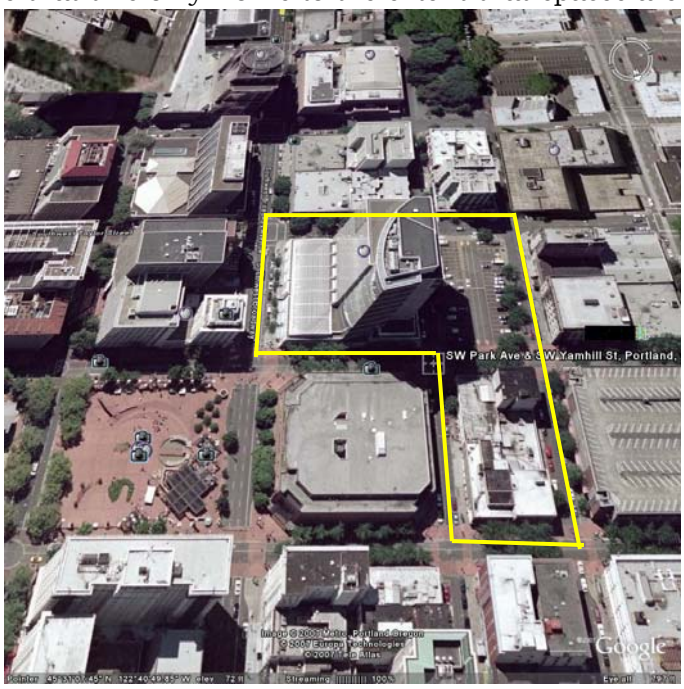
The Brewery Blocks parking occupies three floors underground: If the 242 apartments were allocated one space each and the 80,000 SF of industrial uses are excluded, then 1,058 spaces would be available for the office and retail space which would be a ratio of 1.64 spaces per 1,000 SF. However, if the office space were also allocated at a ratio of one per 1,000 SF, a common downtown office parking ratio, the office and apartments would take 675 spaces and the remaining 625 spaces would result in a ratio of 4 spaces per 1,000 SF of retail space, a common suburban parking ratio.

However, such allocations would assume no shared parking. Since the retail, restaurant, entertainment and residential uses are predominantly evening uses, one might assume a significant sharing. Graduate student Brian Vanneman undertook preliminary analysis of total

demand at various times of the day and found that the parking peaks are largely during weekdays with the peak hours of demand being between 10:00 a.m. and 3:00 p.m. This suggests that office parking demand far exceeds all the other uses and that there are significant periods of slack morning, evening and nighttime parking demand which could support higher density of uses, such as hotels and apartments within the same underground



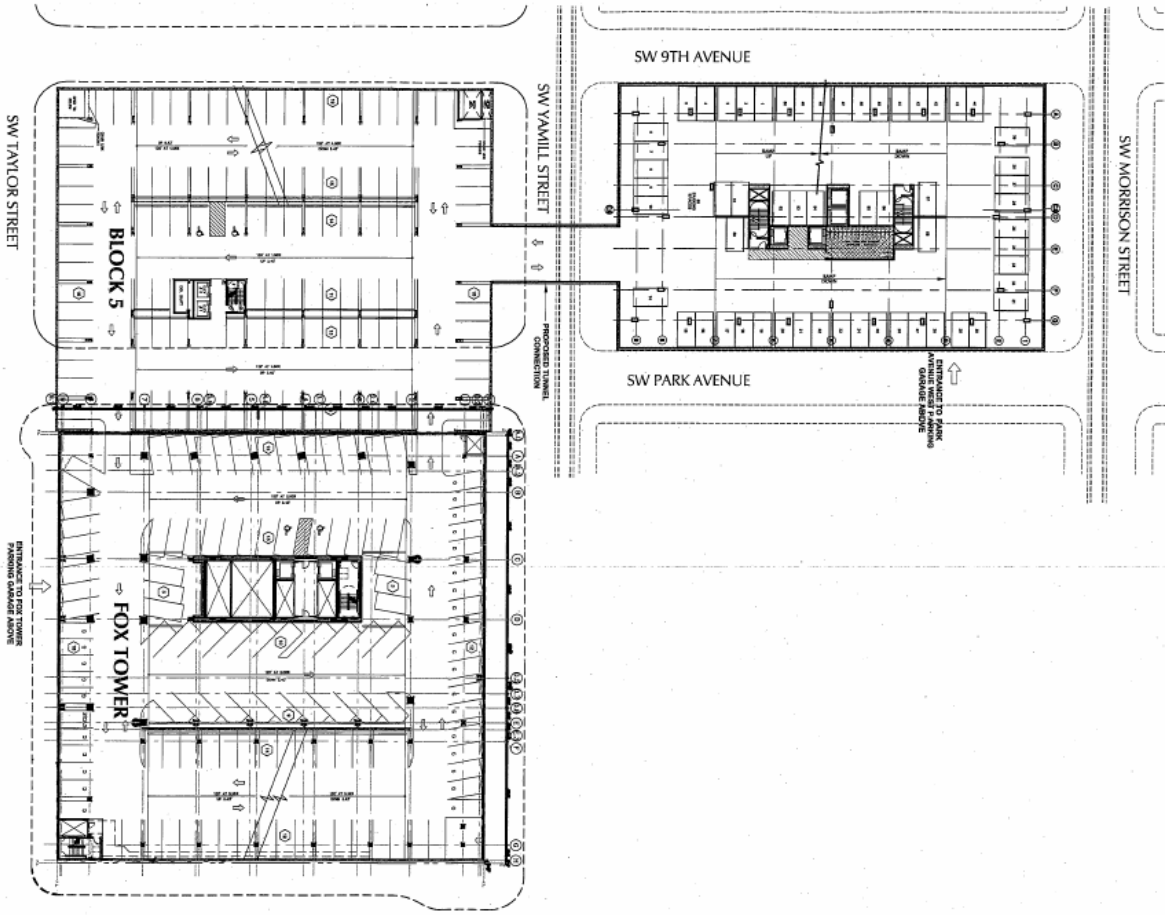
parking supply. It is important to emphasize that this only works to the extent that spaces are not allocated to a particular use. In this case, some are allocated to specific uses such as Whole Foods grocery store, office and residential tenants. When that is done, such spaces are effectively removed from the shared parking pool and the supply shrinks accordingly, as well as the opportunity to increase development capacity. If managed more optimally, with this mix tilted heavily in favor of office space, it may be very feasible to add at least a 100-room hotel to the existing mix, adding potential profit to the developer and tax base for the City.



Fox Blocks: Fox Tower, Park Block 5 & Park Avenue West. Another example of a multi-block underground parking structure supporting several uses is the parking structure currently under construction that will include the Fox Tower, Park Block 5 and Park Avenue West. Because so much of downtown Portland is occupied by Class B office space and retail space without parking, retail expansion of the downtown Portland core may be augmented by this development by Tom Moyer's TMT Development firm.

Unlike the Brewery Blocks garage, the three segments of the structure are being built separately. The Fox Tower's 5-level, 462-space underground parking garage is the deepest in

Portland. It supports 80,000 square feet of retail and entertainment space and 438,000 SF of office space. The new Park Avenue West will include 280,000 SF of office space, 60,000 SF of retail space, 85 condominiums and an underground garage of 339 spaces. The garage under Park Block 5 will include 676 spaces on 6 underground levels. Combined, the three blocks will have 718,000 SF of office space, 140,000 SF of retail space, 85 condominiums supported by 1,477 parking spaces.



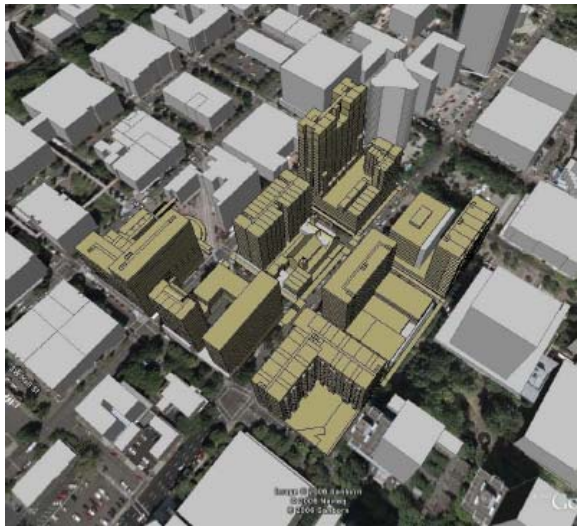
If one were to allocate one space per unit plus one space per 1,000 square feet of office space, normal downtown parking ratios, the remaining 674 spaces would provide 4.8 spaces per 1,000 square feet of retail space, a common higher suburban parking ratio. Again, such allocations would assume no shared parking. Since the retail, restaurant, cinema entertainment and residential uses are predominantly evening uses, one might expect a significant sharing. The presence of Nordstrom adjacent to the Fox Blocks without any parking on its own block stimulates high parking demand and attracts many more retailers in the heart of the downtown retail core that will also be served by the 1,477 space parking structure.

The development of the Fox blocks shows the skill of a developer who thinks long term. Tom Moyer invested large amounts of personal equity to build the deepest underground garage for one of the largest office buildings when it had no anchor tenant. He purchased Park Block 5 when its previous owners were going to construct a 12-story above ground

parking structure, blocking views from the Fox Tower and competing with his underground parking. Then he donated the surface to the City and $5 million to the Oregon Community Foundation and the City for a new park, retaining subsurface rights for an underground parking structure and development rights at a 9:1 FAR that he was able to transfer to the Zell Park Block 4 to enable him to build a 415-foot tall, 35-story building. Then to gain maximum efficiency he obtained rights from the City to the space under SW Park Avenue and Yamhill streets and designed all three underground parking structures to connect to the Fox Tower garage which will be its main access point. It is precisely that underground multi-block, shared parking structure that enabled him to develop the Fox Blocks to their highest density, a result that would likely be counter-intuitive to those who seek to limit parking in order to build density.

Urban Center East. In the spring of 2006, I led a team of PSU graduate students in a workshop to examine seven of the nine blocks between 3rd and 6th Avenues, Harrison and Market Streets. A key development strategy of that development plan was to develop a four-block underground parking structure, tied into the fifth block parking structure under the Cingular Building, all of which could support the highest density of mixed uses above it. No sanitary or storm sewer lines cross those blocks.

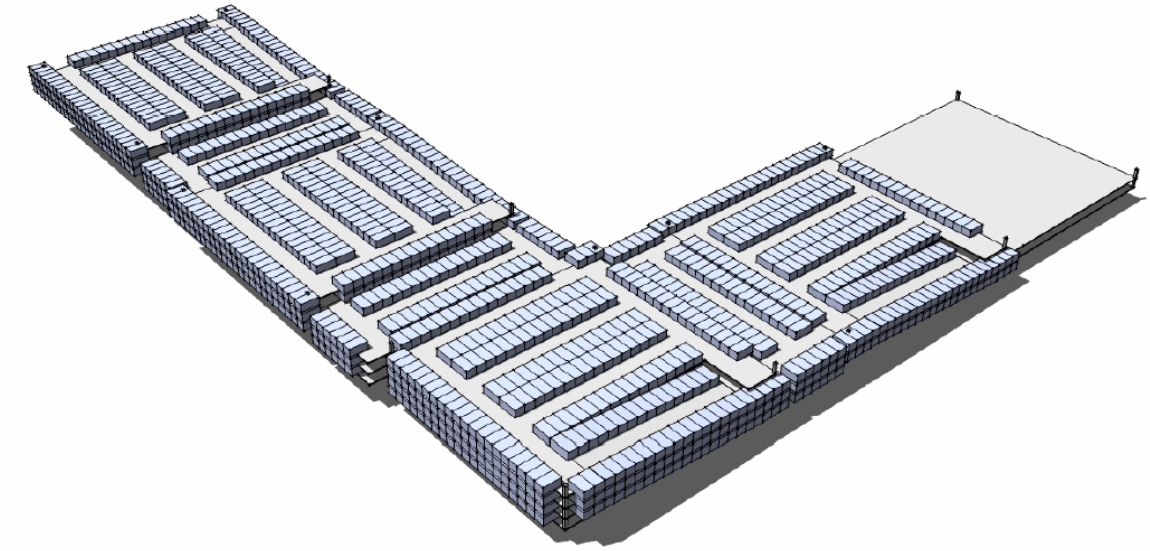
The 2,600-space shared parking structure supported complementary mixed uses that lead to increased density including 270,000 SF of retail space, 280,000 SF of private offices and 48,000 SF of academic offices, 211classrooms, 133 hotel rooms and 1,984 residential units, most of which would be workforce housing units.



Private flex offices, high-tech classrooms, academic offices, financial offices, retail stores, church, and hotel have different parking demands at different hours of the day, days of the week, months, academic terms and seasons. Building a large 2,600-space shared parking supply supports more than a 25% increase in density of all the uses above and adjacent to it. This creates higher development values for the private sector, higher tax base and tax revenues for the City and increased ridership for the light rail, streetcar and bus transit services above it. Connecting the parking structure under five of the seven blocks permits the parking supply for each use to expand and contract with parking demand – a result which is not achieved with separate private parking supplies under each use. In addition, the large floorplates permit the

most efficient use of space under the small Portland blocks, which in turn increases parking space efficiency and lowers per parking space capital costs.

To many city planners, larger parking structures are antithetical to transit-oriented development. In fact they are necessary to support it in all but the largest cities. Not only are park and ride lots essential to support transit, but also to support jobs which are increasingly spread throughout the metropolitan area. A large market segment that is captured by the Brewery Blocks and Pearl District works in diverse places like Intel and Nike. Furthermore, almost all those who have been able to purchase new condominiums in the RiverPlace, South Waterfront, Pearl and Brewery districts still find it essential to own a car, regardless of how much they drive it. Therefore, if one can make that parking denser and more efficient, one can support more dense development. The more such development is in mixed uses, the more it can be shared and therefore the more dense the area can become.



Using the parking rental concept, rather than purchase, should owners find it possible to live without a car, then the same parking can support even more dense development. The PSU shared parking structure was intended to do precisely that. Even combined with 4,000 existing PSU spaces, the total parking ratio for PSU alone would supply less than 20 percent of PSU demand. Coupled with parking demand generated by 1,984 new housing units, 550,000 square feet of new private office and retail space and 200,000 square feet of new academic space, the shared parking structure is modest. It represents less than one space per 1,000 square feet of the 2.6 million square feet of new development. And it is that high demand that that supports the development economics. It would create more profitable space for developers at lower cost without the capital costs for parking that supports it, as well as two income streams, each about $1.5 million, for PSU from parking net cash flow and from ground rent income which the University could use to lease classroom space. This classroom space can be privately developed with private financing made possible by the strength of PSU as a long-term anchor tenant.

The full implementation of this concept that the students devised has been limited by the University's development of the PCAT block at 6th and Montgomery without any parking spaces, as well as the development of the light rail line on 5th Avenue, which makes extension of garages across that avenue all but impossible. However, it appears that the Gerding-Edlen Development Company allowed for the potential the garage below its soon-to-be developed 1700 4th Avenue, or Cyan Condominiums, to connect to the neighboring block at 4th Avenue and Harrison.

Public Policies. Since it owns the streets, the City is always a participant in any multi-block underground parking structure. No developer controls as much parking as the City, nor could it undertake multi-block parking without City involvement. Parking is a public function, just like transportation, and should enjoy tax exemption as a public use. In the case of the Brewery Blocks, the Portland Development Commission loaned $6 million to make parking spaces open to the public and priced at city-owned garage rates for 10 years. The agency also granted $2 million to pay for ornamental streetlights and sidewalk extensions to enhance the blocks. Therefore, there is both precedent and reason that the City should adopt a clear policy fostering the creation of more such structures and should use its leverage to enhance public development objectives, including the following:

1. **Negotiate public or joint ownership of multi-block underground parking structures.** Public ownership can be desirable for private developers because at current capital costs and market rental rates, underground parking is not profitable. However, with lower-cost tax-exempt financing, carrying costs and operating expenses, the public should be able to operate at breakeven.

2. **Use public leasing phased with new multi-block parking projects supporting mixed-uses.** Developers often find it difficult to build multi-block parking garages when they phase projects because they need to carry additional parking costs prior to development of subsequent phases. With its lower carrying costs, and other public parking revenues, the City can lease spaces for its SmartPark pool to encourage development of efficient multi-block structures.

3. **Exempt jointly owned multi-block underground structures from property tax.** To encourage maximum private financial participation in jointly owned multi-block underground structures, the City should exempt or abate property taxes on the private ownership share. Together with the exclusion of underground parking from FAR limits, tax exemption or abatement can be important incentives.

4. **Promote optimal mixed use development.** While development programs must always be sensitive to market demand, the City through PDC should refine shared parking analyses to test optimal mixtures of uses to achieve the highest density with the fewest parking spaces. The City should negotiate these optimal mixes when considering leasing rights under its streets.

5. **Ensure that spaces are rented, not sold or assigned.** The City should not participate in any multi-block structure in which spaces are to be sold. Sale or assignment of such spaces permanently removes them from the shared parking pool, thereby increasing vacancy anytime a resident uses his car, which is antithetical to public objectives for maximum occupancy supporting optimum mixed-use density.

Multi-block underground parking can be one of the most important tools a city can use to develop its downtowns and other urban centers to create the highest density of the most optimum mixture of urban uses. Done properly, the results can be a higher tax base for the city, more affordable housing for its residents, more urbane places for its visitors and more profitability for its long-term urban investors.

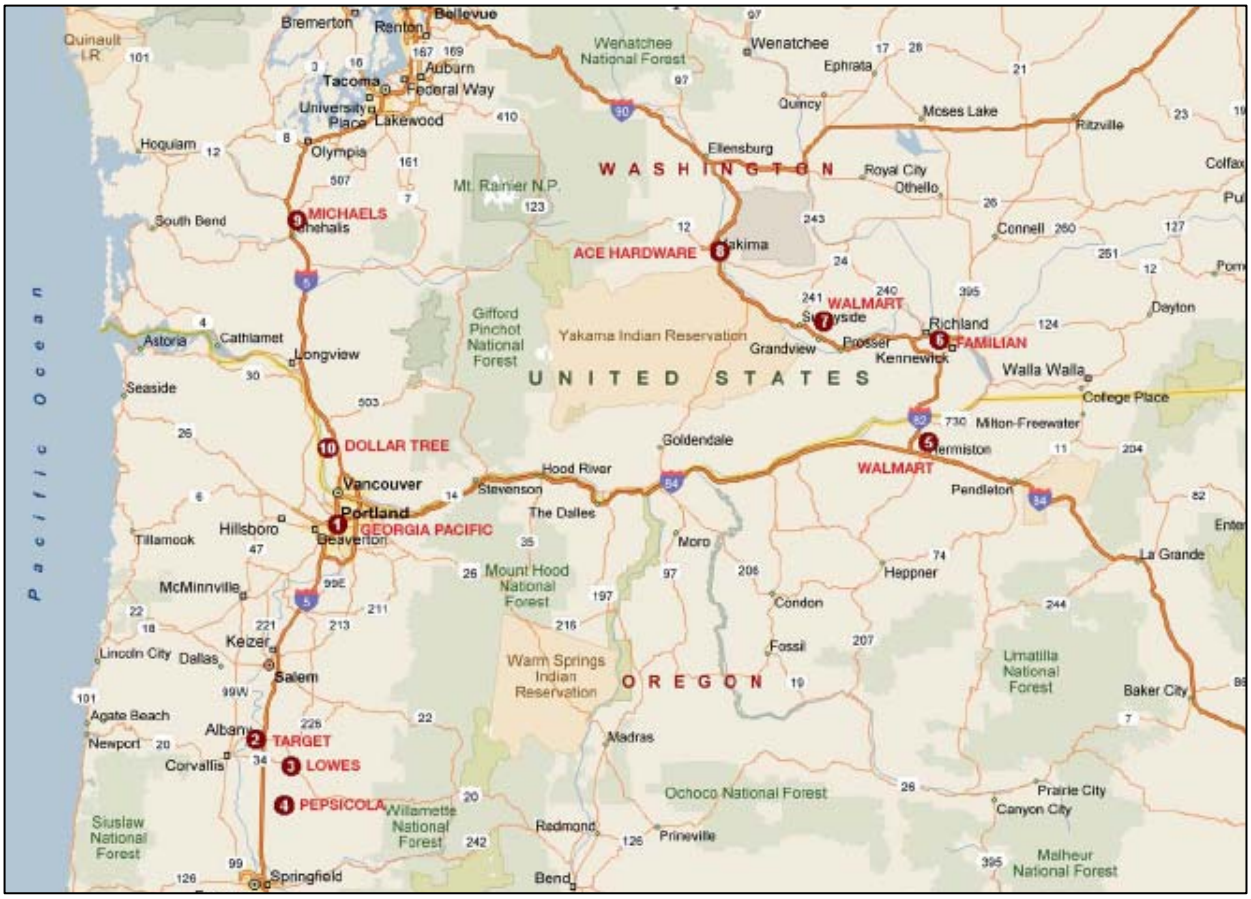
Industrial Development Trends

By Roger Qualman, Partner, Norris Beggs & Simpson

Trends: As an asset class, industrial property tends to be less exciting than other categories, with little change in rents or values, boxy designs, lots of concrete and pavement, and minimal sex appeal. However, several trends are now in play which will make the industrial segment more interesting in the years ahead. In this overview I will discuss those major trends generally and then how they apply to our local market for industrial property.

