5-2014

Center for Real Estate Quarterly, Volume 8, Number 2

Portland State University. Center for Real Estate

CENTER FOR REAL ESTATE

Quarterly Report

Volume 8, Number 2 Spring 2014

A publication of Portland State University
Available for download at: http://www.pdx.edu/realestate/research_quarterly.html

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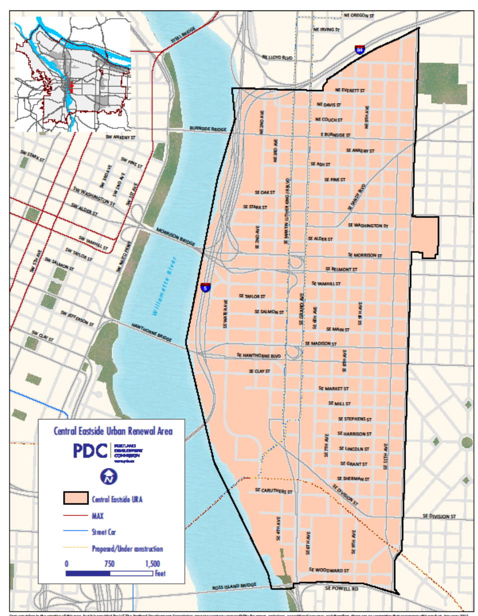
THE EVOLUTION OF PORTLAND'S CENTRAL EASTSIDE

ANGELA GUO

Portland State University

With its close proximity to the central business district, deep industrial history, celebrated grittiness, and opportunity for innovation, Portland's Central Eastside District (CED) is primed as a destination for urban redevelopment in Portland's Central City. Situated on the east bank of the Willamette River and bound by SE 12th Avenue on the east, Interstate Highway 84 on the north, and SE Powell Boulevard on south, the 692.3 acres of the Central Eastside Urban Renewal Area was established in 1986 by the Portland Development Commission (PDC). Over 17,000 jobs are located in the district that historically served as an industrial manufacturing and warehousing hub, according to Johnson Economics. Job growth of the CED has outpaced all other employment districts in



Source: Portland Development Commission

■ Angela Guo is a Master of Real Estate Development candidate and was a part of the Winter 2014 graduate student NAIOP workshop team that focused on Portland's Central Eastside. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Portland and accounts for over 35% of Portland's job growth in the past five years.

Originally settled in 1845, the Central Eastside, according to the Portland Bureau of Planning and Sustainability, consisted of orchards and hay, the east bank was comprised of marshes, creeks and sloughs making development challenging. With the extension of the East-Side Oregon Central Railroad from Salem to Portland, an economy based on the shipment of agricultural products began to blossom. In 1887, the Morrison Bridge connected the east and west sides of the Willamette River, which connected the City of Portland to the area known as the City of East Portland, at that time. The new rail lines that connected the Portland area with California and other eastern states spurred a booming agricultural trade centered in East Portland, which was annexed by the City of Portland in 1891.

Source: Portland Bureau of Planning and Sustainability

Produce distribution continued to flourish, and, by the end of the 20th century, the east side was a thriving industrial and commercial district. The railroad and riverbanks were busy transporting and moving product to and from the area, leading to its nickname of Produce Row.

In more recent decades, the buildings that once were the hub for produce distribution or manufacturing have been repurposed to be incubator spaces that foster the development of smaller-scale manufacturing and industrial uses. An Employment Opportunity Analysis (EOA) conducted by Portland has labeled the CED as an "incubator" area and a "hot spot" of where a significant amount of job growth has shifted in recent years.

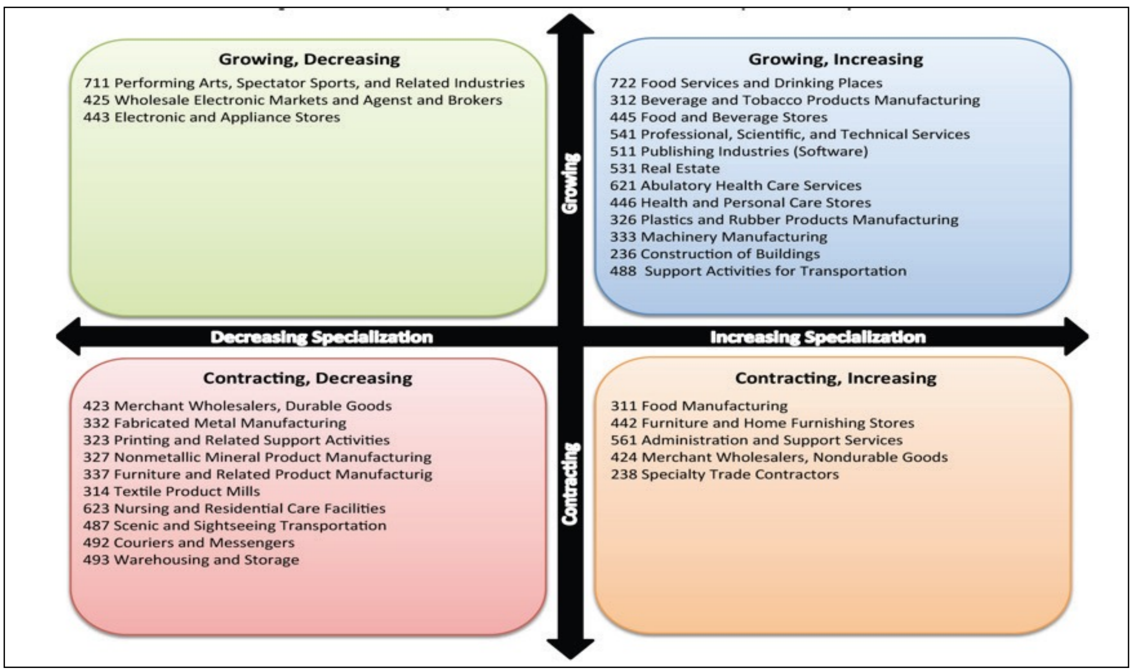
The job gains have moved from Portland's traditional downtown core toward adjacent areas in the River and Lloyd commercial / mixed use districts and the emerging incubators of the Central Eastside and Lower Albina. As momentum continues to build with these new types of tenants entering and the character of the district shifting, the City, real estate developers, stakeholders and other organizations are focusing on how the CED should and will evolve.

One thing is certain; the CED will not be the next Pearl District. The mostly industrial zoned CED does not permit the same type of development as seen in the Pearl, with the exception of the area around the Grand and MLK corridors that allows for some residential development. Because the district is primarily an "industrial sanctuary," the zoning was maintained to preserve the types of industrial businesses that have predominantly characterized the area. Zone changes have been contemplated and are one of the many discussion points for the stakeholders of the CED as the SE Quadrant of the Central City 2035 plan for the district is being drafted.

Businesses owners in the CED have pushed to keep the industrial sanctuary primarily for distribution and manufacturing. However, as the types of industrial businesses entering the CED are smaller in size, the district instituted an "Employment Opportunity Subarea (EOS)," which works similar to an overlay on the industrial zone IG-1, but does not change the existing zoning code. The purpose of this subarea as written in the zoning code is to promote the preservation of industrial land and development and support the vitality of industrial businesses while providing opportunities for a broad and diverse mix of employment uses that are compatible with industrial activities and that build on the economic strengths, locational advantages and urban character of the Central Eastside.

As a result of the City's loosening of the definition of an "industrial" use, prominent industries, including professional and financial services, food services and production, software publishing, apparel manufacturing and micro-distilling, have emerged in the CED. Johnson Economics in their study of the district charted the shift in the type of business specialization for the CED, as shown below.

Central Eastside Shift in Specialization (2007-2012)



Source: Johnson Economics

The EOS has created more opportunities for developers to change the type of product that is built in the area. This can be seen in pioneering projects that Beam development has undertaken with the Eastbank Commerce Center and Water Avenue Commerce Center. Businesses in these buildings are “curated,” according to Brad Malsin, co-founder of Beam, to create a community conducive for collaboration and where creativity can thrive.

Many of companies that are growing in the CED fall into six industry clusters that the City of Portland’s Economic Development Strategy has identified for expansion.

1. Athletic and outdoor apparel
2. Software
3. Advanced manufacturing
4. Bioscience
5. Clean-tech
6. Corporate headquarters

These clusters represent a significant departure from the traditional warehousing, distribution and heavy industrial uses that have characterized the CED. As Portland moves towards a more knowledge-based economy, tenant tastes in office spaces have inevitably transformed, as well. Portland has observed a change in the types of tenants (creative, startups, techies, etc.) who are increasingly demanding creative spaces who are willing to pay above market for Class B creative space.

Left: Eastbank Commerce Center; Right: Water Avenue Commerce Center

Thus, as more of these businesses move in, the need for flexible space and technologically capable buildings will increase. Adaptive reuse buildings and new office construction will need to be “plug and play,” with adequate power, high-speed internet and modular space that startup companies can shape according to their needs. In effect, incubator space and incubator districts represent an increasingly important hybrid or cross-over product between traditional office and industrial service segments of employment building space spectrum.

The CED is poised for industrial office development, especially considering the current office climate. The Urban Land Institute (ULI) listed Portland as a “Market to Watch” in the 2014 Emerging Trends Report. In Cushman & Wakefield’s Marketbeat Office Snapshot (Q4 2013), Portland’s office market fundamentals are expected to continue to improve, as confidence in the Portland market as job growth increases and the city re-emerges as a hub for tech-oriented businesses. As one of the tightest office markets in the country, Johnson Economics reports that Portland CBD’s vacancy and lease rates are moving in a positive direction. In the last quarter of 2013, the CED had the lowest vacancy rate in the metro area, according to Jones Lang LaSalle.

Developers have taken notice of the demand for this product type. Some of developments which are in the pipeline include:

<u>Washington High School</u>
Size: 23,040 SF ground floor retail; 50,000 SF Industrial/ Creative Office Space
Developer: PacTrust and Venerable Properties
Status: Currently under construction and actively leasing for retail and office space.

Source: Oregonian

<u>Taylor Electric Building - 240 SE Clay</u>
Size: 70,000 SF
Developer: Killian Pacific
Status: Has not commenced construction, but actively marketing for pre-leases.

Source: Killian Pacific

<u>Old PGE Building - 1510 SE Water Avenue</u>
Size: 44,000 SF
Developer: Killian Pacific
Status: Pre-leased to Viewpoint Construction Software, formerly Coaxis. It is expected to accommodate 150 to 200 additional professionals and be completed in the

Source: Killian Pacific

third quarter of 2014.