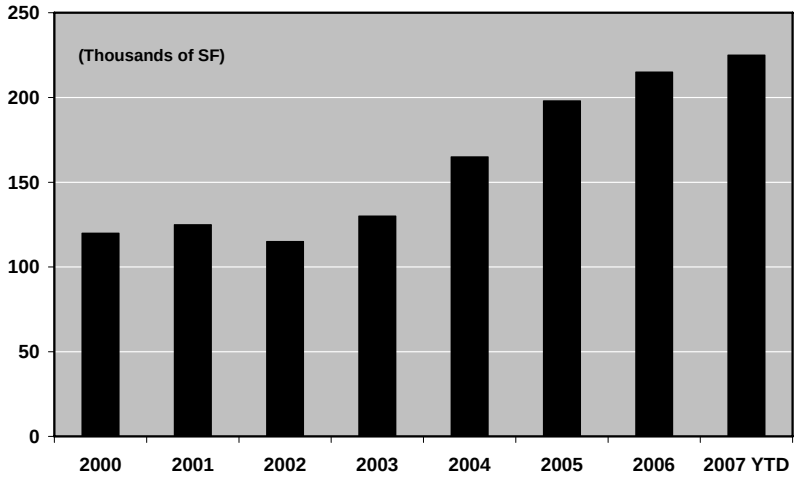
Bigger is Better: With the increase in foreign manufacturing and the importation of off-shore goods, major firms have established global supply chain management systems to speed the transport of goods to market. As a result many firms, especially large retailers, have located large distribution centers in strategic locations around the country.

Distribution Centers: So that you can understand what this trend to size means to us in the Pacific NW, here is a map of major companies that have established distribution centers in the region. Totaling over 11 million square feet of space, most of these facilities are close to I-5, on sites larger than 50 acres, and utilize fairly square building configurations.



From Chehalis, WA on the north to Albany, OR on the South, it is clear that as a region we are essentially out of the distribution center business for the foreseeable future. This is because we have few adequate sites accessible to I-5. New projects like those proposed by the Port of Portland's Troutdale site or the State of Oregon's Mill Creek site in Salem do offer some hope, but we remain severely challenged for sites 50 acres and larger. Wal-Mart has searched I-5 for a one million square foot distribution site for the past four years, to no avail.

In addition to the distribution center trend, the size of warehouses being built is increasing overall. The average size of warehouses under construction rose from approximately 120,000 square feet in 2002 to 216,000 square feet in the first half of 2006. The relocation of manufacturing jobs to low-cost destinations offshore has given rise to the modern logistics industry and the need for larger, more sophisticated distribution buildings.



Warehouse Average Size Trends

Size matters after all. The trend to bigger facilities means bigger floor plates and higher ceilings, and enables more automation in the warehouse.

Ownership vs. Leasing: Another major trend that has emerged in the past several years is the preference for ownership vs leasing. Probably as a result of the low interest rate environment, more business owners who use manufacturing and warehouse space have chosen ownership. Since industrial triple net leases have the tenant already paying all the cost of occupancy, the conversion to ownership has been simple. The only difficult part has been the shortage of product, and that has led to a new industrial offering; the industrial condominium. These buildings are available throughout the region now, at prices from $90-110 per square foot. Size ranges are from 6,000-10,000 square feet and can be combined to make larger spaces. While the jury may still be out on the ability to resell industrial condos, it appears to be a concept whose time has come.

RFID: The inevitable march of technology will continue to change day-to-day business. We are already way beyond trucks with transponders and the embedded identifier chip at the pallet level and are headed on to an identifier chip on every piece of every box on every pallet on every truck. RFID, or Radio Frequency Identification technology is here, with Wal-Mart, Department of Defense, Target, and others requiring RFID of its largest suppliers at some level. These invisible tags will aid inventory control and track product from raw material to finished goods. RFID makes further automation of warehouse facilities possible even sooner, adding to the necessity of bigger buildings and higher ceilings as noted previously.

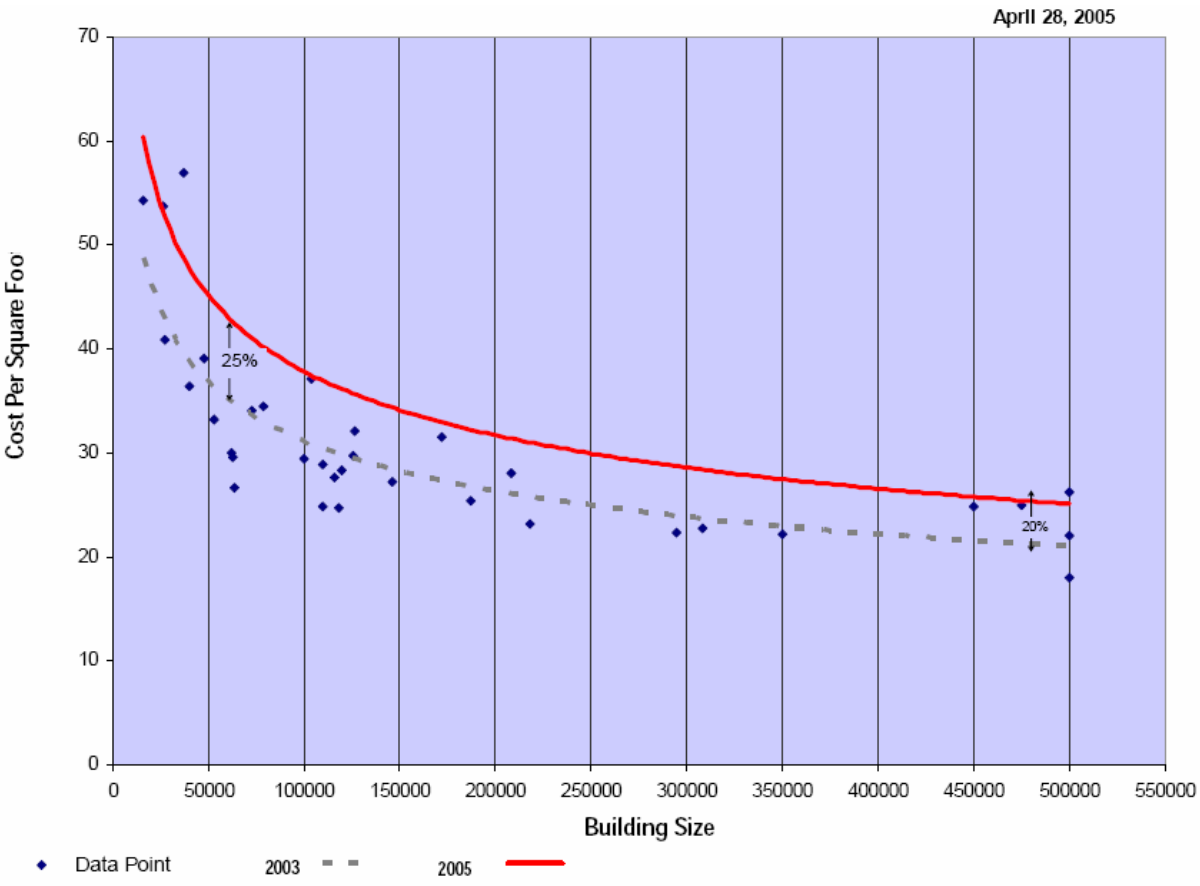
Rail: Technology has made rail transportation more efficient and effective in recent years. Now that they know exactly where their cars are, virtually all operating railroads today, slimmed down by mergers and acquisitions, are profitable and growing. Long the stepchild to trucks and highways, rail has made a remarkable comeback. The result is that rail-served industrial property can command a premium price, and many more client requirements for industrial land include the necessity of rail access.

Residco U.S. Rail Annual Traffic Index

Regional Economy: That is the view from 30,000 feet. Now let's see how our area is faring. The Portland/Vancouver regional economy is bringing together powerful forces into a virtual 'perfect storm' that promises to raise the cost of doing business. Industrial real estate, meaning manufacturing and distribution space, is being leased and sold to users at a velocity that will soon create very short supplies. The three converging 'storms' referred to here are: 1.) restricted land supply; 2.) rising construction costs; and 3.) unprecedented demand.

The Portland Metropolitan area, which includes Southwest Washington, is renowned for its comprehensive land use planning and urban growth boundaries. While land use laws are different in Oregon and Washington, they result in land supply restrictions in both states, nevertheless. Currently there are only two industrial sites in excess of 100 acres available in the region, obviously not much to choose from for a company considering a new plant location here. Genentech, which recently purchased an 80 acre site in Hillsboro, had only three sites to choose from in the area. Short supply means that land prices are high in relation to cities in the Midwest and Southwest. For example, Dollar Tree Stores paid twice the amount per acre for their 58 acre site in Ridgefield, WA, than they did for a comparable site in the Chicago area. Coastal cities tend to have restricted supply problems anyway, and correspondingly higher prices. Industrial land reached the $7.25/sf level in 2006 on a specific sale, and we see values moving upward in all area submarkets.

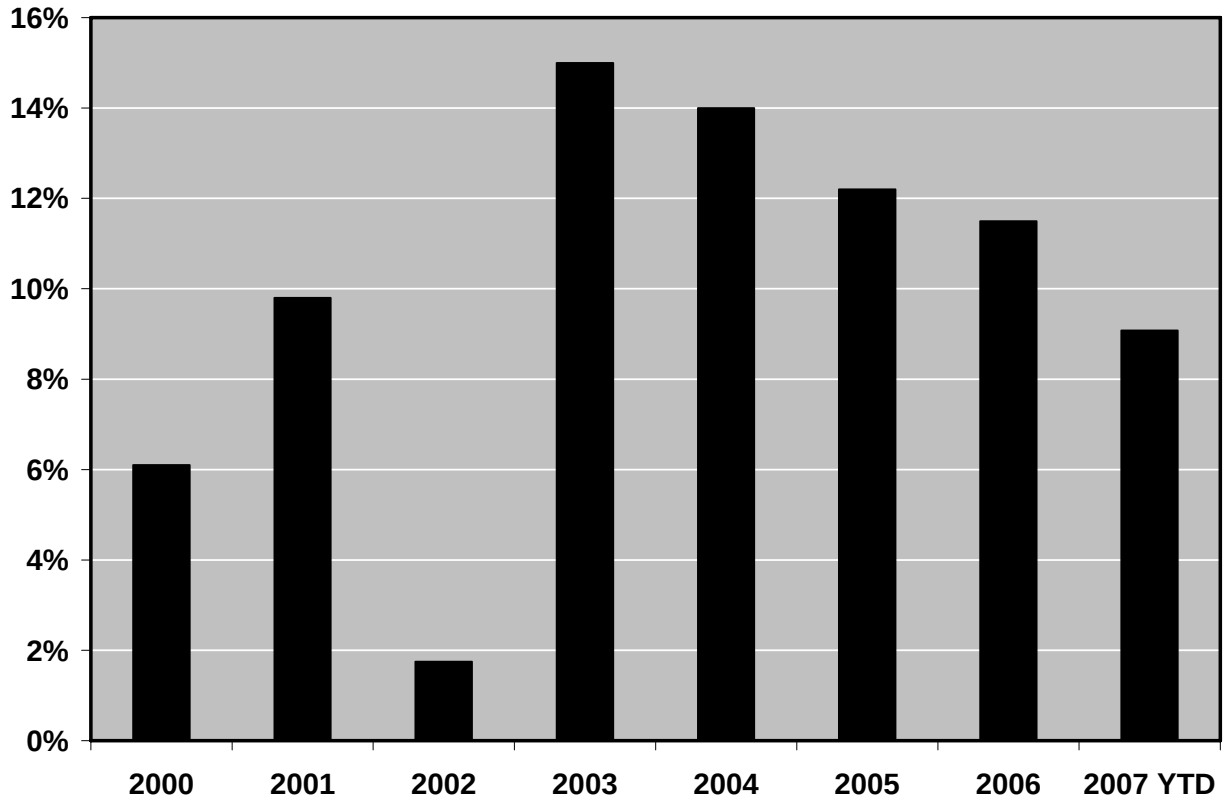
Construction Costs Trends: Meanwhile, construction costs are on the rise, adding to the upward pressure on prices of finished industrial space. Local general contractors specializing in industrial buildings report that the combination of higher prices for concrete, steel, copper, and all things made of petroleum products, such as roofing, paving and plastics, has combined to produce a 20-30% increase in the cost of construction over the past 24 months. In addition, add the regional adoption of the International Building Code in 2005, which adds cost to many



tenant improvement projects. This is all in the name of progress, presumably, but costly to the end user paying the bill. Little has been constructed in the past year as a result of the higher cost, forcing developers to seek 'build to suit' or pre-leased projects. About 1,206,165 square feet of industrial space is under construction currently, under 1% of the total inventory.

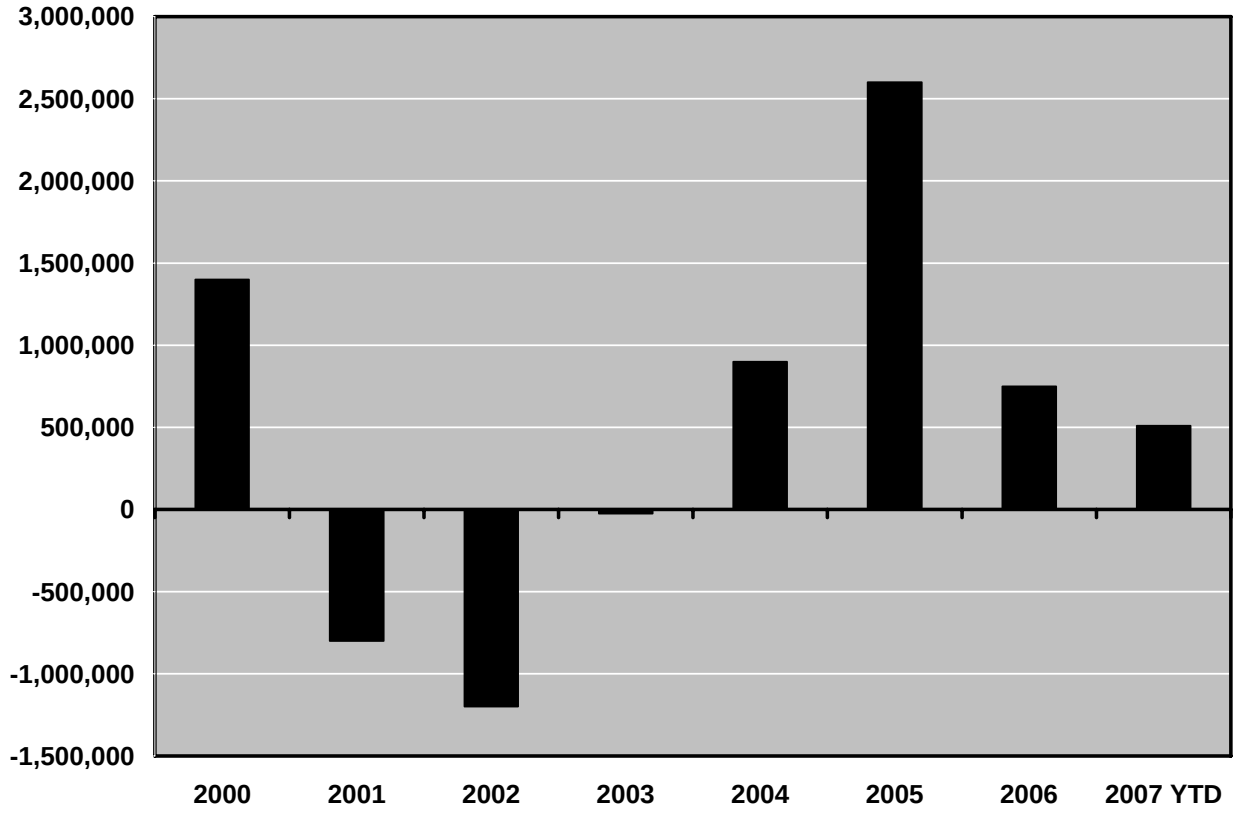
The next storm to introduce into the formula is a tidal wave of demand, characteristic of a growing economy. In the past 4 quarters, the area's industrial real estate supply measured by its vacancy rate, has plummeted, from 12.1% to 9.7%. Absorption, the number by which leasing exceeds new supply, is up substantially in the region, over 1.5 million square feet in 2006. NAI Norris, Beggs, & Simpson's market research department predicts that industrial vacancy levels will fall all the way to 7% in the Metropolitan area in late 2007, which will trigger a new development cycle and higher rents across the board.

Portland Metro Vacancy Trend



Portland Metro Absorption Trend

Looking ahead in 2007 and beyond, you can bet that the price of industrial space will increase – not just by the inflationary rate, but by an amount that will reflect the perfect storm. A shift in price will be caused by the construction cost increase. Look for rents of warehouse/distribution buildings to be around 40 to 45 cents per square foot, accounting for the 30% increase in the cost of construction which allows the developer or investor to realize a reasonable return on his investment.



Portland Industrial Absorption

Perhaps the industrial market will have more sex appeal in the future. Of course, market participants can take matters into their own hands rather than be controlled by market forces. Early renewal of existing leases will help secure more favorable rental rates. The trend to ownership versus leasing is another way that business owners can control costs. Finally, efficient use of space is always a goal, aided somewhat by technological advances that promise great things. In spite of all these factors, the price of industrial real estate in the Portland/Vancouver area is definitely on its way up, with fewer choices available.

Outside Investor Trends

Lisa LaManna, First Vice President, CB Richard Ellis Investment Properties

In a region once defined by local property ownership, new outside investor acquisitions of commercial real estate in the Portland metropolitan area throughout the past ten years have challenged this pattern and modified the makeup of buyers.

Portland, like many other cities in the US, is defined as a secondary or tertiary market, following larger cities such as San Francisco, Los Angeles and Seattle. Between 1997 and 2006, there has been a steady and regular migration of outside investors who have consistently purchased commercial real estate in the Portland metro area. This trend of outsider acquisitions reached its peak in 2001 when cap rates were in the mid nine percent range, transaction volumes were low, 10-year Treasuries were in a downward trend and cost-of-fund spreads were considered high by today's standards.