<u>Jimmy Tire Building - 1100 SE Division</u>
Size: 10,000 SF
Developer: Intrinsic Ventures
Status: Construction near completion

Source: Costar

<u>The Fair-Haired Dumbbell – 333 E. Burnside St.</u>
Size: 30,000 SF Creative Office; 5,500 SF Ground floor retail
Developer: Guerrilla Development Co.
Status: PDC has agreed to sell the 13,566 SF parcel at the price of $1.6m in April, 2014.


Source: Daily Journal of Commerce

With an increase in employment in the CED and with a shortage of residential stock in the district itself, multifamily developers have descended in particular on the Burnside Bridgehead property. The PDC owns much of the property and initiated the Burnside Bridgehead Framework Plan (Framework Plan), which was adopted by the PDC Board on May 26, 2010. "The Framework Plan established a strategic design approach for the redevelopment of the Burnside Bridgehead Property involving development in smaller increments and by more than a single developer. As the first step toward implementing the Framework Plan, PDC issued a Request for Interest (RFI) on July 15,

Source: Portland Monthly Magazine

2010 seeking offers from qualified development teams to purchase and redevelop portions of the Burnside Bridgehead Property." [PDC]

In response to the RFI, the following mixed used development proposals among many others, along with the aforementioned Fair-Haired Dumbell project were submitted for PDC consideration. Residential mixed-use development will inevitably be built along the MLK and Grand Ave corridors where the Exd zoning permits.

Block 67
Size: 276 apartments; 21,000 SF office/ retail
Developer: Key Development
Status: Has yet to be approved. Size may be reduced.

Source: Skylab

419 E. Burnside
Size: 121 apartments; 2,515 SF live/work; 4,480 SF retail
Developer: Jack Paauw
Status: Not under construction yet.

Source: Portland Monthly Magazine

<u>Block 75</u>
Size: 60 apartments; 29,630 SF work; 7,955 SF retail
Developer: Eric Cress
Status: Finalizing Design

Source: Works Partnership

The City of Portland hopes that each development project not only shapes the CED landscape but connect with the changing beat of the district. The City has a unique opportunity to understand the CED from an objective perspective, as one of the four recipient of the ULI Daniel Rose Fellowship for 2014. This yearlong Daniel Rose Fellowship program provides the city an intensive engagement with ULI professionals who can provide technical assistance for the challenges that the city faces. The CED is the focus of the Portland study.

Preliminary recommendations are for the city to keep land values affordable and to keep development pressures, particularly residential and retail, at bay. The ULI professionals also acknowledge that the CED has an attractive grit that can bring in business.

Even outside observers can easily sense that the CED has something special. The mounting synergy of creative food, beverage, apparel and intellectual manufacturing, among many others, will sustain the CED's connection with its rich industrial history as the district launches into a promising future. ■

THE STATE OF THE ECONOMY

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The United States economy barely grew in the first quarter of 2014 due to declining exports to the weakening economies in Europe and Asia as well as inclement weather in the northern United States. The Commerce Department reports that the gross domestic product grew at an annual rate of 0.1 percent for the first quarter.

The Economist Intelligence Unit forecasts GDP growth for 2014 to be 3 percent, up from 1.9 percent of 2013. Steady growth is to be expected, but no boom is anticipated. Overall, the housing market has softened, as market interest rates are higher than they were a year ago and will continue to rise.

Economists remain hopeful for 2014 as the unemployment rate remains steady and job growth continues. U.S. companies have added enough jobs to replace the 8.8 million jobs that were lost due to the financial crisis.

In early April, the Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency approved a new leverage ratio rule, requiring an increase in capital of the largest U.S. banks. This rule necessitates the eight major US banks to have as much as $68 billion in capital to allow companies to "weather losses during periods of market stress," according to the Wall Street Journal. Lenders that are affected include JPMorgan Chase, Citibank, Bank of America,

■ Angela Guo is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Wells Fargo, Goldman Sachs, and Morgan Stanley. The rule will take effect on Jan 1, 2018.

While banking regulations are becoming more stringent, mortgage lenders have begun to ease their lending standards. The effects of the recent global crisis are not completely forgotten as standards are still more restrictive than historically observed, but lenders have begun to allow lower credit scores and down-payment requirements to chase new business. Economists remain optimistic that lenders will not return to the destructive underwriting standards that contributed to the Great Recession.

THE WORLD ECONOMY

The International Monetary Fund (IMF)'s April report states that although global recovery remains fragile, overall global activity has strengthened and is anticipated to improve. The world economy is estimated to grow by 3.6% in 2014 and 3.9% in 2015.

Most of global economic growth comes from emerging markets, which are facing continued downside risks due to lower-than-expected growth in advanced economies and a variety of geopolitical concerns. Because this volatility in emerging markets is happening at the same time as increasing interest rates in advanced economies, investors will be more inclined to draw capital out of emerging economies to advanced countries in search of higher returns.

In China, the IMF reports that growth will decelerate from 7.5 percent in 2014 to 7.3 percent in 2015. (Figure 2) Recently, the IMF has urged the Chinese central bank to liberalize interest rates and improve banking regulation, among other measures to relieve some of the country's debt burden and reduce financial risk.

Since late February 2014, the Russian economy has suffered due to the conflict between Ukraine and Russia. A crisis centered on the secession of the Crimean Peninsula has instigated the U.S. and the European Union to initiate sanctions against a select group of Russian citizens, a prelude to possible sweeping economic sanctions that may be implemented should Russia continue its current secession agenda. According to the Wall Street Journal, central bank figures show $51 billion in capital left Russia in the first quarter of 2014, which is the largest outflow of capital since the global recession in 2008. Furthermore, Russia's stock market saw its largest absolute drop since the global financial crisis, as well. Russia's growth projection is estimated to be zero with the ruble falling more than 10% to the dollar.

Figure 2: IMF World Growth Projections, April 2014

			Projections		Difference from Jan '14 WEO Projections	
	2012	2013	2014	2015	2014	2015
World Output	3.2	3.0	3.6	3.9	-0.1	-0.1
Advanced Economies	1.4	1.3	2.2	2.3	0.0	0.0
United States	2.8	1.9	2.8	3.0	0.0	0.0
Euro Area	-0.7	-0.5	1.2	1.5	0.1	0.1
Germany	0.9	0.5	1.7	1.6	0.2	0.1
France	0.0	0.3	1.0	1.5	0.1	0.0
Italy	-2.4	-1.9	0.6	1.1	0.0	0.1
Spain	-1.6	-1.2	0.9	1.0	0.3	0.2
Japan	1.4	1.5	1.4	1.0	-0.3	0.0
United Kingdom	0.3	1.8	2.9	2.5	0.4	0.3
Canada	1.7	2.0	2.3	2.4	0.1	0.0
Other Advanced Economies	1.9	2.3	3.0	3.2	0.1	0.0
Emerging and Developing Economies	5.0	4.7	4.9	5.3	-0.2	-0.1
Central and Eastern Europe	1.4	2.8	2.8	2.9	-0.5	-0.2
Commonwealth of Independent States	3.4	2.1	2.3	3.1	-0.3	0.1
Russia	3.4	1.3	1.3	2.3	-0.6	-0.2
Excluding Russia	3.3	3.9	5.3	5.7	1.2	1.4
Developing Asia	6.7	6.5	6.7	6.8	0.0	0.0
China	7.7	7.7	7.5	7.3	0.0	0.0
India	4.7	4.4	5.4	6.4	0.0	0.0
ASEAN-5*	6.2	5.2	4.9	5.4	-0.2	-0.2
Latin America and the Caribbean	3.1	2.7	2.5	3.0	-0.4	-0.3
Brazil	1.0	2.3	1.8	2.7	-0.5	-0.2
Mexico	3.9	1.1	3.0	3.5	0.0	0.0
Middle East, North Africa, Afghanistan, and Pakistan	4.1	2.2	3.2	4.5	-0.1	-0.5
Sub-Saharan Africa	4.9	4.9	5.4	5.5	-0.7	-0.3
South Africa	2.5	1.9	2.3	2.7	-0.5	-0.6

Source: International Monetary Fund, World Economic Outlook, January 2014
*Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

THE UNITED STATES ECONOMY

The United States Bureau of Economic Analysis (BEA) reports positive but slow economic growth for the past five years. In 2012, the US economy grew by 2.8 percent and in 2013, GDP grew from 1.9 percent. And as previously discussed, the US economy was at a near standstill, growing by only 0.1 percent GDP growth in the first quarter of 2014 due to poor weather and international geopolitical instability. The 0.1 percent growth rate matches the second-weakest quarterly reading of the nearly five-year-old economic recovery. However, as shown in the table below, economic forecasters are projecting a revival of growth as 2014 progresses.

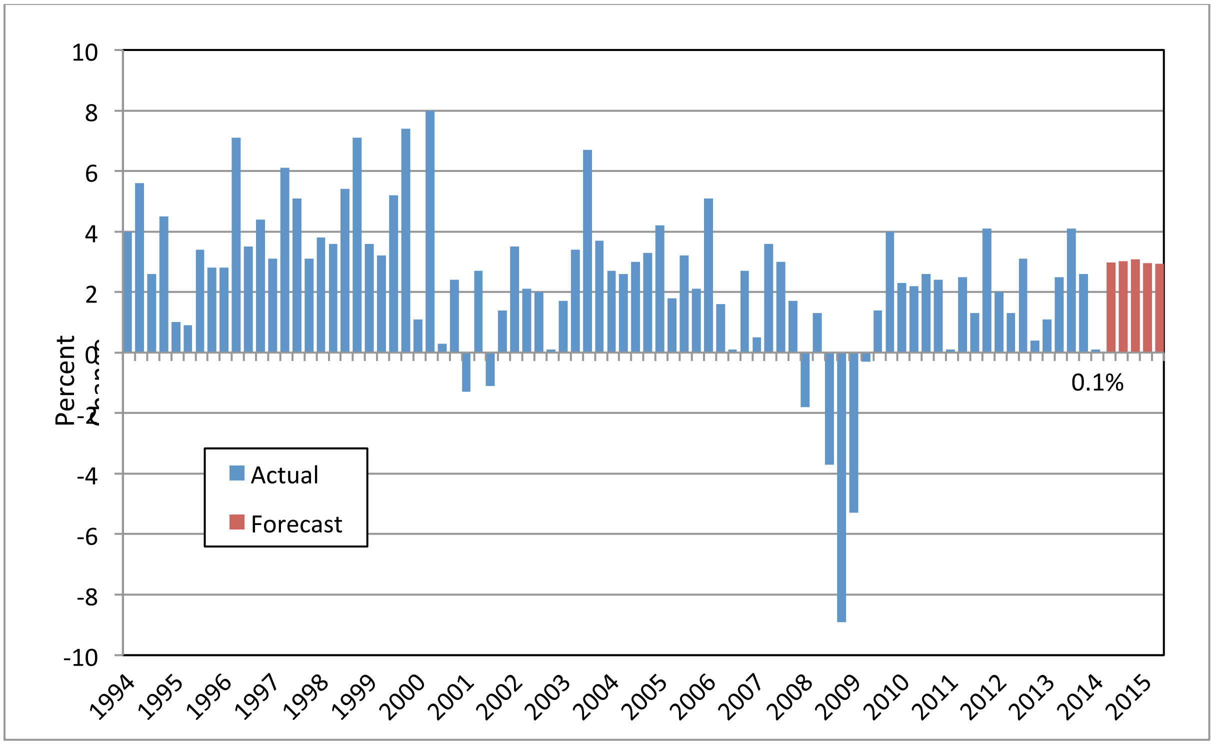
Figure 3: United States Annual Economic Growth, Actual and Forecasts, 2013–2018

%	2013[a]	2014[b]	2015[b]	2016[b]	2017[b]	2018[b]
GDP	1.9	3.0	2.6	2.5	2.4	2.6
Private consumption	2.0	2.6	2.4	2.3	2.3	2.0
Government consumption	-2.2	0.0	0.8	0.7	0.7	0.8
Gross fixed investment	4.5	8.0	7.2	6.5	6.4	6.8
Exports of goods & services	2.7	2.7	3.0	3.4	3.2	3.8
Imports of goods & services	1.4	2.3	3.9	4.3	5.1	4.0
Domestic demand	1.7	2.9	2.8	2.7	2.7	2.7
Agriculture	2.1	2.0	2.5	2.9	2.9	2.9
Industry	2.5	2.8	3.0	2.5	2.4	2.4
Services	1.7	3.0	2.5	2.5	2.4	2.7

[a] Actual; [b] Forecasted
Source: Economist Intelligence Unit, April 2014

In particular, forecasters are projecting consumer spending to pick up. The Economist Intelligence Unit forecasts that real GDP will growth by an average of 2.6 percent over 2014-18. Although positive throughout the forecast period, the growth forecast is still below the period from 1992-2000, when real GDP growth averaged 3.9 percent.

Figure 4: Gross Domestic Product, Annualized, 1994–2015



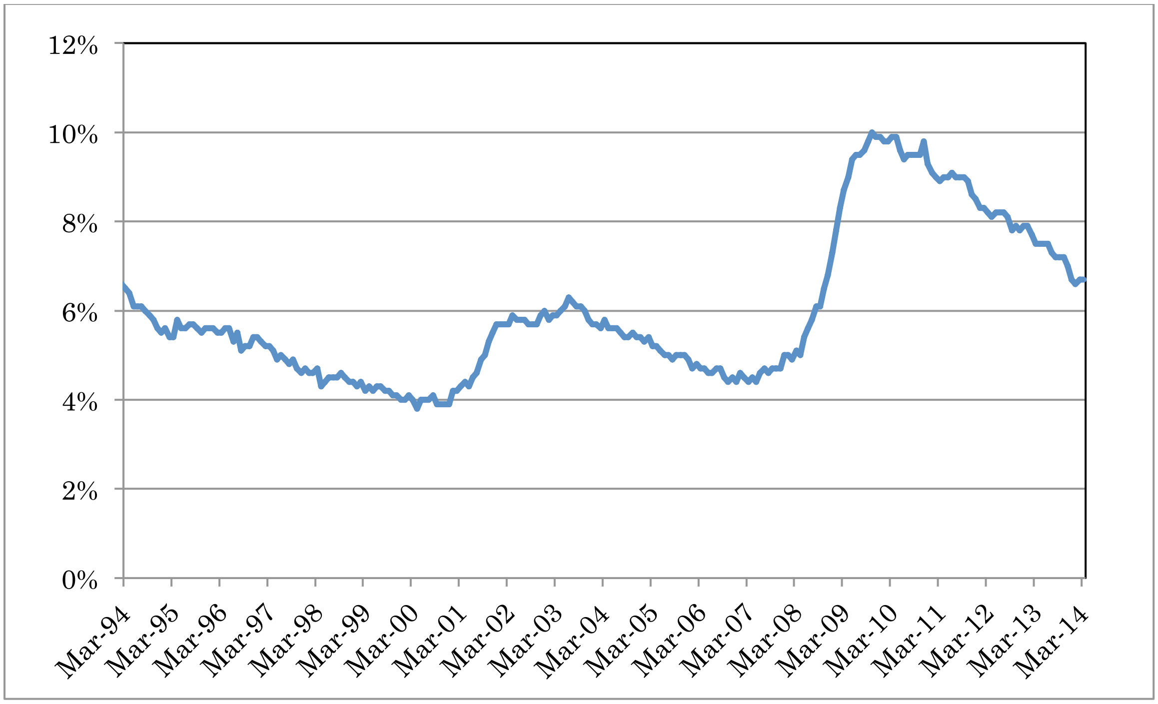
Source: Bureau of Economic Analysis and Wall Street Journal Economic Forecasting Survey

Continuing the positive signs of the U.S. GDP, the U.S. Bureau of Labor Statistics (BLS) stated that March 2014 marked a full recovery 8.8 million private-sector jobs lost in the recession.

Total nonfarm payroll employment increased by 192,000 in March 2014, higher than the 2013 job growth average of 182,000 per month. The industry sectors that reported the most growth in March were:

- Professional and Business Services (+57,000); employment growth in this industry averaged 21,000 per month in 2014
- Education and Health Services (+34,000);
- Leisure and Hospitality (+29,000); job gains in food services averaged 27,000 per month for 2014;
- Retail Trade (+21,000); retail trade added an average of 7,000 jobs per month in 2014, and,
- Construction (+19,000); with growth of over 115,000 jobs in the past 6 months and more than half of the growth in residential construction.

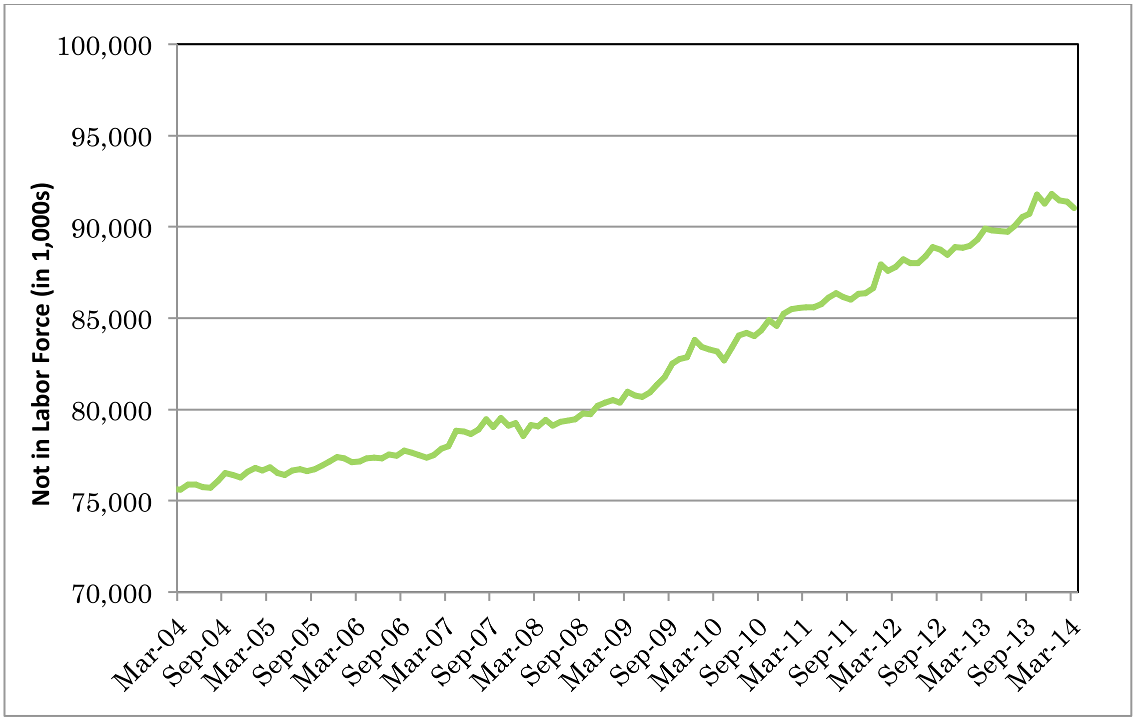
Figure 5: Unemployment Rate, United States



Source: Bureau of Labor Statistics

The U.S. unemployment figures have lingered at about 6.7% since December 2013 through the first quarter of 2014, according to the Bureau of Labor Statistics. The unemployment rate remains elevated relative to the low rates observed in 2008. As seen in Figure 5, U.S. unemployment hovered between 4 percent and 6 percent from the mid-1990s until the recession that began in late 2008 when it spiked to 10 percent in October of 2009.