As the research below will demonstrate, outside investor activity relative to local investors appears to correlate more closely with capitalization rates than with transaction volume. The fact that outside investment reached its peaks when Portland metro cap rates were highest suggests that outside investors perceived greater value in secondary markets like that in the Portland/Vancouver metro area. Although investment levels vary year to year, it is also noteworthy that during the past decade, more than 50 percent of all investors who purchased commercial real estate in excess of $10 million in the Portland metro area were from outside the area. Today, the trend of outside investors migrating to the Portland region continues. What have been the driving forces behind this movement? Why do outside investors outpace local real estate investors year after year? The answer can be found by analyzing the changing factors in the evolving Portland metro market.

Regional, national and international investors have dominated the acquisition of commercial real estate in the metro area during the past decade. A recent example: JP Morgan/Chase purchased both the US Bank Tower (a major stake) and the Brewery Blocks in Portland's Pearl District. The price tag: $280 million and $291 million, respectively. It appears that outside investors are attracted to the metro area because the region offers more attractive investor

returns, lower cost of living, a talented workforce, high quality of life, a supply-constrained real estate market, and overall stability. Historically, local investors, included such groups as the Carlyle Investment Company, the Weston Investment Company, the Randall Group, Inc., ScanlanKemperBard Companies, Harsch Investment Properties, LLC, Equitable Residential Trust, the Goodman, Schlesinger, and Zidell families, Spring Capital Group, Naito Properties, Killian Pacific, Specht Properties, Inc., and Ashforth Pacific to name a few. These investors are still active in the metro area today. Many have been selling off their real estate holdings, and capitalizing on attractive pricing and a top of the market mentality.

The Portland real estate landscape is now shared with outside investors, such as Kimco Realty Corporation (New York), Shorenstein Properties, LLC (San Francisco), ATC Partners (San Francisco), Venture Corporation (Larkspur, CA), Equastone Real Estate Investment Advisors (San Diego), the Travelers Companies, Inc. (Minnesota), JP Morgan/Chase (New York), Kennedy Associates (Seattle), Fort Properties (Fort Worth, TX), Metzler (Seattle/Germany), Mercantile Real Estate Advisors (Washington, DC), BlackRock Realty Advisors (New Jersey), Weingarten Realty Advisors (Dallas, TX), and Arden Realty, Inc (San Diego) among many others. In fact, during the past decade, more than 50 percent of all investors who purchased commercial real estate over $10 million in value in the Portland Metro area did not reside in Oregon.

This article examines a 10-year purchasing trend between 1997 and 2006, across industrial, retail, office and multi-family properties, with an acquisition price of $10 million or greater in Portland metro area. First, this article explores the number of combined transactions during the past decade. Next, it examines the impact of the corresponding finance and equity capital markets and their influence on investor purchases. And, finally, it profiles investors who have been purchasing real estate in the metro area and some reasons behind their purchasing behavior. The majority of the data for this article has been compiled from information reported by the CoStar Group, a comprehensive commercial real estate database with more than two million properties, representing over 38 billion square feet of inventory. A note about the data, only those sale transactions that were reported in their entirety were considered. If a transaction occurred, but the CoStar Group did not report various critical details, then the comparable sale was omitted from the statistical pool for purposes of consistency.

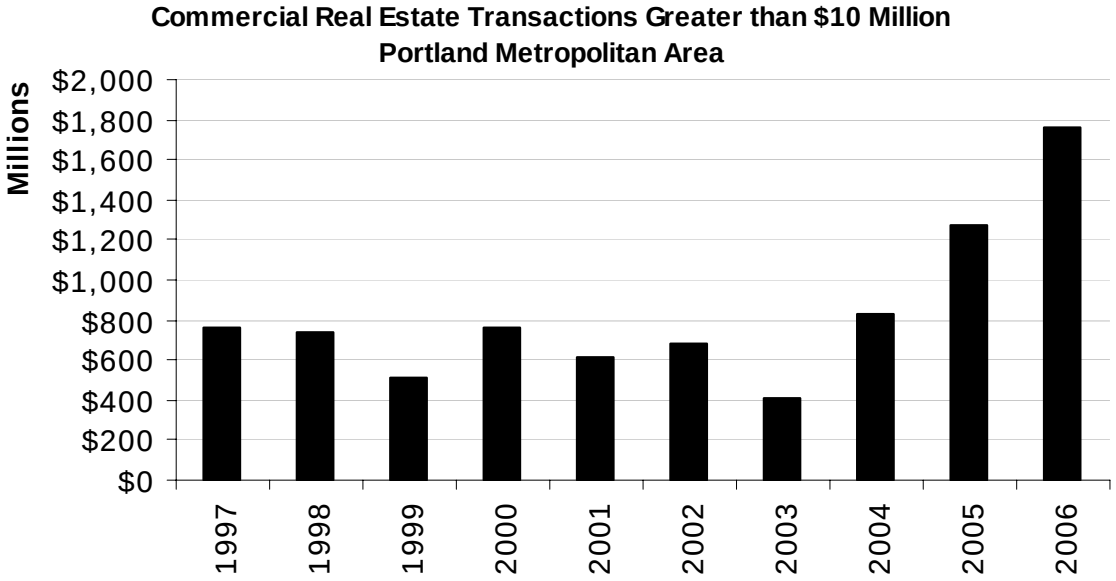
The Portland Metropolitan Area

The Portland metropolitan area is defined as Clackamas, Clark, Multnomah and Washington counties. As of 2001, the region had a combined total estimated population of two million. Between 1990 and 2000, the average annual compounded growth rate was 2.39 percent with Clark County's growth the fastest, triple that of Multnomah, the slowest growing county. The metro area has a total estimated 776,000 households as of 2007. The estimated number of households grew by 2.33 percent between 1990 and 2000, keeping pace with the total population growth rate. Migration to the area can be attributed to affordable housing options, relative to California, quality of lifestyle, and market stability. Between 2007 and 2012, the total population is expected to experience slower population growth rate of 1.34 percent. Much of the historical growth and future growth pattern in population and housing will be heavily influenced by the Urban Growth Boundary (UGB), which plays a key role in limiting urban sprawl.

The Market between 1997 and 2006

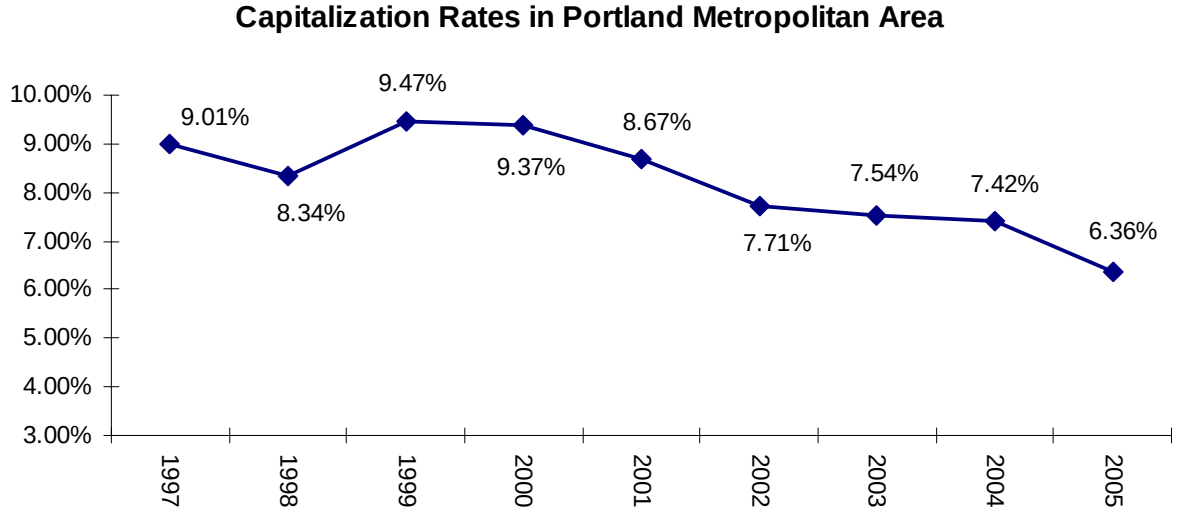
The graph below highlights commercial real estate sales transactions between 1997 and 2006 in the Metro area over $10.0 million. *Detail of these transactions by property type is in Appendix A.* One can observe a distinct and rapid rise in dollar volume over the past three years from 2004 through 2006. However, as the research below demonstrates, outside investor

activity relative to local investors appears to correlate more closely with capitalization rates than with transaction volume.



Source: The CoStar Group (www.costar.com)

The data reveal that the peak transaction years were 1998, 2004, 2005 and 2006. Conversely, in 1999 and again in 2003, transactions were reported at the lowest levels for the decade. What was occurring during these time periods that would trigger a change in commercial real estate sales activity? Each of the time periods is discussed briefly below. Cap rates play a key role in investor behavior and have declined steadily after peaking at the turn of the century.



Source: The CoStar Group (www.costar.com)

1997 and 1998

In 1997 and 1998, the market rebounded abruptly following the real estate depression of the early 1990s. Activity was spurred after the rate on 10-year Treasuries dropped to historic low levels (4.64 percent) and new pre-construction activity began to occur. Cap rates during this time period were still relatively high by today's standards at an average of 9.01 percent (1998

only), but by historical standards were attractive. Investors would later experience cap rates in the low 7 percent, 6 percent and 5 percent range in the next few years.

There was a flood of capital to accommodate attractive cap rates. Construction costs were still relatively affordable in 1998 and the construction boom of the late 1990s was underway. The fallout of this boom would not emerge until the early 2000s when a large quantity of new space was delivered to the market.

During 1997 and 1998, younger, more assertive new faces arrived on the commercial real estate scene; fresh faces of people who had not previously experienced negative real estate cycles. After years of limited new construction, rent levels were on the rise and portfolio purchases grew. The market was optimistic. Also in 1998, portfolio purchases were acquired at deep discounts, exemplifying economies of scale. The small but rapid boom came to a near halt 1999 when 10-year Treasuries spiked, and total transaction volumes fell to a near historic low.

2003

So, what happened in 2003? It was the dot-com bust of 2000 and the resulting economic downturn. The high tech shakeout and the economic downturn pushed investors into a contraction phase. Stable as the Portland metro area was, it also fell victim to the high-tech shakeout. "Give-backs" continued to occur and sub-leasing activity was up. A giveback is when a tenant vacates the building and gives back its space to the landlord prior to the expiration of its lease. As a result, some of the massive sub-lease space began turning into actual vacancy. Diminished investor interest amplified investor risk concerns. The transaction arena was stalled while buyers remained on the sidelines or began refinancing existing properties.

However, it was predicted that this downturn would be short lived, as market fundamentals were strong. Properties were being purchased with upside potential, resulting from unstabilized assets. Transaction volumes were at their lowest during this decade. The average cap rate during this time period was 7.71 percent. It was the first time during the decade that cap rates fell below 8 percent, however, for fundamental reasons. Properties were experiencing record vacancies, resulting in skinny bottom lines in terms of net operating incomes (NOI), therefore offering a willing investor upside potential through leasing or repositioning efforts. At that time, the capital markets were attractive, but tighter lender requirements were enforced, making it more difficult to obtain loans. Less speculative development occurred. As the market recovered, those properties with credit tenants and lease terms that could span the downturn emerged poised for profitability. All of these market fundamentals helped the metro area jump back into the economy in the year to come.

2004-2005

As real estate markets recovered, so did investors' appetite for metro area properties. In 2004 there was an unprecedented amount of capital invested in commercial real estate. Secondary markets began to feel the warmth of the rising investor demand. Competition for core assets in solid locations was growing. New purchases surged. The market was characterized by short supply and aggressive investor demand. By 2005, off-market deals became the name of the game, as investors tried to find creative ways to succeed in an increasingly competitive environment. An off-market deal is the sale of an asset that has not been offered for sale in the open market, where a competitive environment has greater potential to maximize value.

Investor enthusiasm was at its highest by early 2005. With the worst of early 2000s behind them, all-cash investors returned to commercial real estate markets. New REITs (Real Estate Investment Trusts) and TICs (Tenants In Common) continued to emerge. Private REITs went public and public REITS, private. Syndications and structured joint venture partnerships

materialized. The fact that the underlying fundamentals were strong pushed transaction growth to unprecedented levels in secondary markets, like the metro area. The market developed a popular and positive reputation from its aggressive buyers, high prices, cap rate declines and compression among different property types and apparently unlimited sources of capital. Cap rates continued to decline and between 2004 and 2005, they were at an average of 7.54 percent and 7.42 percent, respectively.

2006

Market dynamics continued to thrive and by early 2006 the market had reached full speed, defining itself as a seller's market. Multiple offers to purchase reduced due diligence periods and aggressive earnest money deposits were commonplace as buyers tried to win deals and secure §1031 exchange proceeds. Traditional holding periods shortened, while appreciation reached double digits. Capital markets reached full momentum.

In an effort to transact business in a short supply market, portfolio sales emerged. Historically, traditional holding periods had been between 7 and 10-years. However, holding periods narrowed between 2004 and 2005, reaching a pinnacle in 2006 as rapid market appreciation and speculation continued. In some cases, properties had been "flipped" immediately upon closing. The impacts of this trend were reduced real estate holding periods while concurrent new acquisitions resulted in rapid sales of sub-portfolios. For example, Kimco Realty Corporation in partnership with Prudential Life Insurance acquired Pan Pacific Retail Properties for $4 billion and subsequently released a sub-portfolio of properties for sale with some of those assets located in Oregon. Another recent transaction resulted in a record setting portfolio disposition. Equity Office Properties sold its entire office portfolio to Blackstone, which subsequently resold its Portland sub-portfolio, including the largest portfolio of Kruse Way Class A office properties, to Shorenstein for $1.125 billion. Large regional and national investors seeking to capture market share typically purchase portfolio transactions. Most recently, ScanlanKemperBard in partnership with the Praedium Group sold a two-property portfolio for $26 million profit over what it paid in 2005. The two-property portfolio included the eight-building AmberGlen package, which sold for $68 million, to Equastone Real Estate Investment Advisors and the Phoenix Corporate Center, which sold for $62.5 million.[1] Portfolio sales activity played a key role in bringing outside buyers to Oregon. As national and international investors acquired portfolios, the metro area properties were swept into larger holdings, which resulted in a greater influx of outside investors.

Largest Sales Transactions by year

The largest sales transactions between 1997 and 2006 are reported below.

Largest Sales Transactions By Year in Portland Metropolitan Area

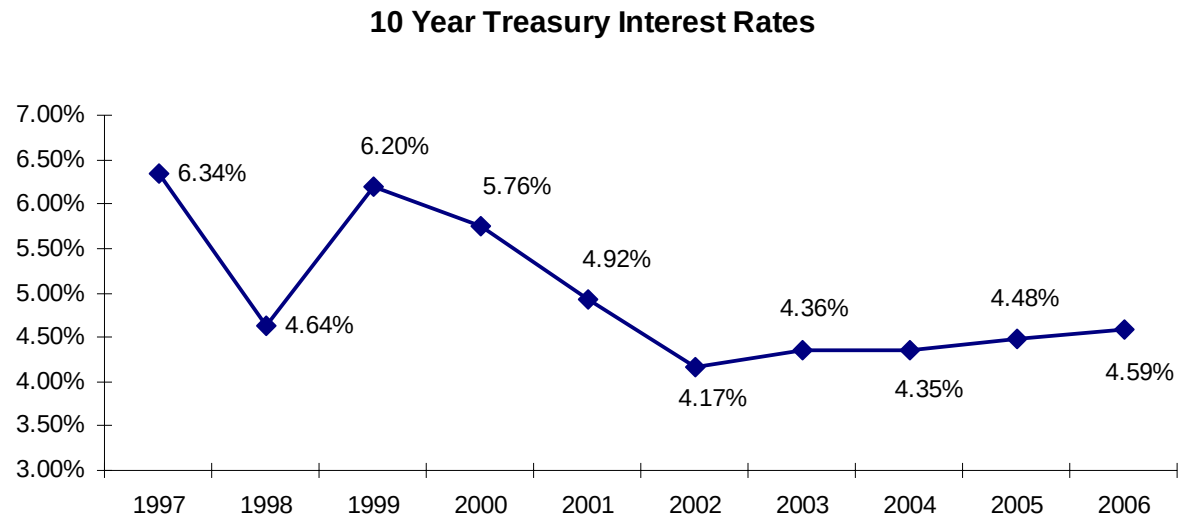
Property Name	Location	Product Type	Year	Price	SF
Jantzen Beach	Hayden Island	Retail	1997	$76,050,000	660,000
Lloyd Center	Portland	Retail/Mixed	1998	$167,000,000	1,552,481
Washington Square	Tigard	Retail	1999	$168,000,000	936,992
US Bank Tower & Plaza	Portland	Office	2000	$173,500,000	1,098,843
Cornell Oaks Corporate Center	Beaverton	Office/Flex	2001	$87,500,000	759,113
Fab 4/ Microchip Technology	Gresham	Industrial	2002	$183,500,000	826,500
La Salle Apartments	Beaverton	Multi-Family	2003	$43,000,000	598,933
Bridgeport Village	Tigard	Retail	2004	$170,000,000	380,380
ODS Tower	Portland	Office	2005	$122,925,000	398,412
LSI Logic	Gresham	Industrial	2006	$105,000,000	506,363

Source: CoStar Group

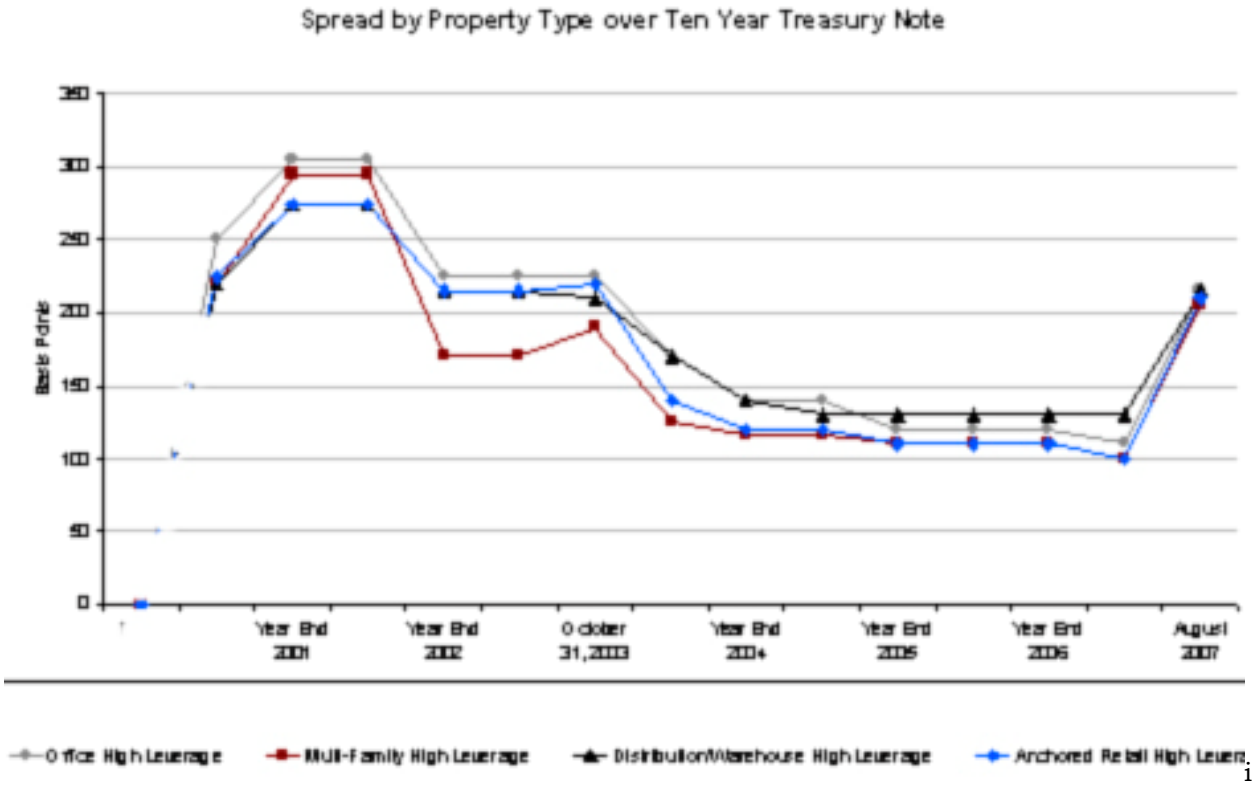
[1] Portland Business Journal, August 13, 2007

Capital Markets (Debt & Equity)

Relaxed underwriting standards fueled investor demand in an already supply-constrained market. The net result: lower cost of capital for borrowers. Between 1999 and 2002 there was a steady decline in the 10-year Treasury. A 10-year look at the 10-year Treasury is presented in the graph below.