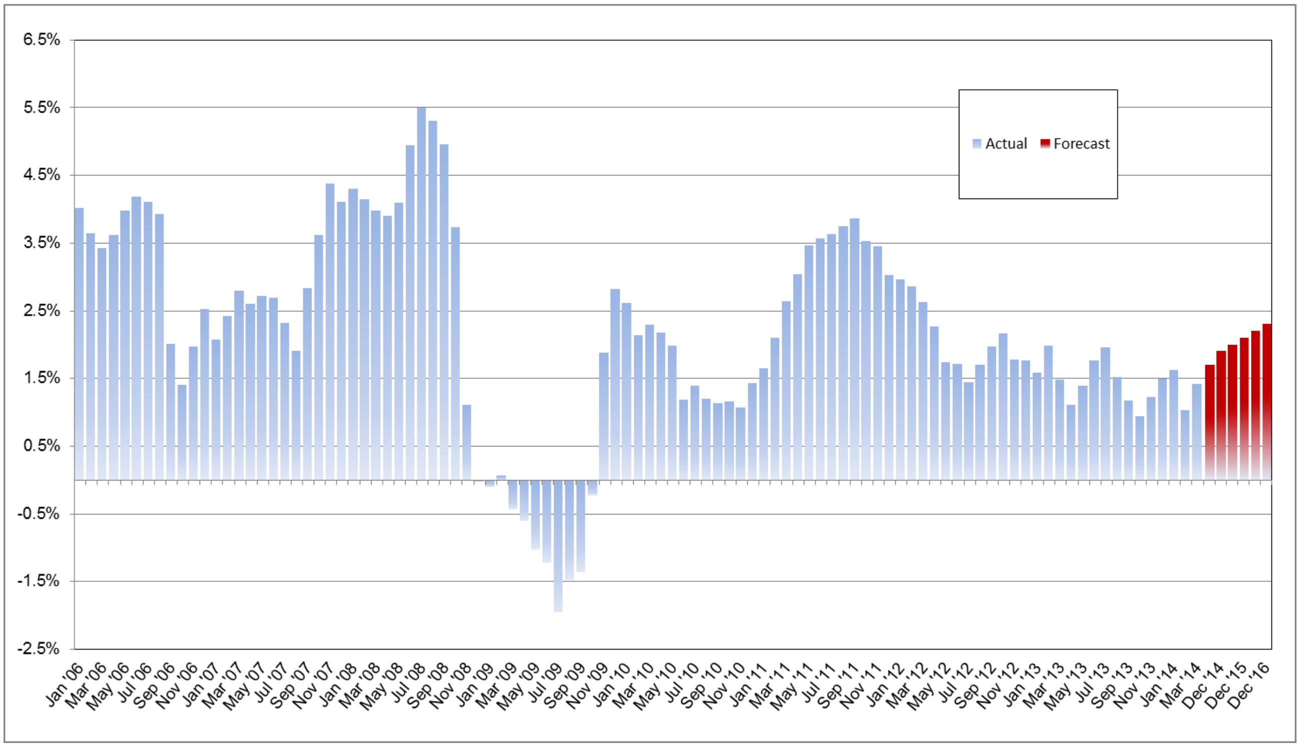
Figure 6: Not in Labor Force, United States



Source: Bureau of Labor Statistics

Two-thirds of the jobs lost during the recession were middle-income jobs, about half of those created since have been low-wage sectors like tourism, hospitality and retail sales. Furthermore, while the decline in unemployment has been viewed as a sign of an improving economy, a portion of the decline in unemployment has been attributed to a large number of individuals leaving the work force. (Figure 6) In recent months, there has been debate whether this decline is labor participation comes from workers becoming discouraged by their job prospects and workers making feeling less pressure to remain employed due to the expansion of health care under the Affordable Health Care Act.

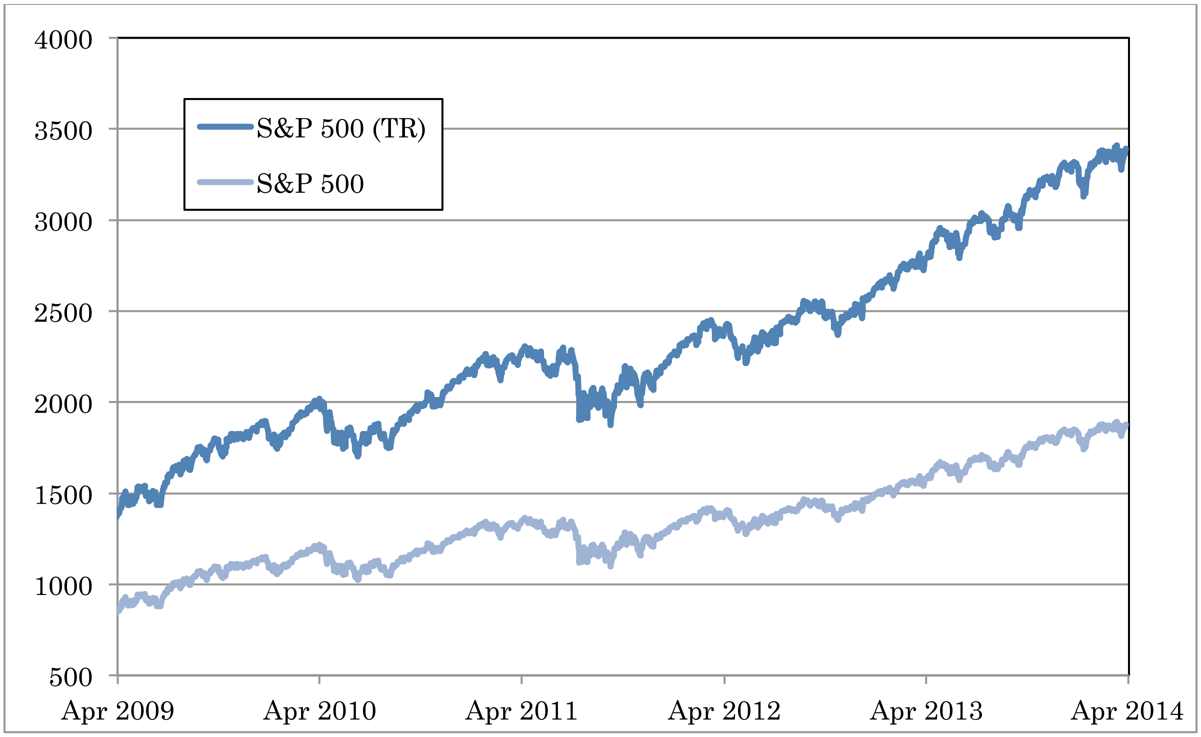
Figure 7: United States Inflation Trend, Annual Change in Consumer Price Index



Source: United States Bureau of Labor Statistics and Wall Street Journal Economic Forecasting Survey

There are very few indicators suggesting higher inflation in the near future. The BLS reports that the Consumer Price Index for All Urban Consumers increased 0.2 percent in March 2014 on a seasonally adjusted basis. The last 12 months saw inflation of 1.42 percent (Figure 7). The Wall Street Journal forecasts that inflation rates will stay below 2.5 percent through 2016.

Figure 8: Standard & Poor's 500 stock index, 5-years

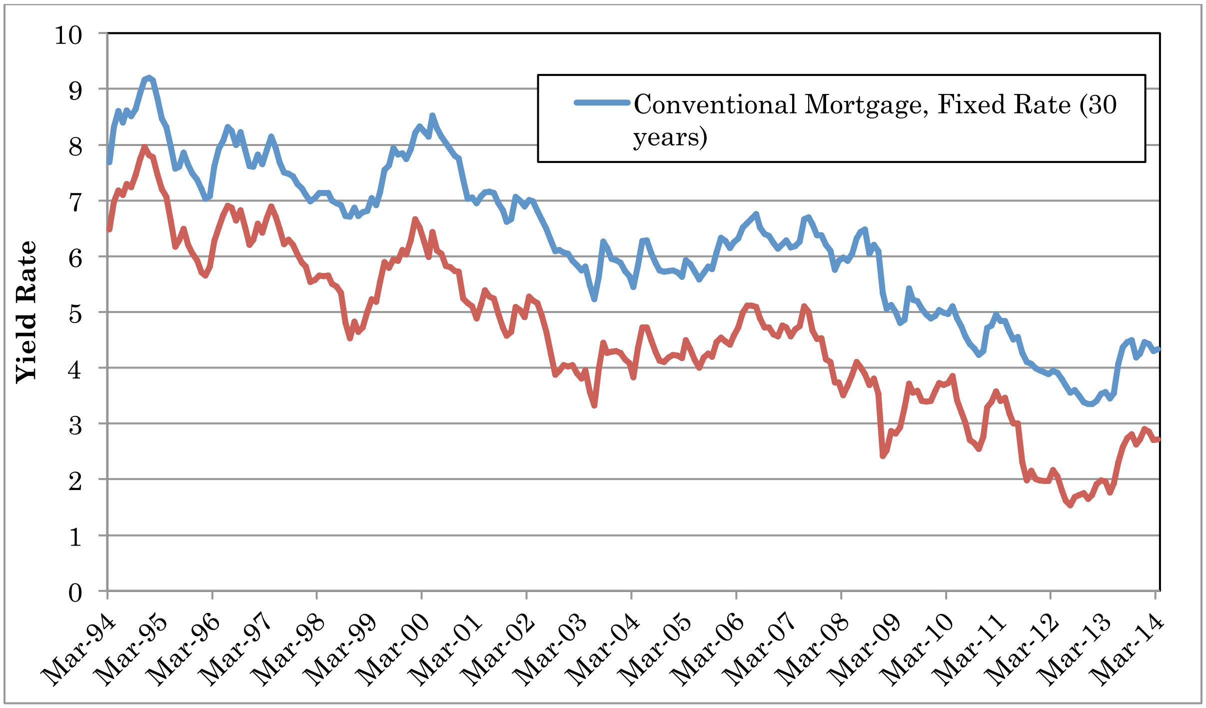


Source: S & P Dow Jones Indices, McGraw Hill Financial

US Stock markets finished the first quarter of 2014 inching toward at record highs. Uncertainties related to the Ukrainian crisis has contributed to some pressure in prices, but overall stock prices remain within 1.5 percent of where they started in 2014. (Figure 7).

For the past seven years Federal Reserve has been buying Treasury bonds and mortgage bonds in an effort known as "quantitative easing" to drive down long-term interest rates and spur spending, hiring and investment. However, former Federal Reserve Chairman Ben Bernanke announced that the Federal Reserve would "taper" the purchase of securities should certain economic targets be met. Under its newly appointed chair, Janet Yellen , the Federal Reserve has continued a policy of tapering its buying of bonds, even though economic indicators have not shown unemployment rates that are below the previously announced target of 6.5 percent. In December 2013, the Fed decided to reduce the $85 billion bond-buying program and this month will be reduced to $45 billion.

**Figure 9: 10-year U.S. Treasuries vs.
Conventional 30-year Mortgage Trends, 1994–2014**



Source: Federal Reserve Bank

The shift toward a policy of tapering has caused interest rates to rise and bond prices to fall as shown in Figure 9. 10-year Treasury yields, which influence, mortgage rates, began climbing in the second quarter of 2013. More recently, yields for the 10-year Treasury note decreased from 2.9 percent in December 2013 to 2.72 percent in March 2014. In turn, this led to a decline in mortgage rates. Conventional 30-year fixed rate mortgages fell from 4.46 percent in December 2013 to 4.34 percent in March 2014. This drop in rates is projected to be a temporary by most economists, and interest rates will begin on its upward trajectory within the next quarter.

Figure 10: Trade and U.S. Dollar, 2014

April, 2014	Trade balance		Current-Account Balance			Currency Units, per $		
	latest 12 months ($bn)		latest 12 months ($bn)		% of GDP	Apr 23rd	year ago	% change
United States	-701.8	(Feb)	-379.3	(Q4)	-2.1	-	-	
China	+233.6	(Mar)	+188.6	(Q4)	+1.7	6.24	6.18	1.0%
Australia	+22.7	(Feb)	-44.2	(Q4)	-2.9	1.08	0.97	11.3%
Japan	-96	(Feb)	+21.3	(Feb)	+0.5	102	99.4	2.6%
Canada	-5.4	(Feb)	-58.9	(Q4)	-2.8	1.10	1.03	6.8%
Sweden	+7.8	(Feb)	+34.5	(Q4)	+6.0	6.57	6.62	-0.8%
Switzerland	+27.3	(Mar)	+84.4	(Q4)	+11.3	0.88	0.94	-6.4%
Britain	-173	(Feb)	-111.7	(Q4)	-3.3	0.60	0.65	-7.7%
Euro Area	+223.4	(Feb)	+320.0	(Feb)	+2.3	0.72	0.77	-6.5%
Germany	+264.7	(Feb)	+278.5	(Feb)	+6.8	0.72	0.77	-6.5%
Belgium	+20.8	(Feb)	-8.0	(Dec)	0.8	0.72	0.77	-6.5%
France	-80.1	(Feb)	-33.0	(Feb)	-1.6	0.72	0.77	-6.5%
Netherlands	+66.1	(Feb)	+81.3	(Q4)	+9.9	0.72	0.77	-6.5%
Italy	+45.4	(Feb)	+27.1	(Feb)	+1	0.72	0.77	-6.5%
Spain	-21.2	(Feb)	+10.0	(Jan)	+1.4	0.72	0.77	-6.5%

Source: The Economist

OREGON AND THE PORTLAND AREA

Oregon's economy continues to improve in 2014. The growth in the state's economy is attributed to the improvement in the housing sector, which has added jobs. As recovery continues, the Oregon Office of Economic Analysis (OEA) expects the rate of growth of Oregon to continue on its increasing trend stating that one of Oregon's economic strengths is the fact that, "in good times and in bad, people want to live in the state and move here."

Oregon's job growth has the highest pace in eight years and with seasonally adjusted monthly job gains of 7,500 in March being the largest since November 2005 when 9,300 jobs were added.

The largest percent increase in nonfarm payroll employment (seasonally adjusted figures) since March 2013 were in the categories of Construction (+10.8%), Professional and Business Services (+4.2%) and Leisure and Hospitality (+3.7%). In terms of number of jobs, in March 2014, Construction added 5,800 jobs, Educational and Health Services added 2,200 jobs and Leisure and Hospitality added 2,100 jobs. (Figure 11)

Figure 11: Oregon job growth, nonfarm payroll employment, seasonally adjusted, thousands

				Change From		% Change From	
	Mar-14	Feb-14	Mar-13	Feb-14	Mar-13	Feb-14	Mar-13
Mining and Logging	7.8	7.8	7.6	0.0	0.2	0.0%	2.6%
Construction	80.2	74.4	72.4	5.8	7.8	7.8%	10.8%
Manufacturing	177.8	178.1	174.1	-0.3	3.7	-0.2%	2.1%
Trade, Transport and Utilities	323.2	323.7	315.9	-0.5	7.3	-0.2%	2.3%
Financial Activities	92.0	91.1	91.1	0.9	0.9	1.0%	1.0%
Professional and Business Services	215.2	214.0	206.5	1.2	8.7	0.6%	4.2%
Educational and Health Services	247.7	245.5	241.5	2.2	6.2	0.9%	2.6%
Leisure and Hospitality	181.1	179.0	174.7	2.1	6.4	1.2%	3.7%
Other Services	60.0	59.8	57.9	0.2	2.1	0.3%	3.6%
Government	291.3	291.8	288.7	-0.5	2.6	-0.2%	0.9%
Total	1,708.90	1,701.40	1,662.60	7.5	46.3	0.4%	2.8%

Source: Oregon Employment Department

The Oregon Employment Department (OED) reports that in March, Oregon's unemployment rate was 6.9 percent, virtually unchanged from the 6.8 percent in February. At the same time, the current unemployment rat is significantly below the 8.0

percent figure from March 2013. Furthermore, Oregon's labor force increased for the fifth consecutive month in March 2014, which was proceeded two years of monthly declines.

Figure 12: Portland-Vancouver-Hillsboro MSA, nonfarm payroll employment, not adjusted for seasonality

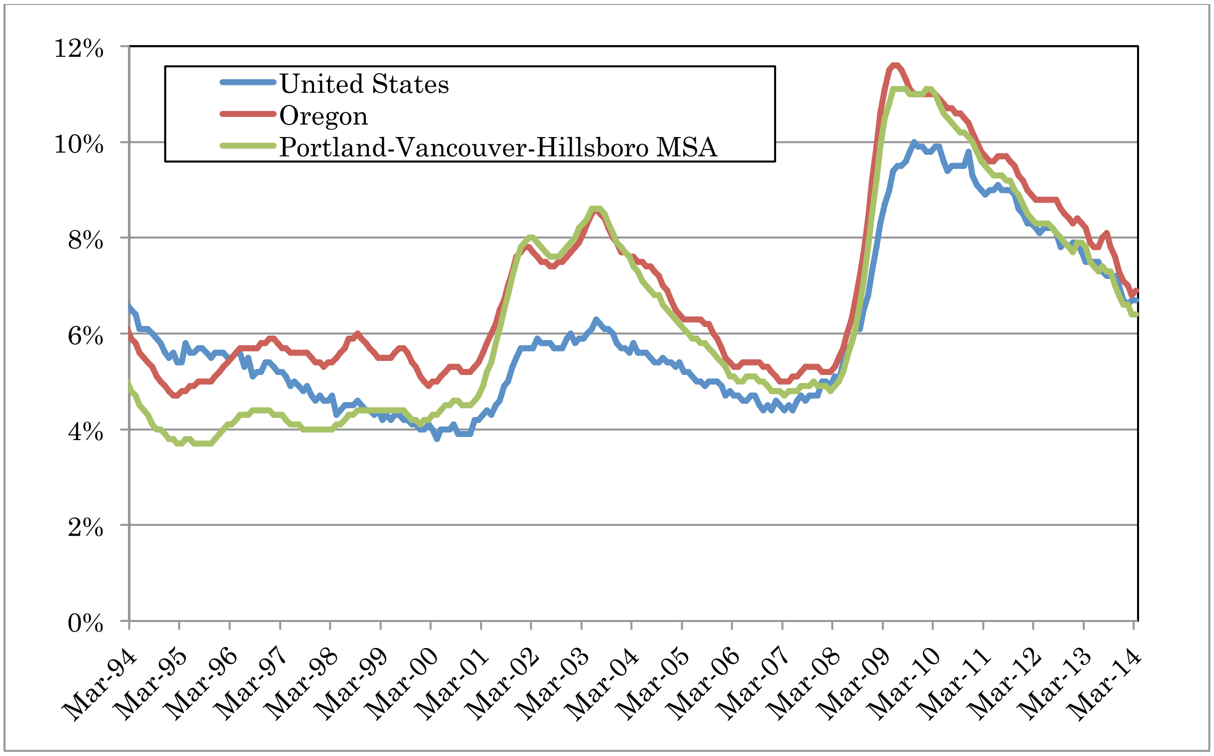
	Nov 2013		Dec 2013		Jan 2014		Feb 2014		March 2014	
Total Non-farm Employment	1,040,700		1,039,400		1,037,900		1,043,000		1,049,700	
Unemployment rate	6.8%		6.8%		6.6%		6.4%		6.4%	
Mining and Logging	900	0.0%	900	0.0%	900	0.0%	900	0.0%	900	0.0%
Construction	52,700	-2.9%	51,700	-1.9%	50,900	-1.5%	50,800	-0.2%	52,000	2.4%
Manufacturing	116,500	-0.2%	115,900	-0.5%	115,399	-0.4%	116,000	0.5%	116,600	0.5%
Trade, Transportation, & Utilities	202,900	2.2%	204,500	0.8%	195,800	-4.3%	194,900	-0.5%	194,300	-0.3%
Information	23,300	1.7%	23,600	1.3%	22,800	-3.4%	22,700	-0.4%	22,900	0.9%
Financial Activities	61,600	-1.0%	62,000	0.6%	62,200	0.3%	62,600	0.6%	63,100	0.8%
Professional & Business Services	146,100	-0.3%	145,600	-0.3%	152,500	4.7%	153,100	0.4%	154,000	0.6%
Educational & Health Services	150,500	0.3%	150,100	-0.3%	151,000	0.6%	154,200	2.1%	155,900	1.1%
Leisure and Hospitality	101,800	0.2%	101,500	-0.3%	103,600	2.1%	103,200	-0.4%	105,000	1.7%
Other Services	37,800	-0.5%	38,200	1.1%	36,900	-3.4%	37,700	2.2%	37,600	-0.3%
Government	146,600	1.5%	145,400	-0.8%	146,000	0.4%	146,900	0.6%	147,400	0.3%

Source: Oregon Employment Department

Locally, between January to March 2014, the industries with the majority of Portland-Vancouver-Hillsboro MSA employment growth were in Education & Health Services (+4,900), Professional and Business Services (+1,500), Leisure and Hospitality (+1,400) and Government (+1,400), as seen in Figure 11.

In March alone, job gains were concentrated in three of the 11 major industries: Leisure and Hospitality (+1,800), Education & Healthy Services (+1,700), and Construction (+1,200). Jones Lang LaSalle Research analyzed the BLS data to discover that while Portland had lost nearly 82,000 jobs between March 2008 and November 2009, as of February 2014, the Portland region has added back 86,200 jobs, which is 4,400 jobs above the pre-recession peak.