By late 2003, there was a growing abundance of available capital, even though the 10-year Treasury continued to increase slightly. While the 10-year Treasury is an underlying



ndication for the direction of interest rates, the spread between it and the cost of funds

changes over time too. The measure of the spread between the 10-year Treasury and the cost at which borrowers can borrow funds is critical to investors. While 10-year Treasuries were moving up slightly, the cost of borrowing funds continued to narrow. Ultimately, the narrowing spreads overcompensated for the slight rise in the 10-year Treasury. Borrowers continued to acquire funds at historically low interest rates, giving way to more borrowing and spending power. The chart above represents the change in spreads between year-end 2001 and August 2007. Between 2001 and 2002, while the 10-year Treasury fell, the cost of funds, or spreads between it and the interest rates charged to the borrower, were still relatively wide, between approximately 200 and 300 basis points.

Fueling borrower demands were conduit loans, a more attractive loan product for the non-institutional investor. In the late 1990s, popular conduit loans were introduced to the commercial real estate marketplace. In general, they offered lower spreads between the 10-year Treasury and the cost of funds, as evidenced by the chart above.

Conduit loans were popular because they generally offered terms that were more attractive to non-institutional borrowers. Conduit lenders include affiliates of insurance companies, financial services, and some of the nation's largest banks. Conduit loans are securitized loans, meaning that once the borrower has executed the loan, there is a sale of interest in, and assignment of, the loan. The investor buys the rights to the interest in the loans and is issued pass-through certificates. The borrower makes payments to a loan servicer, who checks that the payments are made in accordance with the loan documents, including reserves. The investors then receive interest on their investments. These loans are highly restrictive to the borrower and generally assumable, however they're not pre-payable without stiff penalties.

Conduit loans helped to drive demand for properties and, more importantly, to restrict supply. Once the conduit loans were in place, most owners, unless they wanted to pay stiff defeasance costs, were locked into a 10-year holding period. With rapid appreciation in underlying property prices, these loans left properties underleveraged and less attractive to buyers who could achieve higher leverage with very attractive debt with other properties not encumbered by conduit debt structures.

In 2003, interest-only loans began to emerge. These were especially attractive to borrowers because as the competition for properties in the area tightened, borrowers had to continuously find creative ways to purchase assets with initial negative leverage in order to justify cap rate declines. The interest-only loan was the perfect loan product for that purpose.

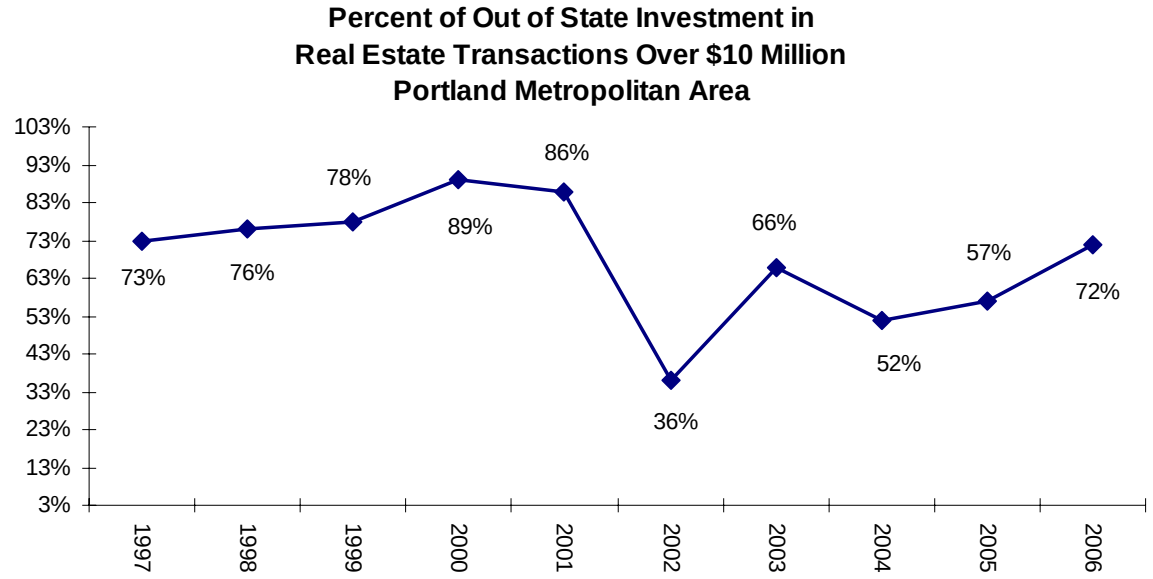
With an interest-only loan, a borrower pays only the interest on the debt. After the end of the term, the borrower refinances the debt, pays the balance in a lump sum or starts paying off the principal, in which case payments jump significantly. As cap rates began to compress, interest-only loans became a popular way of bridging the gap between the initial cash flows (usually negative) and future years when a strong yield was expected. Initially, interest-only loans only included interest only for two to three years. But by 2006 interest-only loans were being underwritten for as long as 10 years. Today, interest-only loans are exceedingly difficult to obtain because this structure of loan allows a borrower to have greater borrowing power, increasing lender risk.

By 2004, spreads were about 100 to 150 basis points above the 10-year Treasury and declining. A competitive frenzy ensued and lenders competed for borrowers by significantly loosening underwriting standards. The less traditional underwriting standards allowed greater leverage opportunities for borrowers and lower capital commissions and tenant improvement allowance reserves. As a result, there was an increase in demand for real estate with continued upward pressure on pricing in addition to attracting more outside investors to metro

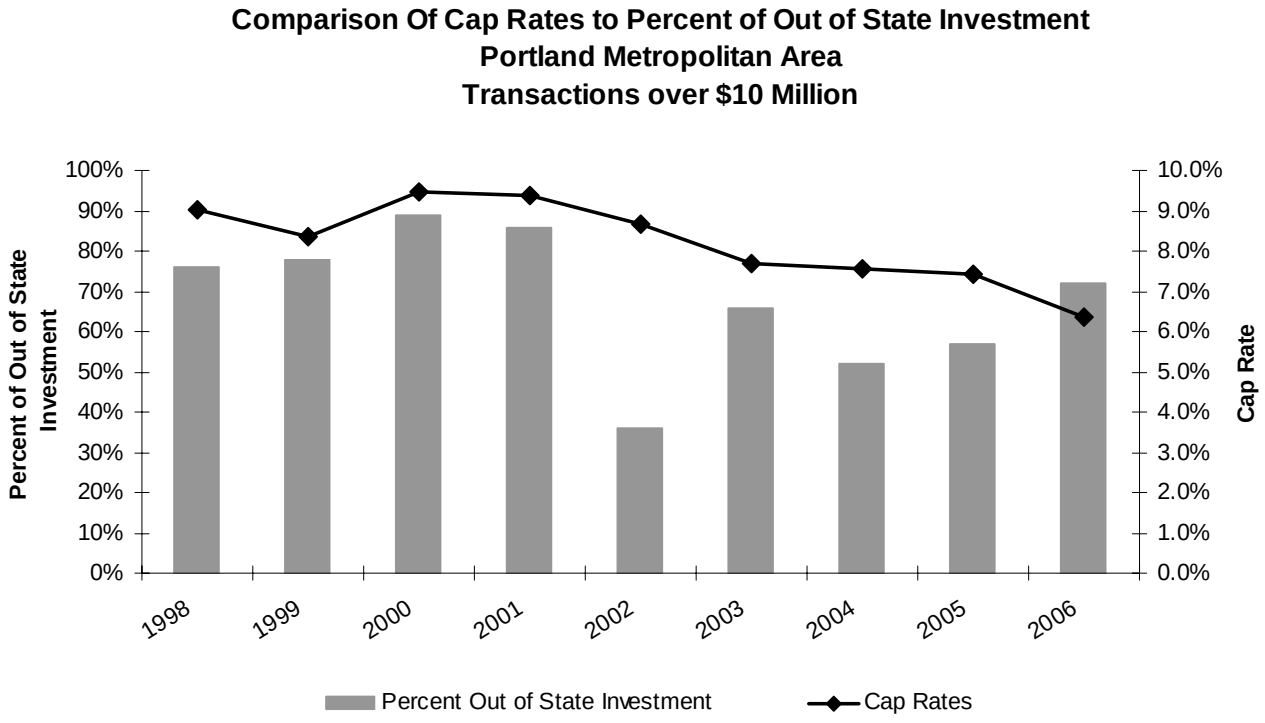
area commercial real estate markets. By the end of 2006, spreads declined to between 75 and 100 basis points.

Outside Investors vs. Local Real Estate Investors

Presented below is a graphic summary of both local seller and outside buyer activity. During the past decade more than 50 percent of all investors who purchased commercial real estate over $10 million in the Portland metro area were from outside.



It was expected that the outside buyer activity would demonstrate an increasingly greater market share between 1997 and 2006. However, the statistics did not substantiate that trend.

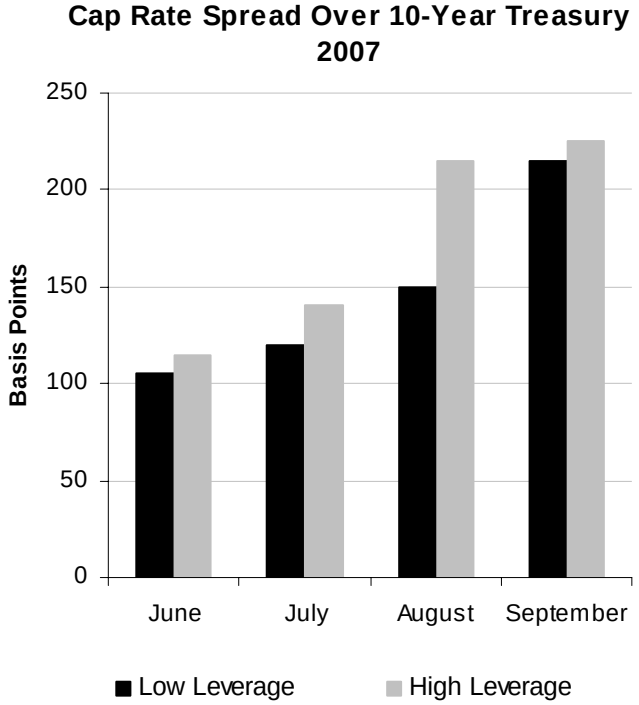


In fact, statistics show that percentages varied based on year. There appears to be a closer correlation with cap rates, as show in the chart above. Outside investment reached its peaks during the period from 1991 to 2001 when Portland metro cap rates were highest, suggesting that outside investors perceived greater value in secondary markets like that in Portland. It is noteworthy that during the past decade more than 50 percent of all investors who purchased commercial real estate in excess of $10 million in the Portland Metro area were from outside.

Between 1997 and 1999, outside buyer activity was at its highest in 2001. In 2001, 81 percent of all larger, over $10 million property investors were outside investors purchasing real estate in the metro area. After the dot-com bust and the resulting economic downturn, while local investors waited on the sidelines, outside investors capitalized on the market, especially in the multi-family arena. While the cost of new construction began to increase, especially in the commodities of steel, concrete, and wood, existing building inventory was being purchased below its replacement cost. These investors sought markets that were not as adversely affected by the high-tech crisis and whose market fundamentals were still solid. In short, investors were migrating toward safety. Between 2002 and early 2003, outside investors continued to capitalize on an under-priced market, occupying a dominant 61 percent-65 percent of all transactions.

Between 2004 and 2005, the market had fully recovered. Local investors increased and cap rate decline was prominent again. Outside investors seemed to be focused in other primary markets where investor returns were relatively attractive.

In 2006, driven by pent-up demand and a surplus of capital, outside investors once again looked to the metro area. Sixty percent of all transactions were purchased by outside investors looking to find creative alternatives to avoid the intense competitive environment that was occurring in the primary markets. Cap rate compression was the new buzz phrase for lower cap rates. Sellers loved it and buyers did not. In the metro area, cap rate compression reached primary market levels, erasing the big advantage of purchasing in secondary and tertiary markets where cap rates would be more enticing. Cap rates in the area are still more attractive than they are in most primary markets, but less so than in prior years. Metropolitan area prices have risen close to the rest of the west coast. Another contributing factor to the recent up-tick in outside investor activity is the portfolio sale, predominantly to large institutions, REITS and pension fund advisors.



Looking Beyond 2006

In 2007, the capital markets made an abrupt market correction. Its scope and effects are yet to be fully defined. The prior aggressive underwriting and loose lending standards initiated a credit crunch resulting in higher debt costs and over 40,000 layoffs in the financial services

industries. Today, mortgages are harder to obtain and are more expensive than they were just three months ago.

For the moment, borrower activity has been stalled as lenders regroup. Loans are still being originated, but traditional underwriting standards are being enforced. Once corrected, it is expected that conduit loans will once again emerge as a popular loan product. However, the underwriting criteria will most likely be less aggressive than in the past. Gone are the days of interest-only loans and bridge loans are now extremely difficult to obtain. However, it is not all bad news. Underlying market fundamentals are strong and steady. While financial services industries have felt the impact of job losses and layoffs, the U.S. continues to experience stronger than expected job growth. Corporate profits continue relatively firm and have resulted in increased strength across the office sectors. All of these factors keep investors optimistic.

Conclusion

Statistics show that the metro area population has grown at an average annual compound rate of 2.39 percent during the past decade. Its housing stock is up 2.33 percent compounded annually. Both are expected to continue to grow at an average annual compound rate of 1.34 percent and 1.37 percent, respectively, during the next five years. The net effect is that more consumer goods and services will be needed, which will lead to higher demand for residential and commercial real estate properties over time.

Over the past decade, there have been a combined $8.3 billion invested in commercial real estate in the metro area for assets exceeding $10 million. Transaction activity reached high watermarks between 1997 and 1998 and then again between 2004 and 2006 when pricing levels began to reach primary market levels. Today, investors are still looking to secondary and tertiary markets, like the Portland-Vancouver area, to leverage profit returns through attractive local cap rates, albeit at less attractive spreads then previous years. During peak transaction years, interest rates were down, demand of real restate acquisition skyrocketed, competition was up, supply was tight, and cap rates compressed. In 1998, the aggressive investor behavior was followed by a down cycle. In 2007, another market correction is in progress. Debt and equity markets are expected to calm down and return to more traditional underwriting standards.

As compared against alternative investments, buyer patterns are heavily influenced by the cost of capital and expected investor returns. A lack of available properties and strong market fundamentals will continue to attract outside investors. As with most market corrections, interest rates have begun to increase and cap rates are expected to follow. It is suspected that outside investor activity will again slightly recede following 2007, until such time as commercial real estate pricing again reaches more attractive levels in comparison to primary markets in the U.S..

One fact remains clear. During the past decade more than 50 percent of all investors who purchased commercial real estate in the Portland metro area were from outside. This trend is expected to continue.

Appendix A

CoStar Group transactions $10,000,000 and over

Property Name/Location	Product Type	Price	Size	% of Total Market
Totals 1997		**$766,686,249**	**7,585,303**	**100%**
	Industrial	$294,060,763	3,178,239	38%
	Retail	$222,359,647	1,682,816	29%
	Multi-Family	$167,409,443	2,138,953	22%
	Office	$82,856,396	585,295	11%
Totals 1998		**$740,639,881**	**8,242,229**	**100%**
	Office	$241,843,520	1,800,490	33%
	Retail	$319,410,706	2,842,542	43%
	Multi-Family	$120,993,000	2,529,178	16%
	Industrial	$58,392,655	1,070,019	8%
Totals 1999		**$507,934,942**	**5,616,864**	**100%**
	Retail	$231,963,000	1,642,038	46%
	Multi-Family	$104,646,386	1,570,636	21%
	Industrial	$88,799,281	1,838,062	17%
	Office	$82,526,275	566,128	16%
Totals 2000		**$756,717,194**	**6,473,491**	**100%**
	Office	$373,127,736	2,423,553	49%
	Industrial	$243,291,576	2,466,000	32%
	Multi-Family	$127,122,882	1,455,938	17%
	Retail	$13,175,000	128,000	2%
Totals 2001		**$618,369,869**	**6,980,773**	**100%**
	Multi-Family	$268,797,310	3,374,047	43%
	Office	$167,951,017	1,274,846	27%
	Industrial	$112,821,542	1,746,236	18%
	Retail	$68,800,000	585,644	11%
Totals 2002		**$681,866,934**	**6,462,740**	**100%**
	Industrial	$224,080,000	2,006,500	33%
	Multi-Family	$204,183,000	2,362,218	30%
	Office	$136,769,266	1,087,287	20%
	Retail	$116,834,668	1,006,735	17%
Totals 2003		**$403,480,654**	**5,444,444**	**100%**
	Multi-Family	$238,142,000	3,326,779	59%
	Industrial	$91,791,154	1,355,744	23%
	Office	$49,947,500	416,382	12%
	Retail	$23,600,000	345,539	6%
Totals 2004		**$825,742,374**	**6,009,073**	**100%**
	Office	$470,160,000	2,665,657	57%
	Retail	$124,170,374	578,460	15%
	Multi-Family	$218,132,000	2,664,956	26%
	Industrial	$13,280,000	100,000	2%
Totals 2005		**$1,267,450,214**	**10,150,851**	**100%**
	Office	$687,469,246	3,988,524	54%
	Multi-Family	$234,348,988	2,337,323	18%
	Industrial	$213,235,000	3,141,483	17%
	Retail	$132,396,980	683,521	10%
Totals 2006		**$1,763,328,252**	**13,331,495**	**100%**
	Industrial	$674,145,410	5,436,649	38%
	Office	$340,759,282	2,043,400	19%
	Multi-Family	$463,785,000	4,631,732	26%
	Retail	$284,638,560	1,219,714	16%

National Economy & Housing Market

By Professor Gerard Mildner, Director, PSU Center for Real Estate

Since the previous edition of the Quarterly, news about the U.S. housing market and the problems of the sub-prime lending issue have continued to dominate the economic news. The repetition of this news has led to considerable consternation among participants in the real estate industry, particularly in the Pacific Northwest, where the problems of the housing market are less severe than the nation as a whole.

Let's begin with a review of the national economy. The current projections for the U.S. economy remain quite positive. According to the panel of forecasters surveyed by The Economist magazine, the U.S. economy is expected to grow by 2.0 percent in 2007 and by 2.2 percent in 2008. No recession is anticipated.

In fact, all the major industrialized economies are projected to grow in 2007. The countries using the Euro currency (including Germany, France, Italy, and Spain) are projected to grow by 2.6 percent. Great Britain, Canada, and Japan are projected to grow by 2.9 percent, 2.5 percent, and 2.0 percent, respectively. And fast growing China and India are projected to grow by 11.5 percent and 8.0 percent, respectively, in the current year.

The U.S. inflation rate remains relatively high at 2.8 percent, reflecting the relatively loose policy of the Federal Reserve and leading to the continued decline of the dollar. By comparison, inflation rates in Canada, the Euro area, Britain, and Japan are 2.5 percent, 2.1 percent, 1.8 percent, and -0.2 percent, respectively. Concerns about the U.S. inflation rate and the declining dollar are likely to put a limit to the ability of the Federal Reserve to lower interest rates much further than they already have.