Figure 12: Unemployment rate, National and Local



Source: Bureau of Labor Statistics and Oregon Office of Economic Analysis

Oregon's unemployment rate typically treads above the national rate and in March 2014 was 6.9 percent, slightly above the national rate of 6.7 percent for the same month (Figure 12). Portland-Vancouver-Hillsboro MSA has observed persistent growth in employment in recent year and appears poised to fall below the national average for the first time in 15 years. ■

RESIDENTIAL MARKET ANALYSIS

Scott Holden

RMLS Student Fellow
Master of Real Estate Development Graduate Student

Existing U.S. home sales were flat in March, while the growth in home prices moderated, according to the National Association of Realtors. Sales gains in the Northeast and Midwest were offset by declines in the West and South. Sales of existing homes slipped to a seasonally adjusted annual rate of 4.59 million in March. Sales for 2013 were 5.09 million, which was 9.1 percent higher than 2012.

Lawrence Yun, NAR chief economist, said that current sales activity is underperforming by historical standards. "There really should be stronger levels of home sales given our population growth," he said. "In contrast, price growth is rising faster than historical norms because of inventory shortages."

Freddie Mac has cut its forecast for home sales in 2014 to 5.5 million from a prior estimate of 5.6 million. "Tight inventory may pose a significant challenge for home buyers in many markets across the country, which may result in higher home prices and sales being lower than expected," said Frank Nothaft, Freddie's chief economist.

■ Scott Holden is a Senior Relationship Manager at First Republic Bank. He is currently working towards the Master of Real Estate Development degree through a joint program of the School of Business Administration and the School of Urban Studies and Planning where he is an RMLS Student Fellow. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Nationally housing inventory rose to 1.99 million existing homes available for sale, representing a 5.2 month supply at current pace.

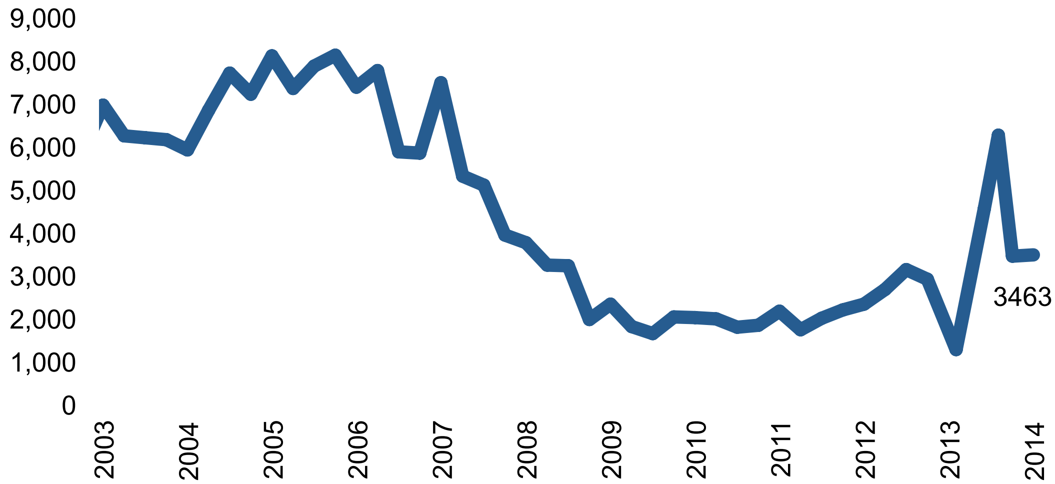
All regions showed a decline in year over year annualized sales and increases in year over year prices. Slightly higher interests rates, tighter underwriting guidelines, and reduced supply are all factors contributing to slower sales.

2014 Annualized Home Sales By Region

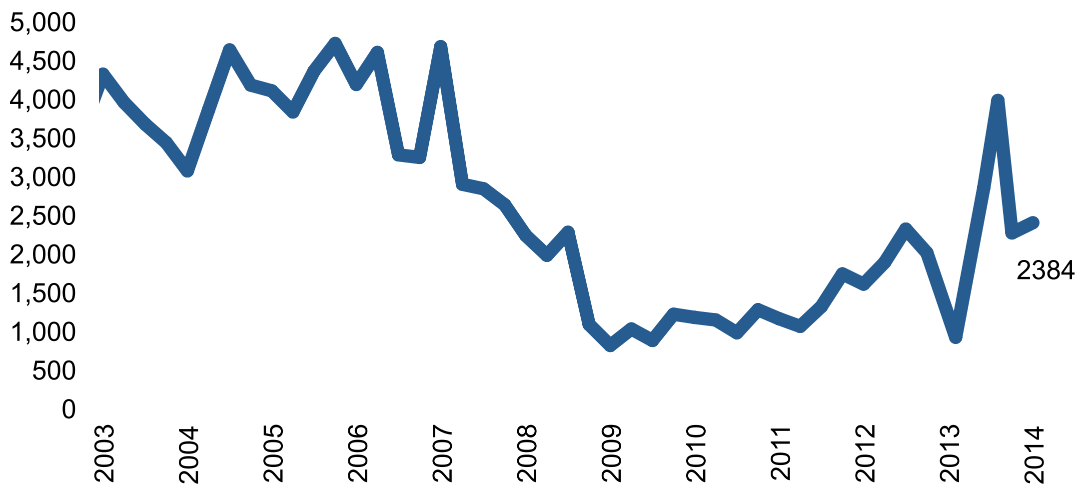
	Home sales annualized	**YOY change**	**Median Price**	**YOY Change**
Northeast	600,000	-4.8%	$244,700	3.2%
Midwest	1,040,000	-10.3%	$149,600	5.9%
South	1,920,000	-3.0%	$173,000	6.7%
West	1,030,000	-13.4%	$289,300	12.6%

While single family permits were flat from the fourth quarter of 2013 to the first quarter of 2014, they are up significantly compared to the first quarter of 2013. The Portland Metro area issued 2384 permits in the first quarter 2014 compared to 910 in the first quarter of 2013. Compared to the first quarter of 2013 Bend was up 157%, Eugene was up 325% from 80 permits to 260, Medford was up 280% and Oregon as a whole was up 272% from 1,260 to 3,463 permits issued.

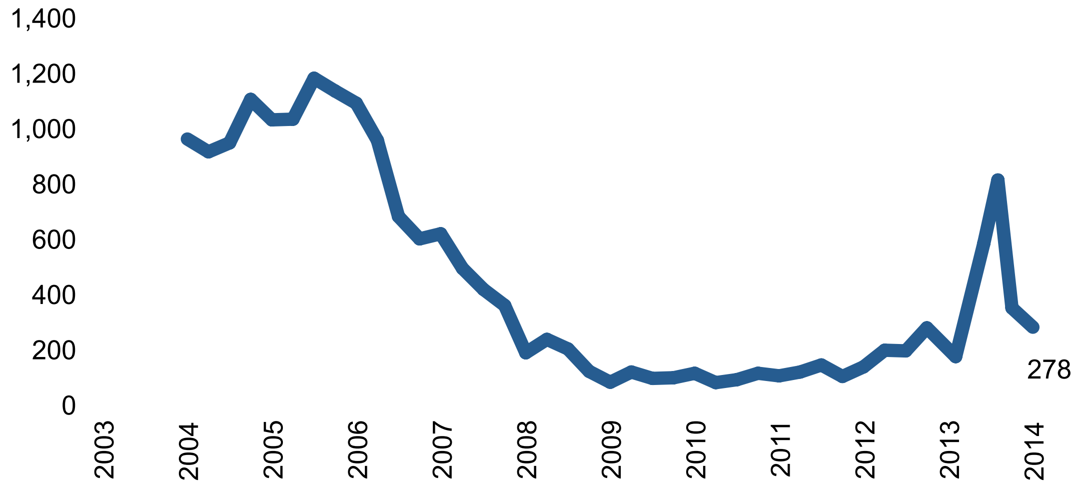
Building permits for new private housing
Oregon, statewide



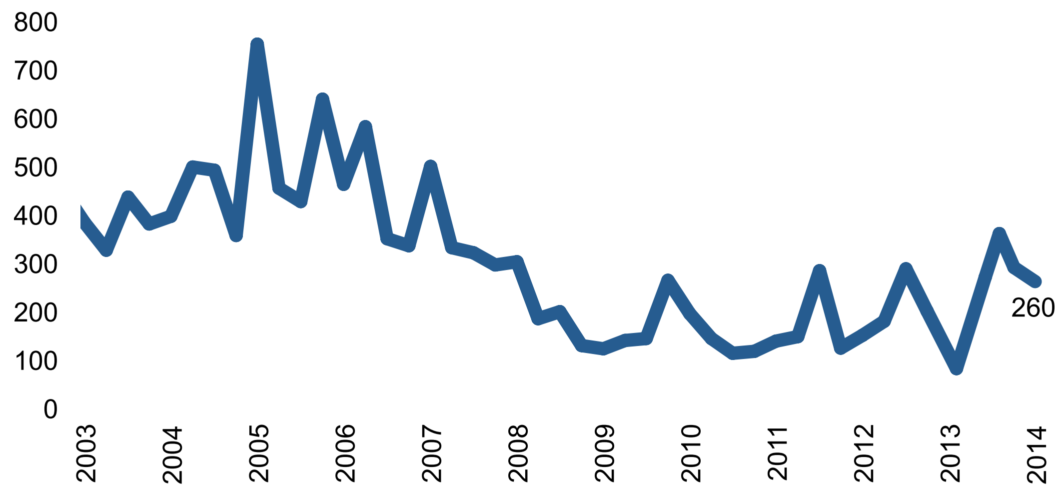
Building permits for new private housing
Portland-Vancouver-Beaverton MSA