A second place to look at performance of the economy has been credit markets. Looking at the weekly surveys of home mortgages produced by Freddie Mac suggests a much milder change in lending rates than many outside observers might have expected. As shown in the table below, rates peaked this summer and, except for short term rates, have returned to levels that prevailed at the beginning of the year.

Mortgage Interest Rates,
Selected weeks, 2007

	30-year fixed	**15-year fixed**	**5/1 ARM**	**1-year ARM**
January 4	6.18%	5.94%	6.02%	5.42%
April 5	6.17	5.87	5.92	5.44
July 5	6.63	6.30	6.29	5.71
October 1	6.37	6.03	6.11	5.58
October 25	6.33	5.99	6.03	5.66

Of course, these tables do not reflect the conditions for jumbo loan and sub-prime borrowers who faced much higher spikes in lending rates than the overall market and much more difficult time receiving funds. Moreover, these numbers do not reflect the volume of real estate sales, which will be more critical to many market participants.

A third place to look is the change in housing prices, and indeed it is expected that the average housing price in the United States will fall over the calendar year for the first time in 70 years.

However, that grand statistic ignores the wide diversity in the change in housing prices across different regions. Below is a table of the price appreciation among U.S. market areas presented by Loan Performance, a division of First American Title.

Change in Home Prices, August, 2006 to August 2007

Salt Lake City, UT	8.00%	Denver, CO	-1.32%
Raleigh-Cary, NC	6.42%	Minneapolis-St. Paul, MN-WI	-1.32%
San Antonio, TX	5.89%	St. Louis, MO-IL	-2.63%
Seattle-Tacoma, WA	5.80%	N.Y, No. NJ, Long Island, NY-NJ-PA	-2.94%
Austin, TX	5.02%	Detroit, MI	-3.71%
Charlotte, NC-SC	3.92%	Boston, MA	-4.07%
Portland, OR-WA	3.06%	Los Angeles, CA	-5.39%
Houston TX	2.99%	Orlando, FL	-6.55%
Dallas-Fort Worth, TX	1.60%	Phoenix, AZ	-6.72%
Miami, FL	1.60%	Washington, DC-VA-MD-WV	-7.20%
Chicago, IL-IN-WI	0.85%	Tampa-St. Petersburg, FL	-7.29%
Atlanta, GA	0.72%	Miami, FL	-7.71%
N.Y.-White Plains, Wayne, NY-NJ-PA	0.51%	Cleveland, OH	-7.74%
San Francisco, CA	0.40%	Las Vegas, NV	-8.24%
Philadelphia, PA	-0.30%	Fort Myers, FL	-9.72%

As you can see, the declines are focused primarily in the sunbelt states of Florida, Arizona, Nevada, and Southern California, and the industrial areas of Ohio, Michigan, Minnesota, and Missouri, and the Northeast cities of New York, Boston, and Washington, D.C.

Many regions of the country are continuing to appreciate in home price, including the Portland-Vancouver and Seattle-Tacoma areas. As we discussed in the last Quarterly, the strong performance in these markets can be explained by continued in-migration, access to trade in Asia, strong local firms and industries, and relatively conservative lending practices.

The fourth place to examine the national economy and housing market is to look at the number of transactions, using data from the National Association of Realtors. As the table below shows, the number of home sales has fallen off by 8.6 percent compared to 2006.

Existing Home Sales and Prices
2007 sales volume is seasonally adjusted at an annual rate

Year	Number of Sales	Median Price.	National Inventory	Months of Supply
2004	6,778,000	$195,400	2,244,000	4.3
2005	7,076,000	219,600	2,846,000	4.5
2006	6,478,000	221,900	3,450,000	6.5
2007 *9-month average*	5,921,111	219,822	4,162,111	8.5

The table also reveals prices have declined by 1 percent nationally, although as discussed above, there are wide differences are the various regions. Finally, inventories have grown rapidly, with the September, 2007 figure rising to 10.5 months of supply.

In conclusion, the U.S. economy appears in healthy condition overall. While the national housing market remains a problem area, strength in other parts of the economy have compensated for that and no recession appears on the horizon. Home prices are expected to be flat or decline somewhat in 2007, but there are wide differences among the regions in the United States. The Oregon and Washington markets continue to show price appreciation, although they suffer from the reduction in the number of sales as other markets.

Sources:
http://www.economist.com
http://www.freddiemac.com
http://www.loanperformance.com
http://www.realtor.org

Downtown Condominium Market Analysis

By Greg LeBlanc, MBA and Certificate of Real Estate Development Graduate Student

The development of new high rise condominiums in Portland's central city and the conversion of apartments to condominiums throughout inner Portland neighborhoods has led to an over supply of condominiums in Portland and a shortage of apartments. In downtown Portland the apartment vacancy rate has dropped to 2.8 percent.[1]. Additionally, with the tightening of lending regulations as a result of the sub-prime lending fallout, Portland is experiencing a declining market for not only condominiums marketed to first time home buyers, but also high end condominiums. Prime markets to feel these effects have been in Northwest Portland, the South Waterfront, and in the Pearl District.

In September it was announced that the 244-unit Wyatt Tower, currently under construction in the Pearl District and less than 60 days from completion, will be built as luxury apartments rather than condominiums as was originally planned. This news followed the decision earlier this year that the 220-unit Ladd Tower, an OPUS condominium project in the South Blocks, will also be built as apartments. However, in August it was announced that the conversion of the 176-unit Harrison South tower, the third of the 537-unit Harrison Towers converted to from the Portland Center apartments, will continue to be converted to condominiums. With several other downtown condominium projects in the pipeline, including the 177-unit Encore and the 114-unit 937, and multiple smaller projects in inner city neighborhoods such as the

[1]Norris, Beggs & Simpson, Multifamily Report Portland Metro Area, Third Quarter 2007, http://www.nai-nbs.com/MarketReports/qtrsummary.pdf accessed online October 9, 2007.

123-unit 2121 Belmont, market analysts will closely observe whether more projects convert to apartments.

An analysis of market trends in the Pearl District, South Waterfront, and Northwest Portland support the decisions of developers to build apartments in lieu of condominiums. In this analysis, I found that (1) the number of condominiums sales is declining; (2) median sales prices are leveling; and (3) condominium sales over one million dollars are down for 2007.

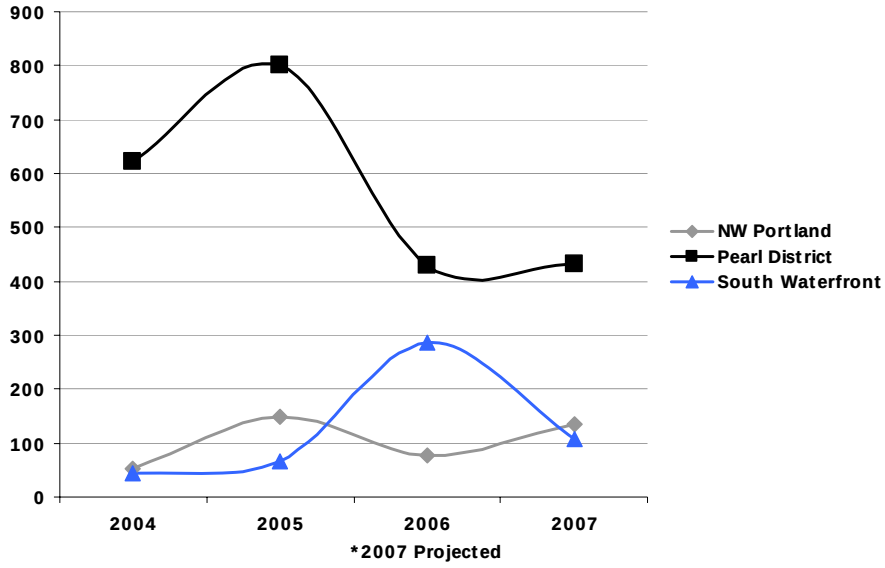
Historic sales figures for the Portland condominium market were obtained from First American Title Co.'s MetroScan database[2] for 2004 through July 2007. These figures were then compared against current condominium listings advertised on RMLS.

(1) The number of condominium sales is declining.

2005 was a booming year for condominium sales in Portland. In the Pearl District, South Waterfront, and Northwest Portland there were over 1,000 sales, with over 800 sales occurring in the Pearl District alone. Since then condominium sales have dropped, with less than 700 sales projected for the three districts combined in 2007.[3] Chart 1 below illustrates the annual sales by district since 2004. Several new buildings came on the market in the Pearl in 2005 and the South Waterfront in 2006. So far in 2007, only a few new buildings have come on-line. As a result, the estimated sales for 2007 may reflect a decrease in annual new condominium inventory.

Chart 1

Number of Condominium Sales by Neighborhood



[2] First American Title tracks residential sales information through the MetroScan database, which obtains sales data from the Multnomah County Assessor. Condominium sales information was extracted for all properties classified as condominiums by the county assessor. Sales were tracked through the following zip codes for each neighborhood: 97210 (NW Portland), 97209 (Pearl) and 97239 (So. Waterfront).

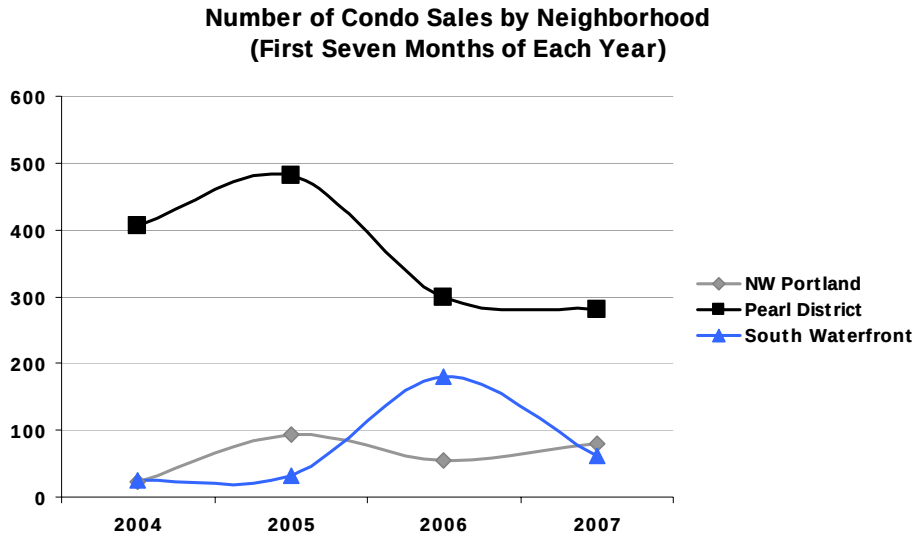
[3] Projected sales are based on the rate of sales for each neighborhood for the years 2004 – 2006. *E.g.*: Between 2004 and 2006 NW Portland condo sales for the first seven months averaged 59 percent of yearly sales. There were 80 condo sales in NW Portland from January through the end of July, 2007. This figure, 80, was then divided by 59 percent to arrive at the projected number of 135 sales for 2007 in NW Portland.

Still, this may only be part of the reason for the lag in sales. Another, more probable reason, is the inability to sell units. The Oregonian recently reported that the John Ross condominiums in South Waterfront have only sold 192 out of 303 available units.[4] The building is not expected to sellout until the spring 2009, one year behind where the developers had hoped to be.

On the other side of downtown in the Pearl, the Wyatt struggled with only 21 percent of 245 condominiums sold less than two months before the building's scheduled completion.[5] The Wyatt's developer, Bob Ball, announced in late September 2007 that the Wyatt would be converted to luxury apartments. Since then Mr. Ball has sold the building to an undisclosed buyer. The decision to convert the condominiums to apartments may be the beginning of a trend that reflects that the market's appetite for high rise condos has been quenched.

Even if the projections for 2007 are wrong and one only compares the first seven months of the previous four years, we see that the trends changed very little. Chart 2 shows historic sales for the first seven months of 2004 through 2007. The first seven months of the year typically accounts for two thirds of the sales for the entire year. For residential sales, the months of late March through the end of July represent the busiest sales period.

Chart 2



The seven month sales trends show very little deviation from the whole year trends. By simply applying forward the sales trends of previous years, we see that there will certainly be fewer condo sales in 2007 and a late year jump in condo sales is not likely. On top of the historical trend of declining sales in the latter part of year, demand for condominiums has observably subsided.

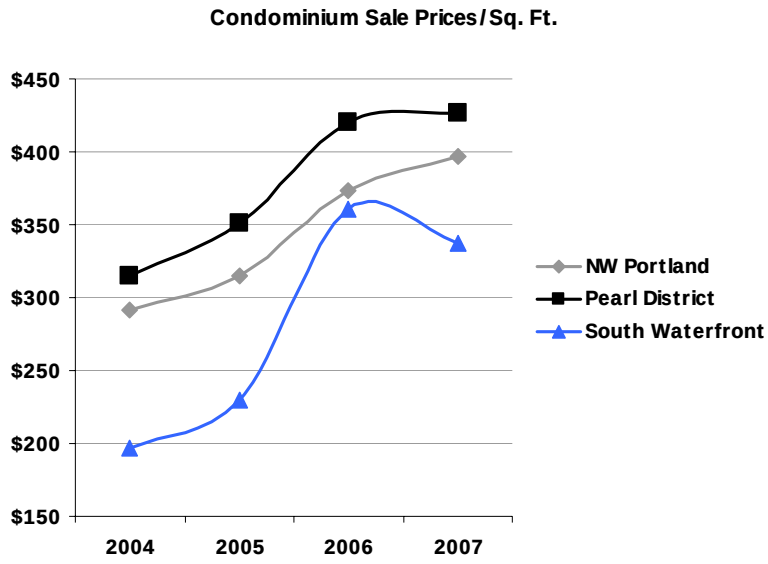
What about 2008? While 2007 has seen a slump in new inventory, the next wave of development will come on line in 2008. With over 1,000 units scheduled to come into the market in 2008 in the Pearl alone, will the market absorb these units?

[4] Ryan Frank and Jeff Manning, "Shadow Falls on the Condo Market", The Oregonian, October 9, 2007
[5] Ibid.

(2) Sales prices are leveling.

Despite the increase in materials costs, sale prices leveled off in the Pearl at an average of $427 per square foot, and declined in South Waterfront to an average $337. Northwest Portland has steadily raised sale prices per square foot over the last four years to a current rate of $397.

Chart 3



In addition, if we look at average condominium sales, the variation in sale prices among the three neighborhoods is about $79,000 per unit. Average prices for condominiums in the three neighborhoods now range from $377,000 in Northwest Portland to $456,000 in the Pearl.

Chart4

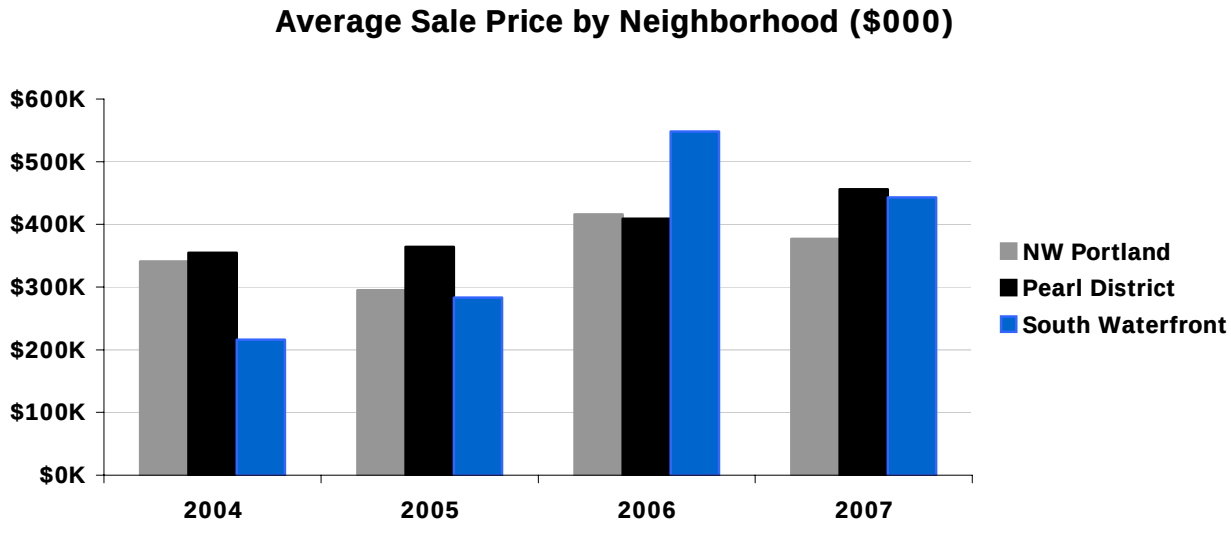


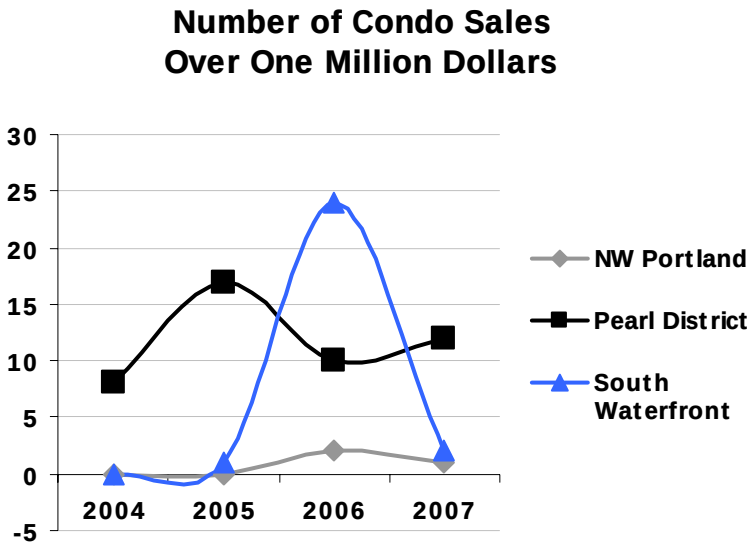
Chart 4 shows that between 2004 and 2006 the average South Waterfront condominium sale price nearly tripled from $216,000 to $548,000. But in 2007, the sales price dropped to $443,000. The downturn in prices shows that supply appears to exceed demand and prices are declining. Speculative buying has also exacerbated the declining sale price since developers are competing with buyers trying to resell their unit(s) increasing the excess market supply.

As prices among the neighborhoods become more similar, the market may also be beginning to recognize a general homogeneity of the new condominium developments. Although locations vary, all seemingly offer similar features of granite countertops, stainless steel appliances, LEED construction and comparable parking ratios. It may be more difficult for developers to attract buyers based on their ability to differentiate new luxury condominium towers from one another.

(3) Condominium sales over one million dollars are down for 2007.

While we only have sales figures for the first seven months of 2007, so far there have only been 15 condominiums sold for one million dollars or more in the three neighborhoods combined. Even if the number of sales doubles before the year's end, sales will still fall short of the record 37 units sold in 2006 for more than one million dollars.

Chart 5



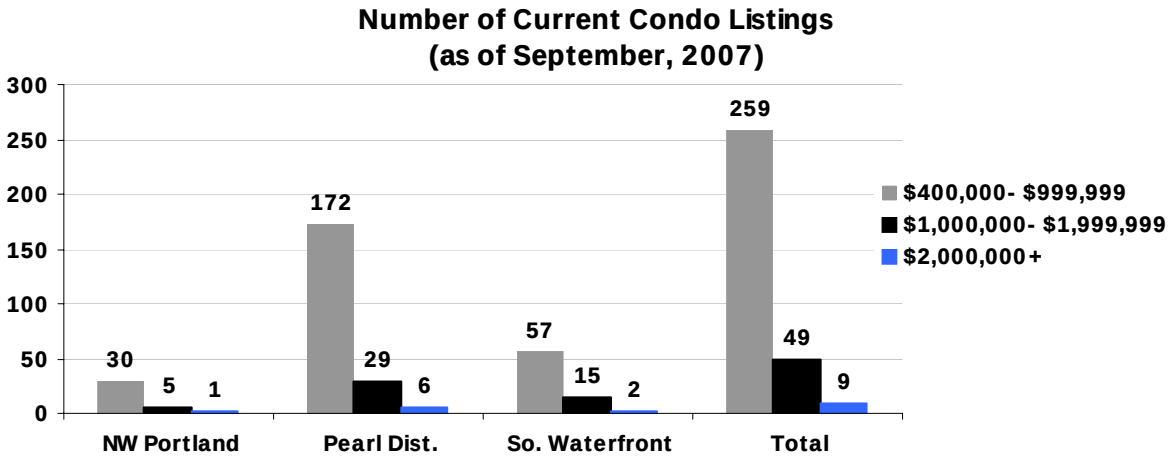
We have heard about the market's insatiable appetite for luxury condominiums, but 2007 figures appear to show that the demand for luxury condos is slowing down. This statistic is particularly concerning for many of the new buildings currently under construction and nearing completion in the Pearl District and downtown. Many of these new buildings anticipated pricing multiple units above one million dollars.