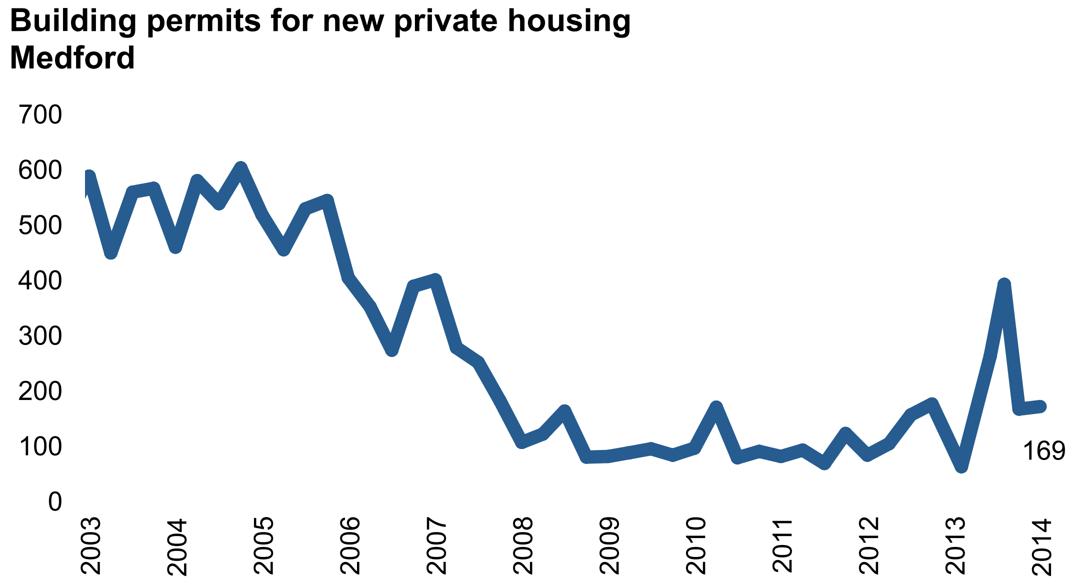


Building permits for new private housing
Bend



Building permits for new private housing
Eugene-Springfield





PORTLAND

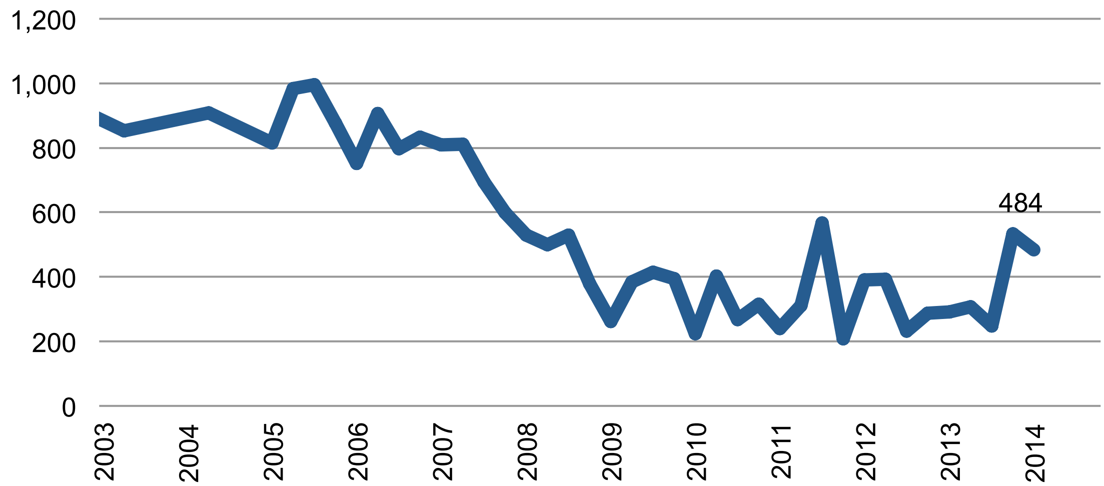
Buyers closed on 4,127 existing homes in the first quarter of 2014. This is a decrease of 12.5% from the fourth quarter of 2013 but an increase of 2.5% over the first quarter of 2013. The median price dropped to $265,000 from $270,000 the previous quarter.

Sellers are obtaining approximately 98% of their asking price. This percentage has been holding steady since the 3rd quarter of 2011. Average days on market were 69 for the quarter which is up from 60 the previous quarter.

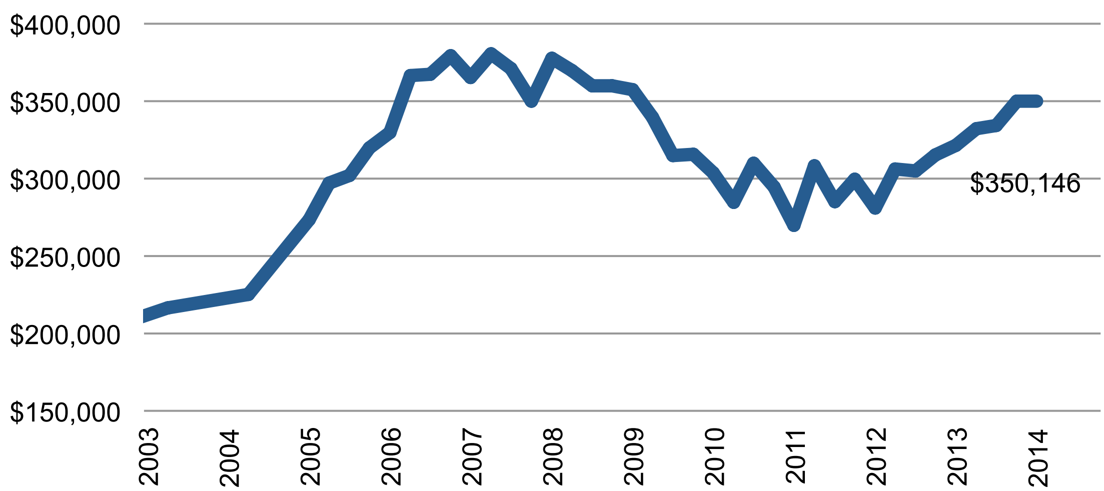
There were 484 new units sold, at a median price of $350,000. That is a 9% decrease in units from the previous quarter. The median price was unchanged.

The Realtor Multiple Listing Service reports that inventory is still restricted and the Portland metro market currently has a 3.1 month inventory which is the lowest since August of last year.

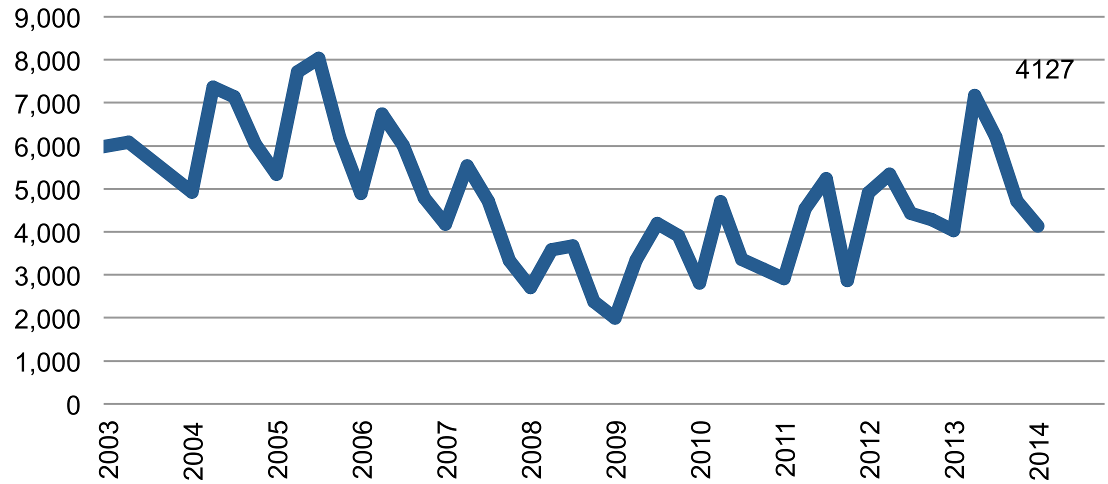
Number of transactions
Portland metro, new detached homes



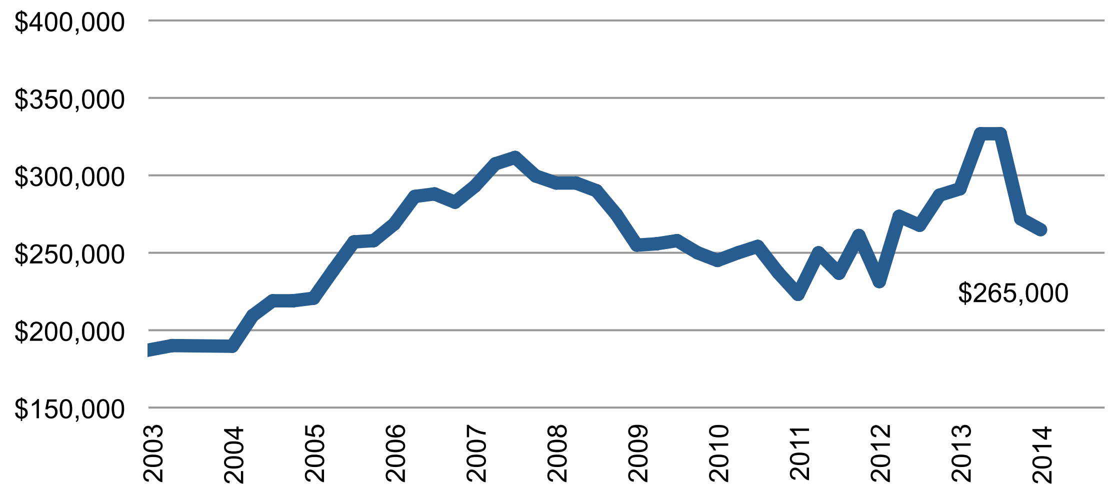
Median sales price
Portland metro, new homes



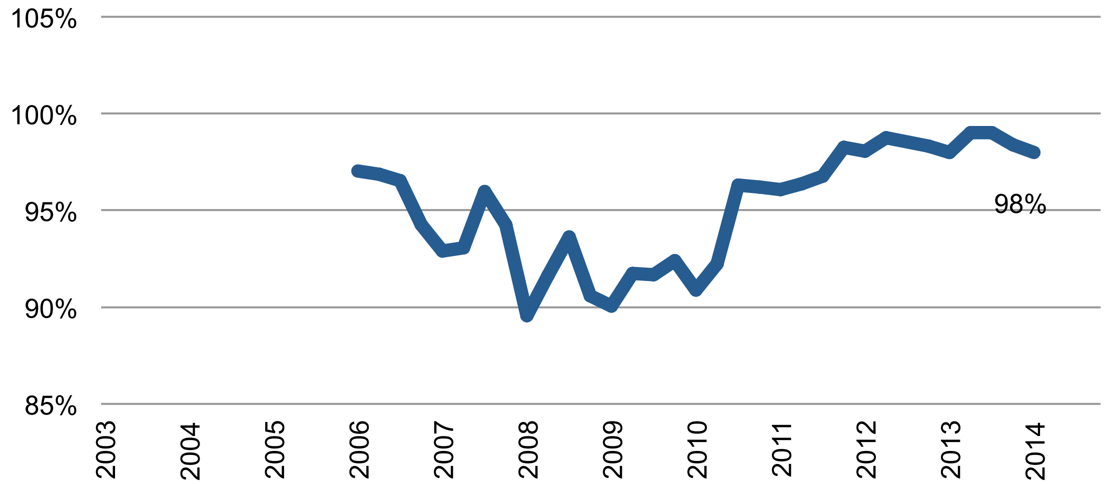
Number of transactions
Portland metro, existing homes