A recent search of RMLS revealed that there are currently 49 condominiums priced at one million dollars or more in the Pearl District, Northwest Portland and the South Waterfront.[6]

[6] RMLS, http://www.rmls.com/RC2/UI/Home.asp, accessed on September 11, 2007.

Chart 6 details the number of current condominium listings for the three featured neighborhoods. There are also nine condominiums currently listed at two million dollars or more.

Chart 6



(4) New construction continues: By the end of 2008 there will be over 1,000 condominiums added in the Pearl District alone.

Current Pearl District condominium inventory is estimated at over 4,000 units. Nearly all of these new units have been added in the last 15 years, and the majority added in the last nine years. Including the projects currently in the pipeline, Pearl District inventory will increase by over 25 percent in the next year. Will the market absorb these new units? The condominium market will be tested in the next two years.

Conclusion

In past year, the data show that the downtown condominium market strength has weakened. The number of condominium sales in the first seven months is down by 21 percent compared to the same time period in 2006. Median sales prices have declined 19 percent in South Waterfront to $337 per square foot and have leveled off in the Pearl to $427. The market's appetite for downtown penthouse condominiums priced for more then one million dollars also has dramatically declined.

The data support the recent decisions of developers to alter development programs from condominiums to apartments. With a large supply of condominiums downtown still in the pipeline, other developers will need to decide if they have the patience and financial resources to market high end condominiums in downtown Portland.

Housing Market Analysis

By Karen Thalhammer, Certificate of Real Estate Development Graduate Student & Oregon Association of Realtors [OAR] Fellow

Home values in the Portland metropolitan area continue to grow while many parts of the Nation are experiencing subprime lending repercussions. Nationally, existing home values went down by 4.2 percent in September compared to last September. Portland's median price during the same period increased 3 percent. However, Portland seems to be experiencing a more drastic reduction in transactions. Nationally, the number of transaction over the past year has decreased 19 percent compared to a 32 percent decline in the Portland metropolitan area.

Portland's housing resiliency is perhaps due to the urban growth boundary that has limited construction. Oregon has also experienced lower levels of foreclosures then the rest of Nation.[1] While existing homes in Portland continue to appreciate, homeowners are more likely to have equity in their homes and have more financing options available to them. At the time of publication, the National Association of Realtors data was not available for the third quarter, but we have included the second quarter data in the chart below.

Median Home Values of Existing Homes
September 2006-2007[2]

	U.S.	**West**	**Portland Metro**
September 2006 Median Sales Price	$220,900	$338,800	$267,000
September 2007 Median Sales Price	$211,700	$308,900	$274,900
% Change in Median Sales Price	-4.2%	-8.8%	3.0%
% Change in Number of Sales September 2006-2007	19.1%	27.8%	32.0%

Source: National Association of Realtors, October 2007 and RMLS October 2007

Median Sales Prices of Existing Single Family Homes by Metropolitan Area

	2nd Quarter 2007 Median Sales Price	**% Change Q2 2006-Q2 2007**	**% Change Q1 2007-Q2 2007**
United States	**$223,800**	**-1.5%**	**5.4%**
Sacramento-Arden-Arcade-Roseville, CA	$356,500	-6.3%	-2.5%
Las Vegas-Paradise, NV	$307,900	-3.6%	-0.7%
Phoenix-Mesa-Scottsdale, AZ	$264,800	-2.7%	0.9%
Salem, OR	$227,900	16.7%	2.8%
Portland/Vancouver Metro Area	**$298,300**	**5.2%**	**2.9%**
Albuquerque, NM	$199,600	7.7%	3.0%
San Diego-Carlsbad-San Marcos, CA	$614,100	0.2%	3.2%
Seattle-Tacoma-Bellevue, WA	$395,300	8.9%	4.0%

[1] *National Association of Realtors (July 2006)*
[2] *Data for this chart includes all types of existing property including attached properties, condominiums, manufactured housing, and co-ops. For the rest of the report, we only evaluated detached housing.*

Austin-Round Rock, TX	$186,600	5.6%	5.9%
Chicago-Naperville-Joliet, IL	$283,200	1.7%	5.9%
Denver-Aurora, CO	$255,200	0.0%	6.6%
Boston-Cambridge-Quincy, MA-NH	$413,300	-1.9%	6.7%
Cincinnati-Middletown, OH-KY-IN	$146,200	-1.9%	6.9%
Salt Lake City, UT	$233,100	21.9%	6.9%
Spokane, WA	$197,700	10.4%	8.7%
San Francisco-Oakland-Fremont, CA	$846,800	7.6%	13.2%

Source: National Association of Realtors (August 2007)

Nationally, the number of building permits issued so far this year is down 28 percent for single family homes and 14 percent for multi-family home construction. While Portland has also experienced a slowdown in new home starts, it is occurring more gradually. Building permits in Portland are down only 14 percent for single-family homes and 4 percent for multi-family homes.

Building Permits Issued
Year to Date (thousands)

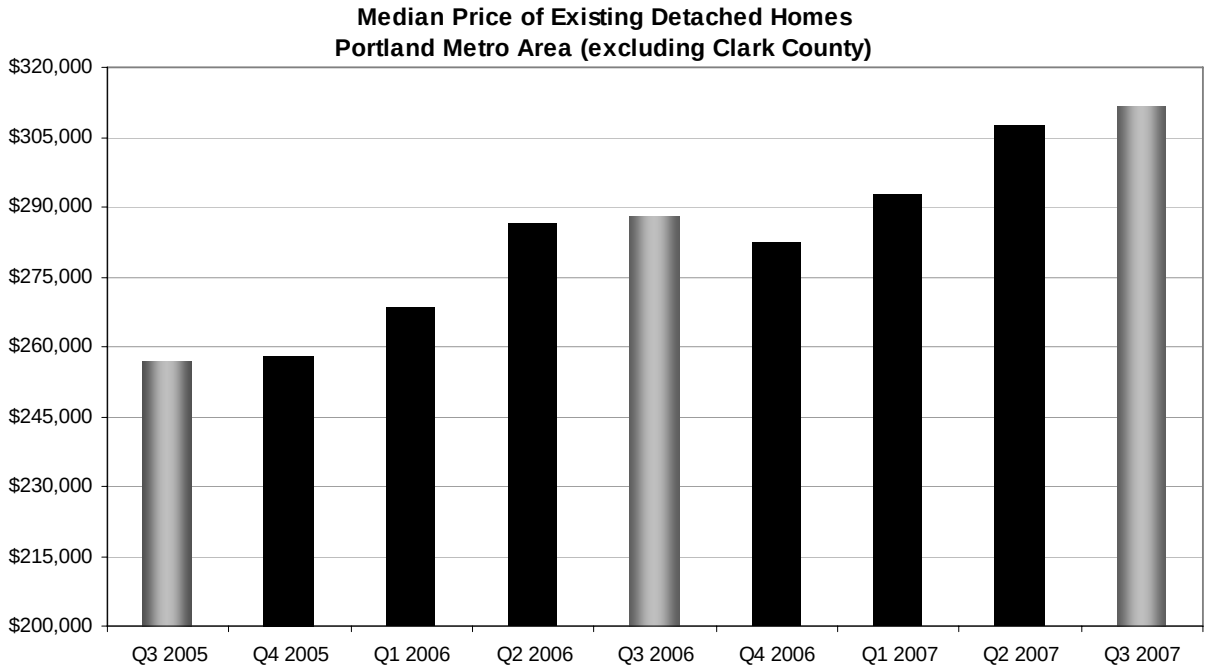
	Single-Family			Multi-Family		
	Aug-06	Aug-07	% Change	Aug-06	Aug-07	% Change
UNITED STATES	**1022.4**	**739.0**	**-28%**	**320.1**	**275.2**	**-14%**
OREGON	15.09	12.64	-16%	4.60	4.15	-10%
Bend	2.44	1.28	-48%	0.19	0.14	-27%
Eugene-Springfield	0.92	0.79	-14%	0.42	0.33	-22%
Medford	0.79	0.85	8%	0.13	0.08	-35%
Portland/Vancouver Metro Area	**7.72**	**6.60**	**-14%**	**3.51**	**3.38**	**-4%**
Salem	0.93	0.81	-13%	0.30	0.23	-22%

Source: National Association of Home Builders (August 2007)

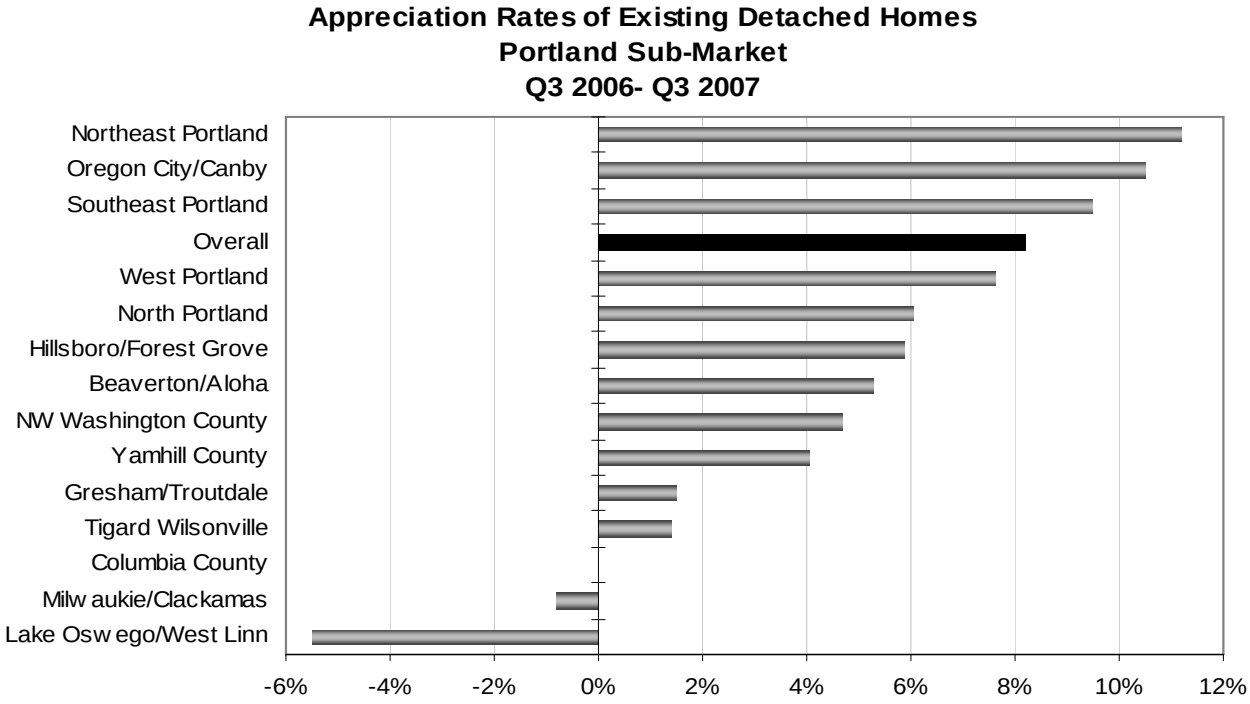
Portland Market Slows

The percentage increase in median sales prices of existing homes in the Portland metropolitan area has tapered off during the third quarter. [3] The median sales price of an existing home was $311,000 during the third quarter, increasing only 1.4% over the previous quarter. Year over year, the median sales price of an existing detached home increased 8.2 percent from the third quarter of 2006.

[3] *Data for this section is from RMLS October 1, 2007*

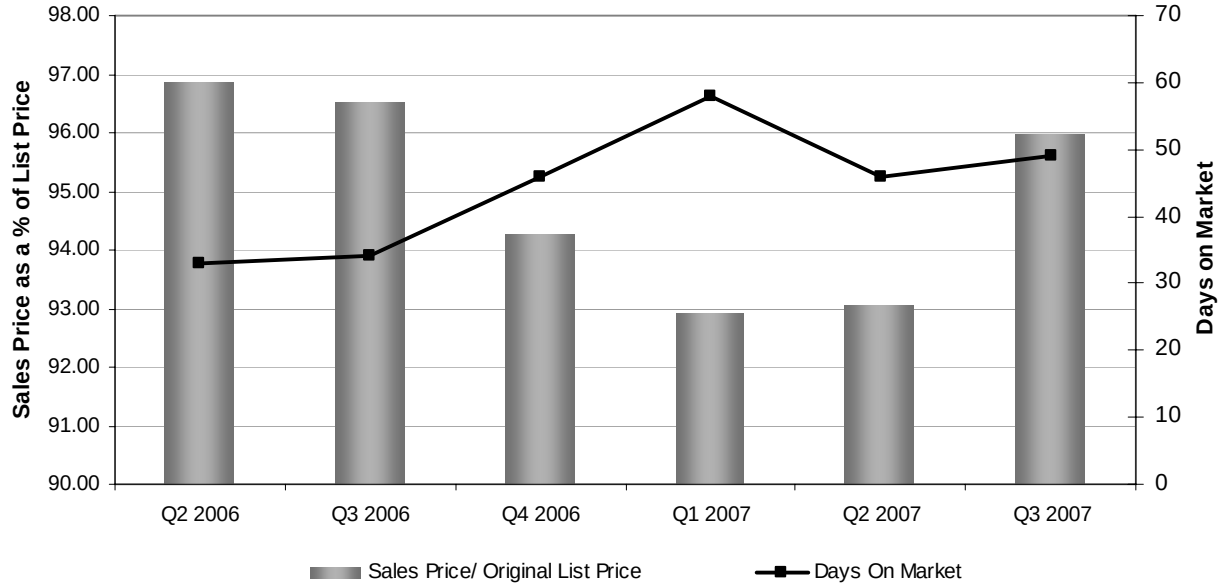


When broken down by submarkets within the Portland area, the areas with greatest appreciation continue to be the inner city neighborhoods of northeast and southeast Portland. Milwaukie and Lake Owego have experienced negative appreciation over the past quarter. Beaverton, northeast Portland and southeast Portland had the greatest number of transactions. [*Note: Columbia County experienced no change*]



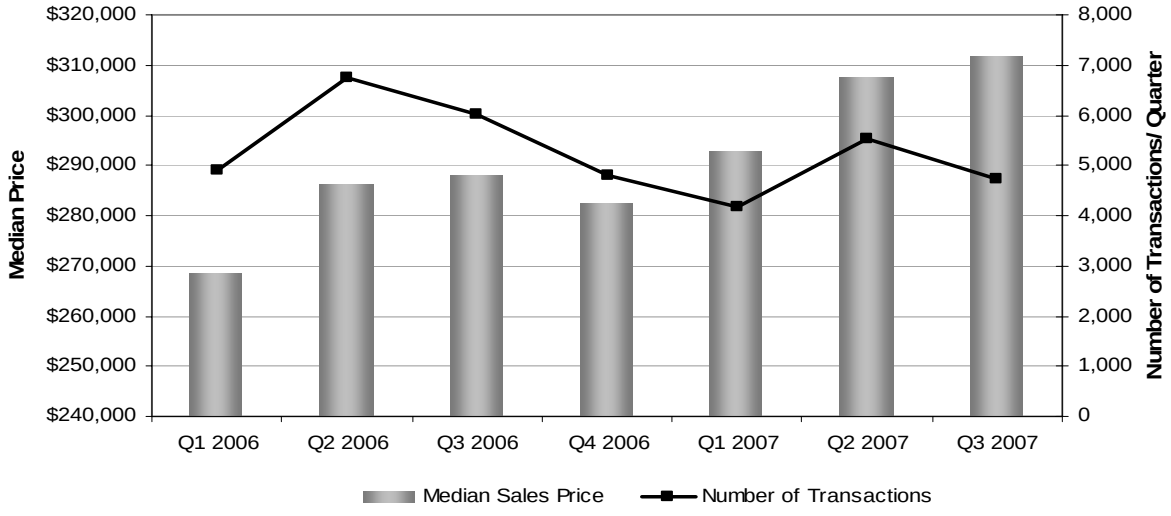
Existing home sales also experienced a three percent increase in the ratio of sales price over original list price returning to the levels experienced in 2006. After a jump in days on market late last year, these past two quarters remained stable at 49 days. Both of these trends may be an indication of sellers more accurately pricing their homes to the market and realizing they can no longer expect the appreciation rates of the previous year.

Sale Price/Original List Price and Average Days on Market
Existing Detached Homes
Portland Metro Area (excludes Clark County)

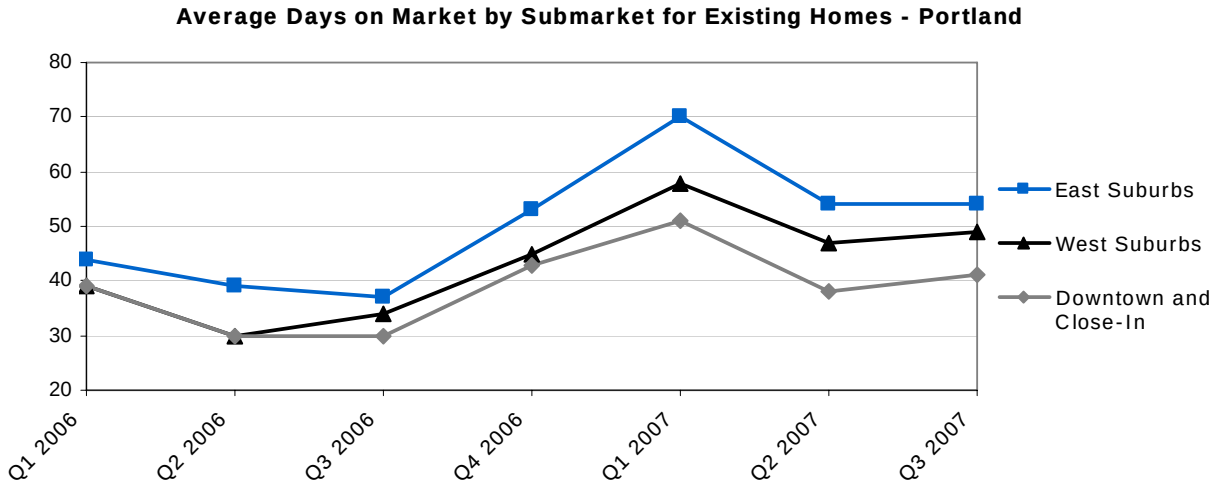


The past quarter the number of transactions decreased 15 percent to 4,700. With the exception of last quarter, there has been a steady decline in the number of transactions since the second quarter of 2006. While median sales prices have increased during this time, they did not increase as rapidly as the year before. Sellers expecting the appreciation of previous years may have been unable to sell, or unwilling to drop asking sales prices, thus shrinking the number of transactions.

Median Sales Price of Existing Detached Homes and
Number of Homes Sales Per Quarter
Portland Metro Area (excludes Clark County)



When broken down by submarket, downtown and close-in neighborhoods have consistently had the lowest number of days on market and the east suburbs have consistently had the highest number of days on market. In the third quarter, downtown and close-in had an average of 41 days on market compared to 54 days in the east suburbs.



While the rate of appreciation in median sales prices of existing detached homes has slowed, new home sales prices have declined. The median sales price of a new detached home decreased 2.5 percent during the third quarter to $371,000. Median sales prices increased only 1.0 percent over the past year compared to a 22 percent increase the year before. The following table demonstrates that new home sales have been much more volatile over the past two years with a dramatic increase in 2005-2006 followed by stability this past year. This may be partially explained because new home developers are more likely to sell at a lower than expected rate in order to move their product while existing home owners may choose to wait out the downturn.

Median Prices of Detached Homes- Portland

	Q3 2005	Q3 2006	% Change Q3/05-Q3/06	Q3 2007	% Change Q3/06-Q3/07
Existing	$257,000	$288,000	12.1%	$311,700	8.23%
New	$302,066	$367,228	21.6%	$371,005	1.03%

The median new home price increased dramatically this past quarter in Lake Oswego, NW Washington County, and Columbia County. New home prices fell in Beaverton and Milwaukee. While it is interesting to compare these numbers, variation in median new home prices can be skewed significantly when a new development is put on the market with a large quantity of a similar product type

Median Sales Prices of New Detached Homes in Portland		
	Q3 2006	**Q3 2007**
Lake Oswego/West Linn	$907,800	$1,420,000
West Portland	$614,200	$640,500

NW Washington County	$499,950	$590,792
Tigard Wilsonville	$469,626	$532,030
Milwaukie/Clackamas	$551,653	$450,000
Hillsboro/Forest Grove	$359,032	$407,075
Columbia County	$259,000	$329,554
Gresham/Troutdale	$296,000	$329,500
Oregon City/Canby	$352,475	$327,200
Yamhill County	$327,755	$318,055
Beaverton/Aloha	$410,670	$317,250
Northeast Portland	$274,850	$285,425
Southeast Portland	$297,500	$280,000
Overall	**$367,228**	**$371,005**

To summarize, Portland seems to be holding on during the national subprime fallout. Over the past year, existing homes have appreciated over eight percent, while new homes have dropped only one percent. With existing homes still appreciating homeowners have more financing options available to them then homeowners in areas with depreciating home values.

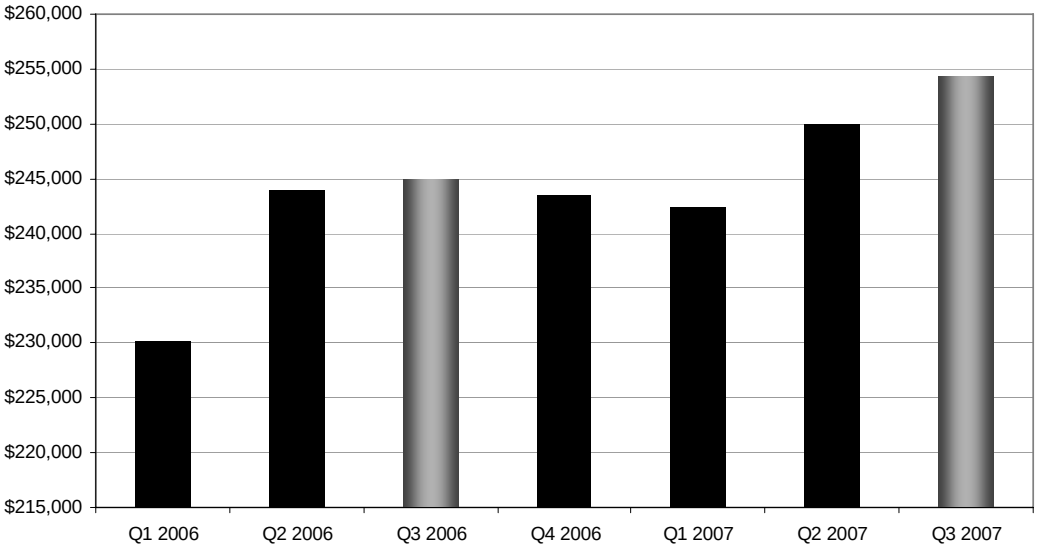
New homes appear to be more volatile with a 22 percent increase the prior year. In part, this could be expected of new home developers eager to move their product. The inner city neighborhood are leading the way with the highest appreciation levels for existing homes over the past year followed by surrounding suburbs.

Transactions decreased 15 percent in the third quarter and the average number of days on market has remained at 49 days indicating that the housing market in Portland is slowing down. Sellers seem to be learning that they are not going to receive the high appreciation rates of the previous year and the ratio of sales price over original list price has increased.

Vancouver Gains Modestly

Median sales prices of existing detached homes in Vancouver rose 1.8 percent this past quarter to $254,000. [4] While prices were fairly level in late 2006 and early 2007, during the past two

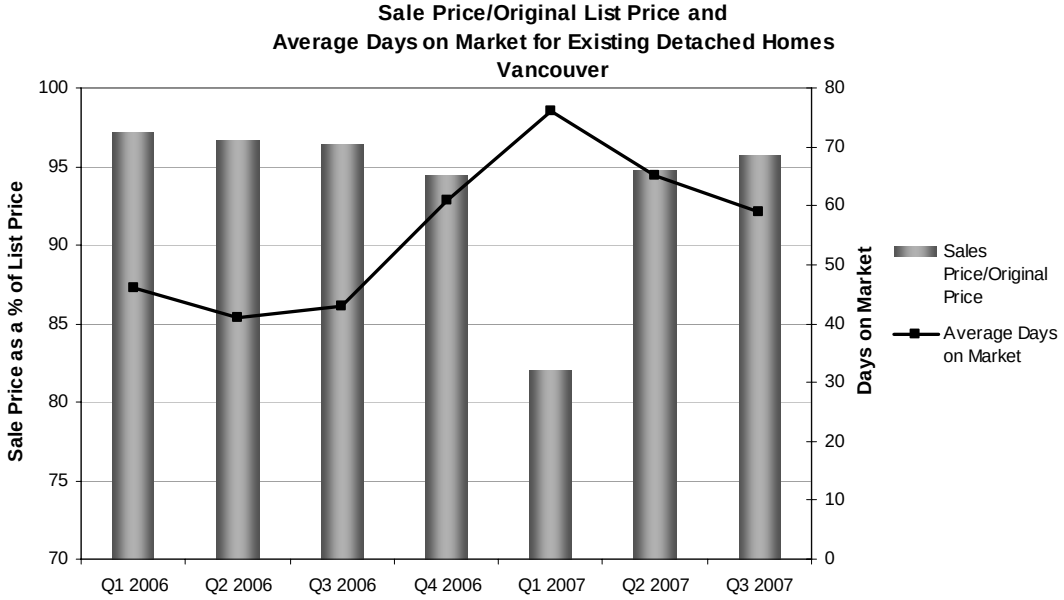
Median Sale Price of Existing Detached Homes
Vancouver



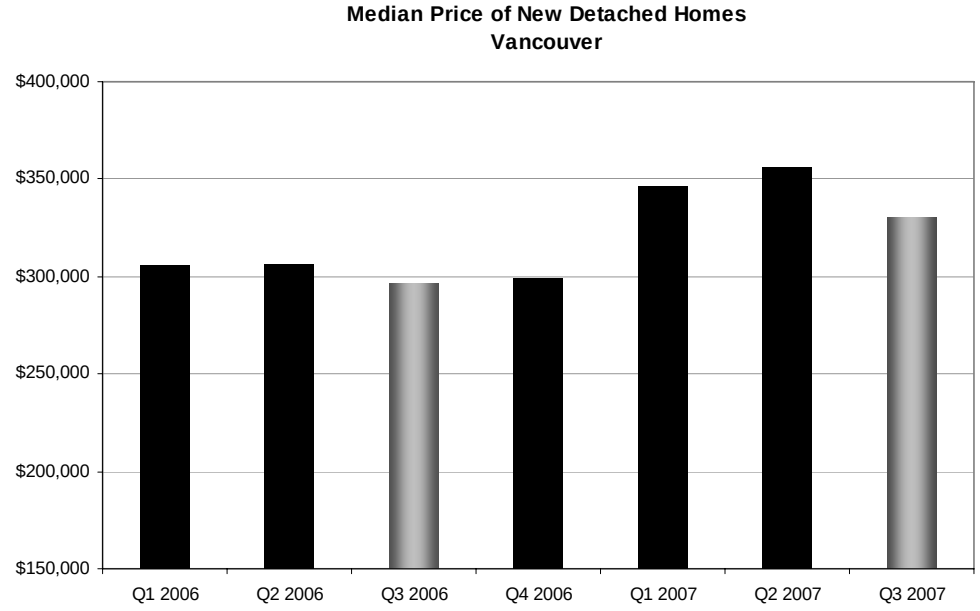
[4] *Fo*

quarters Vancouver has experienced modest gains. Year over year median existing sales prices increased 3.8 percent.

Like Portland sellers, Vancouver home sellers seem to be aligning themselves with the market and lowering their expectations of high appreciation rates that were enjoyed last year. This past quarter, days on market fell to 59 days and the ratio of sales price to original list price recovered to 96 percent, presumably from accepting lower asking prices. At its worst, during the first quarter of this year, the average number of days on market was 72 days and the ratio of sales price to original list price was 82 percent.



New home prices in Vancouver have experienced a notable decline this past quarter. The median price of a new home fell to by 7.3 percent to $330,000. Year over year, this still represents an 11 percent increase in new home prices.



Mixed Harvest in Willamette Valley

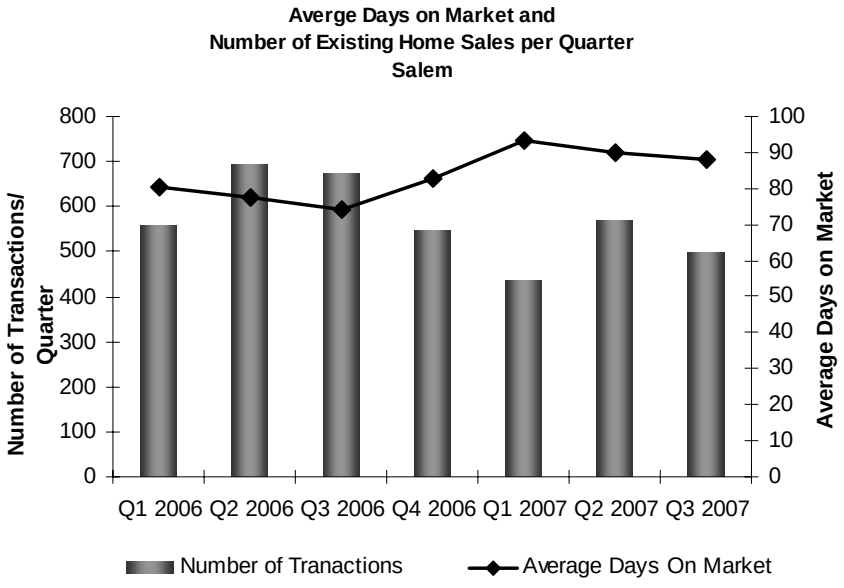
This past quarter, existing home appreciation varied through the Willamette Valley. Quarter over quarter appreciation was highest in Keiser at 6.5 percent and in Polk County at 5.9 percent. Salem, Eugene/Springfield, and Lane County remained stable.[5] Median sales prices of existing homes in Marion County, however, fell by 3.6 percent and in Benton sale prices plummeted to 6.6 percent.[6]

Median sales prices in the Salem/Keizer area are changing at vastly different rates. [7] Polk County, excluding Salem and Keizer, has appreciated 12 percent the past year, and half of the increase has been in the past quarter alone. Median home prices in Keizer have almost returned to the levels experienced this time last year. Keizer median sales are more than $20,000 higher than Salem at $220,500.

Median Sales Price of Existing Homes
Northern Willamette Valley

	Q3 2006	Q2 2007	Q3 2007	% Change Q3/2006-Q3/2007	% Change Q2/2007-Q3/2007
Salem	$188,000	$199,500	$199,900	6.3%	0.2%
Keizer	$225,900	$207,000	$220,500	-2.4%	6.5%
Marion County (excluding Salem and Keizer)	$184,450	$206,000	$198,623	7.7%	-3.6%
Polk County (excluding Salem and Keizer)	$169,900	$178,900	$189,500	11.5%	5.9%

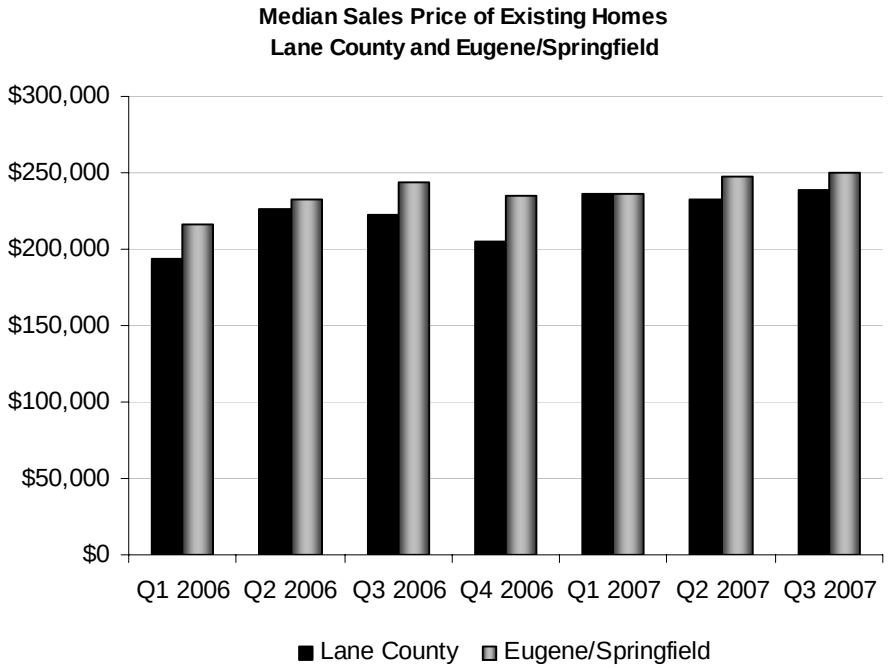
In Salem, the number of transactions decreased 13 percent in the third quarter following the national trend of declining transactions. Average days on market hit a peak at the beginning of the year with 93 days. This quarter saw a slight decline to 88 days.



Housing prices seem to be less volatile in Lane County. Homes in the Eugene/ Springfield area still command a premium of $23,000 more than homes in the rest of Lane County. Median existing sales prices increased slowly in spring and summer after a decline in the winter. In Lane County home prices increased 4.6 percent from this time last year and Eugene/Springfield increased 2.5 percent. Quarter over quarter, Lane County dropped

[5] *Data for Polk and Marion Counties excludes Salem and Keizer.*
[6] *Data for Lane County excludes Eugene/Springfield.*
[7] *For this section, data was collected from the Willamette Valley MLS on October 1, 2007.*

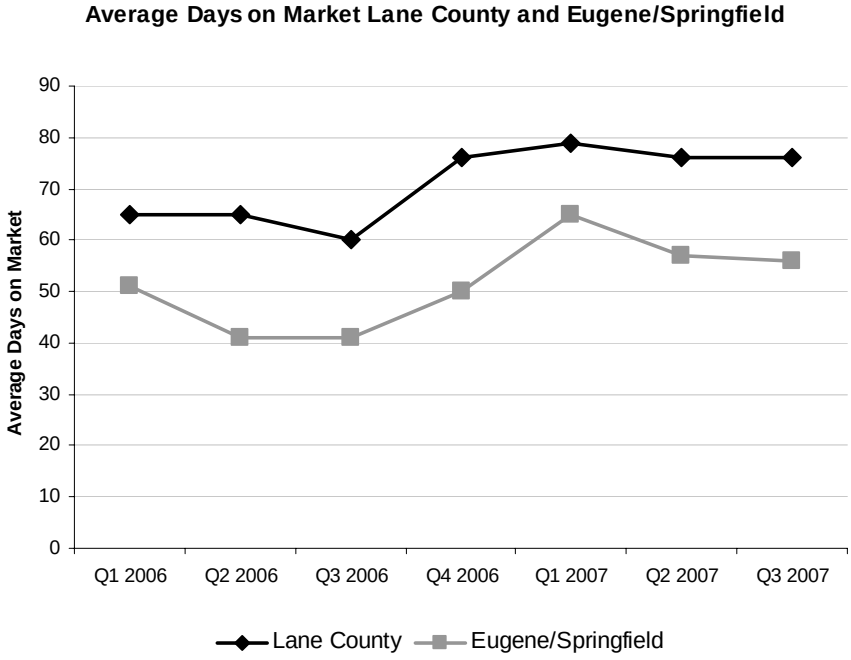
slightly by 1.3 percent and Eugene/Springfield increased by 1.2 percent.



Median Sales Prices of Existing Homes
Southern Willamette Valley

	Q3 2006	Q2 2007	Q3 2007	% Change Q3/2006-Q3 2007	% Change Q2/2007-Q3/2007
Eugene/Springfield	$243,900	$247,000	$250,000	2.5%	1.2%
Lane County	$222,700	$236,000	$232,950	4.6%	-1.3%

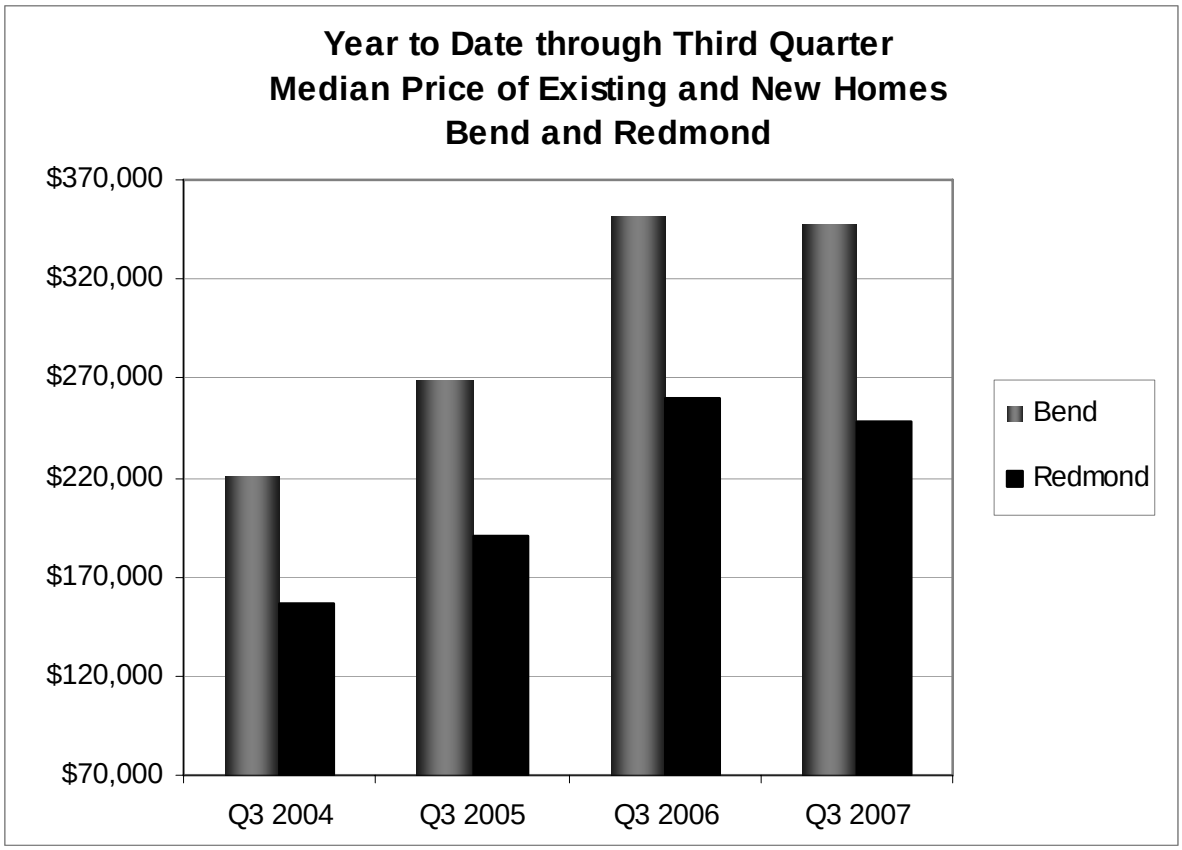
The trends of average days on market mirror what would be expected. As home values began to decline in the third quarter of 2006, the average number of days on market increased. An over supply of homes and shortage of buyers caused home values to decrease. However, sellers continued to expect the appreciation rates of earlier periods, apparently did not lower asking prices and homes continued to stay on the market for longer periods. In the past few quarters, the average days on market have remained at 76 days for Lane County and 56 days for



Eugene/Springfield. Homes in the Eugene urban area consistently sell about 20 days quicker than those in Lane County.

The Sun Sets in Bend

The number of building permits for residential construction (homes plus apartments) decreased from August 2006 to August 2007 by 28 percent. The market for new single family homes was even harder hit, with the number of permits falling by 48 percent over the same period.[8] In the third quarter, the average price of a home (new and existing combined) was $354,000, nearly $100,000 more than the median in Redmond. The median price in Bend decreased by 1 percent over the past year, compared to an increase of 30 percent the year prior. Similarly in Redmond, the median price decreased 4.3 percent this past year compared to a 36 percent increase the year before. The number of days on market jumped an entire month from the third quarter last year to 166 days.



The volatility of the median price numbers for Bend may reflect real changes in that market, but also the small size of the market and the small number of house sales, as well as the difficulty of separating new and existing housing from the data. Since new houses sell for prices much higher than existing homes, a fast population growth period will result in a surge in median home prices and a slowing of population growth will result in a reduction or even a decline. Because this reporting can give a misleading impression of actual market conditions, the Center will be working to correct this problem for future editions of the Quarterly. Having said this, the decline in housing permits and development activity in the Bend market has been quite pronounced.

[8] *Data for Bend and Redmond is from Central RMLS. (October 2007)*

Office Market Analysis

By Karen Thalhammer, Certificate of Real Estate Development Graduate Student & Oregon Association of Realtors [OAR] Fellow

The national commercial market remains healthy despite the tightening credit crunch in the residential market. According to the National Association of Realtors, vacancy rates continue to remain low and rents continue healthy growth.[1] The commercial market has not succumbed to the downturn of the housing market for several reasons.

First, commercial real estate is tied to economic growth and job creation. According to the Bureau of Labor Statistics, 292,000 new jobs were added nationally in the third quarter. Unemployment rates increased modestly from 4.5 percent in June to 4.7 percent in September. Given the slowdown in housing production, jobs related to residential construction fell by 47,000 this part year but rose 34,000 in commercial construction. Credit intermediation jobs (mostly mortgage brokers) fell by over 36,000 this past year.[2]

Second, investments in the commercial market frequently require higher levels of equity, thus shielding bankers from temporary periods of depreciation. Third, the portfolios of commercial investors are often more diverse allowing investors to ride out decreasing returns on a single property or specific region.

Finally, the commercial sector has not experienced the over-building of the housing market. This past quarter 12.2 million square feet were brought to the national market. New inventory is about the same as the third quarter last year, but well below the peak in the fourth quarter of 2001 with 47.1 million square feet.[3]

According to the National Association of Realtors, in the first seven months of this year, $257 billion was invested in commercial real estate, a 76 percent increase from $147 billion during the same period in 2006.[4] The national third quarter office vacancy was 12.7 percent. While office rents rose 2.4 percent this past quarter to an average of $24.17, the rate of growth is slower then the 3 percent per quarter experienced in the first six months of 2007.[5]

Although delinquencies on commercial loans remain low, the tightening lending crunch has stalled the flow of capital into the commercial sector. At the end of August there were $35.2 billion in unsold commercial mortgage backed securities.[6] Purchasers of the securities have demanded higher yields from lenders causing many deals to be rewritten. As a result, underwriters have become more conservative in their lending terms. Deal terms have returned to those of the mid-90s with higher loan-to-value ratios and debt coverage ratios.[7] The days of lending on projects valued at low cap rates with the expectation of increased rents and lower vacancy appear to be over.

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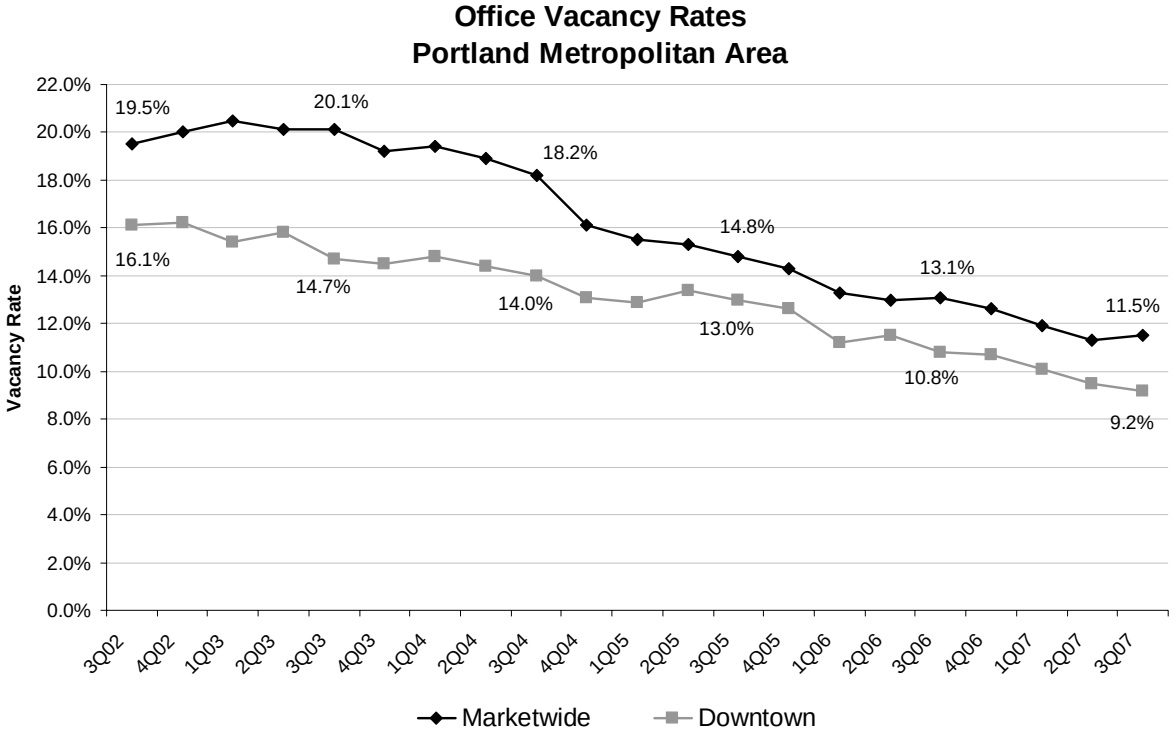
[1] *National Association of Realtors. Commercial Real Estate Outlook. September 2007*
[2] *.Bureau of Labor Statistics. Employment Situation September 2007. September 2007*
[3] *Chittum, Ryan. "Rent Growth Slows a bit in Sluggish Office Market." Wall Street Journal. October 4, 2007*
[4] *National Association of Realtors. Commercial Real Estate Outlook. September 2007*
[5] *Chittum, Ryan. "Rent Growth Slows a bit in Sluggish Office Market." Wall Street Journal. October 4, 2007*
[6] *Chapman, Parke M. "Weathering the Storm." National Real Estate Investor. September 2007*
[7] *ibid*

Portland Office Market Remains Firm

According to the Oregon Employment Department, employment indicators for the Portland metropolitan area show a stable employment base. Over the past quarter, jobs in the finance, professional and business services, and information sectors all remained stable. Construction employment increased 5% in both residential and commercial construction in the third quarter. The number of credit intermediation jobs went down by 400, or one percent, this past quarter. Unemployment decreased slightly from 5.0 percent in August to 4.9 percent. This is a slight increase from the six year low of 4.6 percent in June.[8]

The mortgage industry cutbacks are likely to have only a modest impact in Portland since there are no mortgage headquarters located in the area. The one submarket that has a large share of the local mortgage industry is Kruse Way. While Kruse Way continues to command the highest rents regionally at an average of $27.61, vacancy has increased this past quarter and rents have decreased. [9]

Market-wide, the median office vacancy rate in the Portland metropolitan area is 10.5 percent.[10] Vacancy has declined one percent since the third quarter last year. The chart below shows how vacancy rates declined from the peak in 2003 of 20.5 percent. The Lloyd district saw the greatest decline in vacancy this past quarter from 6.9 to 4.2 percent when Integra Telcom leased 50,000 square feet this past quarter.[11]



Source: Cushman & Wakefield (September 2007)

[8] *Oregon Employment Department. Oregon Labor Market Information System. August 2007*
[9] *Daily Journal of Commerce. Portland Real Estate has Strong Third Quarter. October 12, 2007*

[11] *CBRE. September 2007*

Third Quarter Office Market Trends[12]

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	**10.9%**	**11.5%**	**11.7%**	**N/A**	**11.5%**
Previous Quarter	11.6%	11.3%	12.3%	N/A	**11.6%**
Third Quarter 2006	11.5%	13.1%	11.9%	N/A	**11.9%**
Downtown Vacancy	**8.2%**	**9.2%**	**8.3%**	**10.3%**	**8.8%**
Previous Quarter	8.5%	9.5%	9.1%	12.2%	**9.3%**
Third Quarter 2006	9.0%	10.8%	9.8%	11.3%	**10.3%**
Downtown Class A	**5.0%**	**5.9%**	**5.2%**	**5.9%**	**5.6%**
Previous Quarter	4.7%	6.8%	5.6%	6.8%	**6.2%**
Third Quarter 2006	5.6%	6.4%	6.5%	6.9%	**6.5%**
Downtown Class A Asking Rents	**$24.17**	**$25.27**	**$25.14**	**$24.22**	**$24.68**
Previous Quarter	$23.42	$24.75	$24.76	N/A	**$24.75**
Third Quarter 2006	$22.60	$23.88	$23.46	N/A	**$23.46**
Suburban Vacancy	**13.4%**	**13.7%**	**13.8%**	**14.9%**	**13.8%**
Previous Quarter	14.4%	13.2%	14.4%	15.9%	**14.4%**
Third Quarter 2006	13.9%	15.4%	13.4%	14.1%	**14.0%**
Suburban Class A Vacancy	**N/A**	**13.7%**	**10.5%**	**N/A**	**12.1%**
Previous Quarter	N/A	12.6%	10.5%	N/A	**11.6%**
Third Quarter 2006	N/A	13.9%	8.9%	N/A	**11.4%**
Suburban Class A Asking Rents	**N/A**	**$23.79**	**$24.34**	**N/A**	**$24.07**
Previous Quarter	N/A	$23.38	$24.25	N/A	**$23.82**
Third Quarter 2006	N/A	$22.04	$22.84	N/A	**$22.44**

Suburban occupancy remains sluggish, but is improving. Vacancy has remained constant this past year at 14 percent. Currently there are eight office buildings under construction in the suburbs. Six buildings, totaling 408,000 square feet, are scheduled for completion in the next three months.[13] These projects include the completion of two office buildings at the Round in Beaverton and several projects in Tigard.

Downtown Class A office vacancy rates continue to decline and rents have increased nearly $1.50 per square foot over the past year. Currently the CBD Class A vacancy rate is between 5-6 percent. On the other hand Class C office space remains more troubled with rents as low as $15.95 and vacancy hovering at 18.5 percent.[14]

[12] *Source: CB Richard Ellis (CBRE), Cushman & Wakefield, Norris, Beggs and Simpson, and Grubb & Ellis (September 2007). Vacancy rates above include subleases except those reported by CBRE. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. Class A suburban figures reported by Grubb & Ellis reflect Kruse Way and Washington Square only. All rents are full service. All other suburban figures include Vancouver.*

[13] *CB Richard Ellis. September 2007*

[14] *Norris, Beggs, & Simpson. September 2007*

With lower vacancy rates and increasing rents the time may be more fortuitous for the construction of a speculative Class A downtown office tower. Now there are two in the pipeline; Shorenstein's 346,500 square-foot First & Main tower and Tom Moyer's 323,000 square foot Park Avenue West Tower. Moyer's mixed use tower will include 280,000 square feet of office space. Historically, Portland's CBD has absorbed one Class A building at a time. Can it absorb two?

Speculative office construction has been delayed downtown because developers have been unable to meet the pre-lease requirements of lenders. The last Class A building, the Fox Tower built by Tom Moyer in 2000, was developed without advanced pre-lease commitments and without a construction loan at ground-breaking. However by the time the project was finished, it was 93 percent leased.[15] Following in Moyer's footsteps, Shorenstein's First & Main tower broke ground in October without any pre-lease commitments. It is anticipated that the 15-story 346,500 square-foot tower will be complete in 2010 and command rents of $34 - 36 per square foot.[16]

Moyer's Park Avenue West Tower will be 35 stories and include 280,000 square feet of office space in addition to 60,000 square feet of retail space and 85 condominiums. The tower will be Portland's fourth tallest project and utilize the transfer of development rights from the adjacent Park Block 5 where Moyer is currently building a 676 space underground parking garage. The tower is currently going through design review.

Currently there are 407,000 square feet of office space under construction in the central city in five projects. There are also seven proposed buildings totaling 1.4 million square feet.[17] The following chart is based on Norris, Beggs & Simpson's Third Quarter Central City Office Report.

Current Office Space Under Construction in the Central City

Building	Total Sq Ft	Address	Owner	Developer	Description
12TH AND WASHINGTON	85,000	431 SW 12th Ave	ZGF-Goodman	Gerding/Edlen	21-story building with first-floor retail, 4 floors of office, and 274 apartments. Project will house ZGF Architects Completion May 2009.
MACHINE WORKS BLOCK	66,000	1115-1123 NW 14th Ave	Jackson Machine Works LLC	Albert Solheim	9-story mixed use building with 4 levels of office space, 3 levels parking, 2 levels fitness. Completion in October 2008.

[15] *Rivera, Dylan. Developer will erect 35-story high rise. The Oregonian. January 19, 2007*
[16] *Cushman & Wakefield. September 2007*
[17] *Norris, Beggs & Simpson. September 2007*

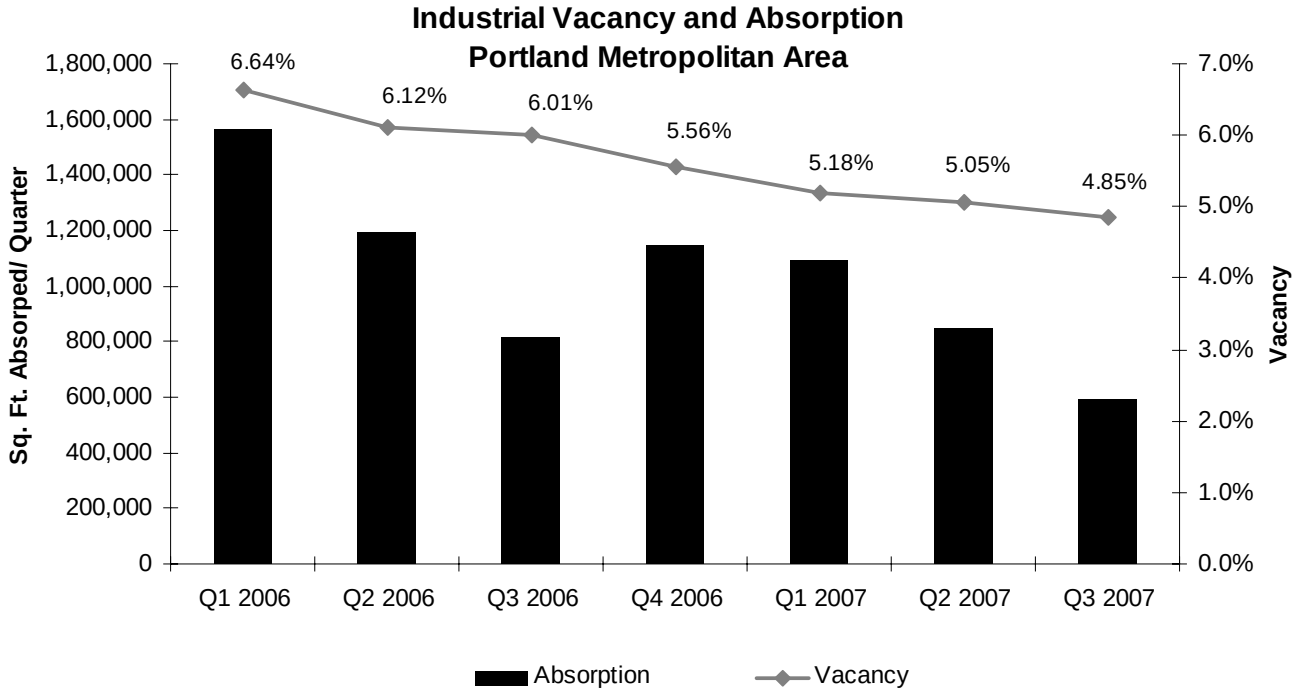
REED HARRIS BUILDING	40,000	322 NW 14th Ave	Ampersand Holdings, LP	Parallel Development	3-story historic building undergoing renovation. Will offer first floor retail space, two office floors and new residential condos on penthouse. Completion September 2007
LOVEJOY	82,843	NW Lovejoy and NW 14th	Unico Properties	Unico Properties	Anchored by Safeway on ground floor, with 3 levels of parking above and topped by 3 office floors. Completion January 2008.
FIRST & MAIN BLDG	321 ,663	100 SW Main St	Equity Office Properties	Gerding/Edlen Trust Development	15-story Class A office building with average floor plates of 22,000 SF and 20,000 SF of ground retail, restaurant, or conference space.
WHITE STAG HIRSCH-WEISS BUILDING	133,000	70 NW Couch St	White Stag Block, LLC	Venerable Properties	The White Stag Block renovation project combines three historic buildings (White Stag, Bickel Block, and Skidmore Block) into one building totaling 133,000 SF. University of Oregon will be the anchor tenant. Completion January 2008.

Source: Source: Norris, Beggs & Simpson September 2007

Industrial Market Indicators

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Median
Market-wide Vacancy	**4.9%**	**5.0%**	**5.3%**	**5.0%**
Previous Quarter	5.1%	4.9%	5.6%	5.1%
Third Quarter 2006	6.1%	6.2%	6.9%	6.2%
Warehouse/Distribution	**N/A**	**4.3%**	**4.8%**	**4.6%**
Previous Quarter	N/A	4.2%	5.1%	4.7%
Third Quarter 2006	N/A	5.4%	N/A	5.4%
R&D/Flex Vacancy	**N/A**	**9.2%**	**7.0%**	**8.1%**
Previous Quarter	N/A	9.5%	7.3%	8.4%
Third Quarter 2006	N/A	10.9%	9.3%	10.1%
Asking Monthly Shell Rates	**$0.37**	**N/A**	**$0.41**	**$0.39**
Previous Quarter	$0.36	N/A	$0.39	$0.38
Third Quarter 2006	$0.35	N/A	$0.37	$0.36
Asking Monthly Flex Rates	**$0.85 to $1.05**	**N/A**	**$0.83**	**N/A**
Previous Quarter	$0.85 to $0.95	N/A	$0.81	N/A
Third Quarter 2006	$0.65 to $1.05	N/A	$0.71	N/A

Source: CB Richard Ellis, Cushman & Wakefield and Grubb & Ellis (October 2007)
Warehouse/Distribution figures for Cushman & Wakefield include manufacturing space, which represents one-fifth of warehouse/distribution space. All rents are NNN.



Source: CB Richard Ellis (October 2007)