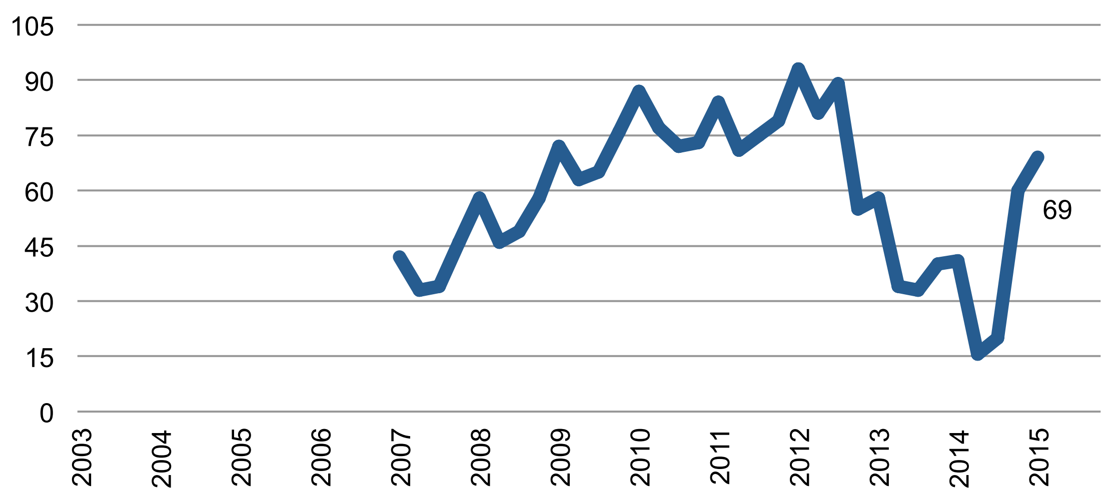
Median sales price
Portland metro, existing homes



Ratio of sales price to list price
Portland metro, existing homes



Days on market
Portland metro, existing homes

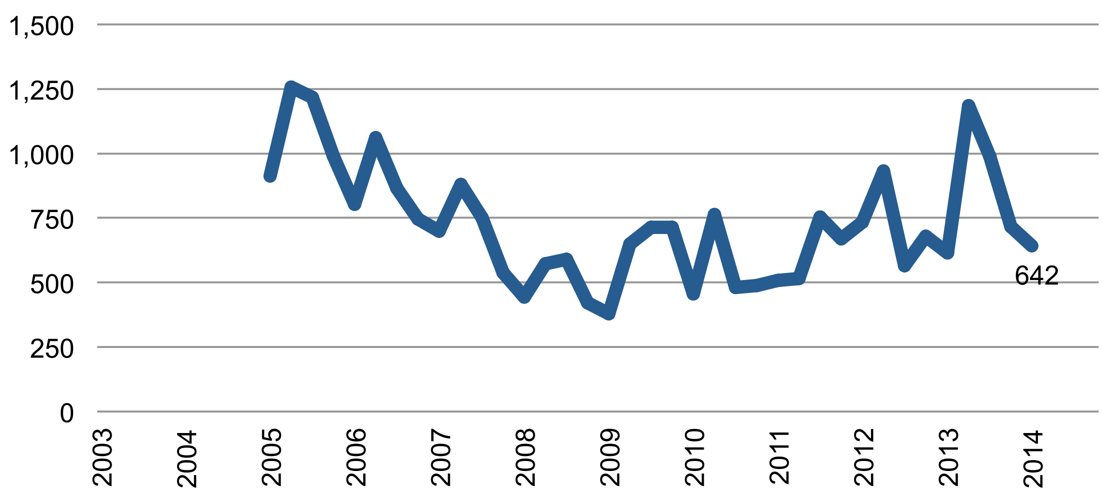


VANCOUVER/CLARK COUNTY

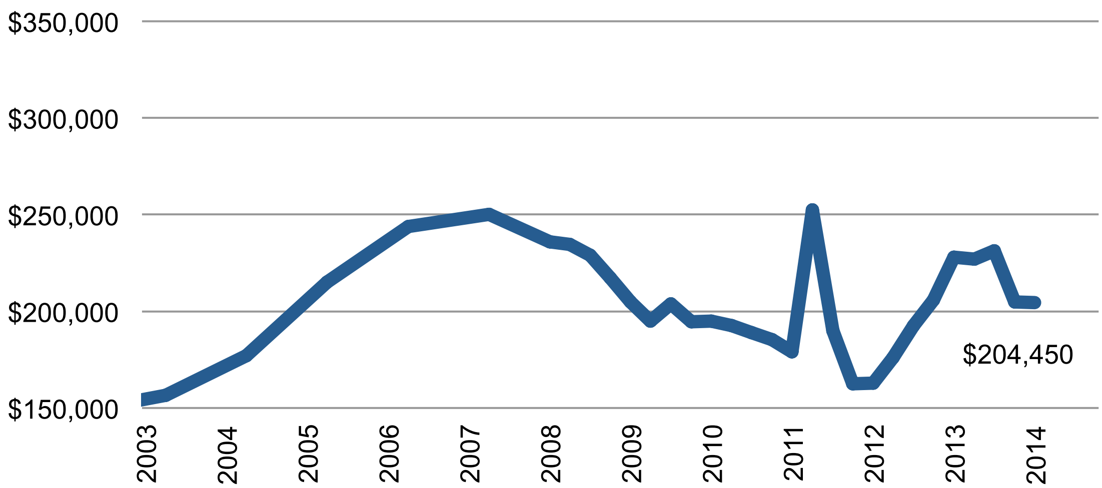
Vancouver's median house price dropped slightly from $205,000 in the fourth quarter of 2013 to $204,450 in the first quarter of 2014. This drop was accompanied by a larger drop of 10.4% in overall sales of existing homes from 717 to 642 respectively. Average days on market jumped from 66 to 89 days.

Clark County excluding Vancouver faired similarly. While the median house price climbed from $246,950 the previous quarter to $250,000 in the first quarter of 2014, the number of overall sales was down. Sales fell from 530 in the fourth quarter to 452 in the quarter a 15% decline. Days on market jumped from 75 to 94.

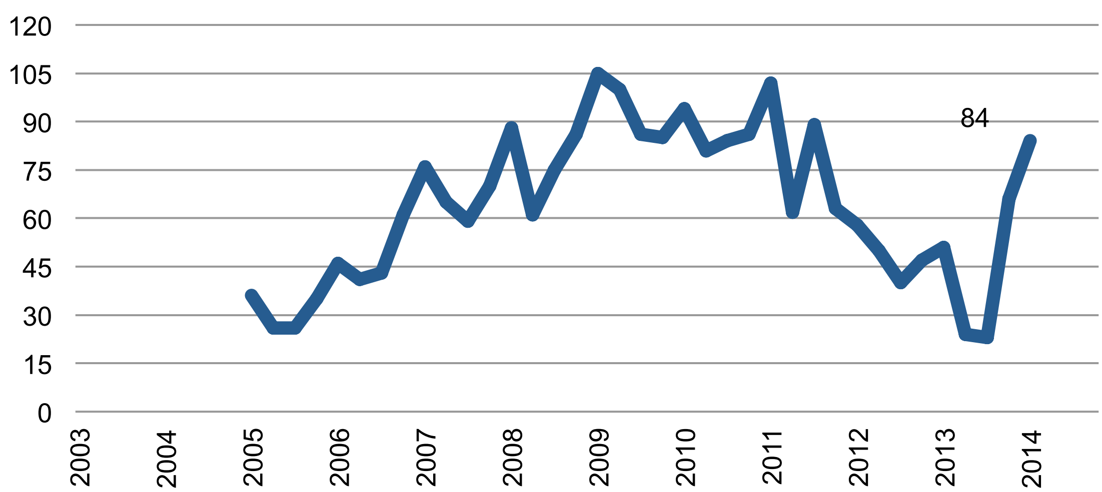
Number of transactions
Vancouver, existing homes



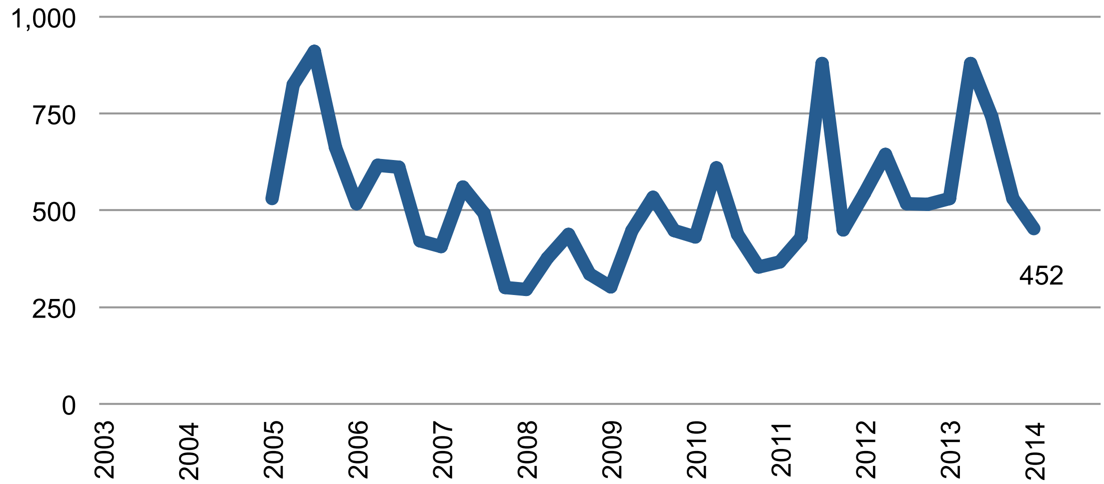
Median sales price
Vancouver, existing homes



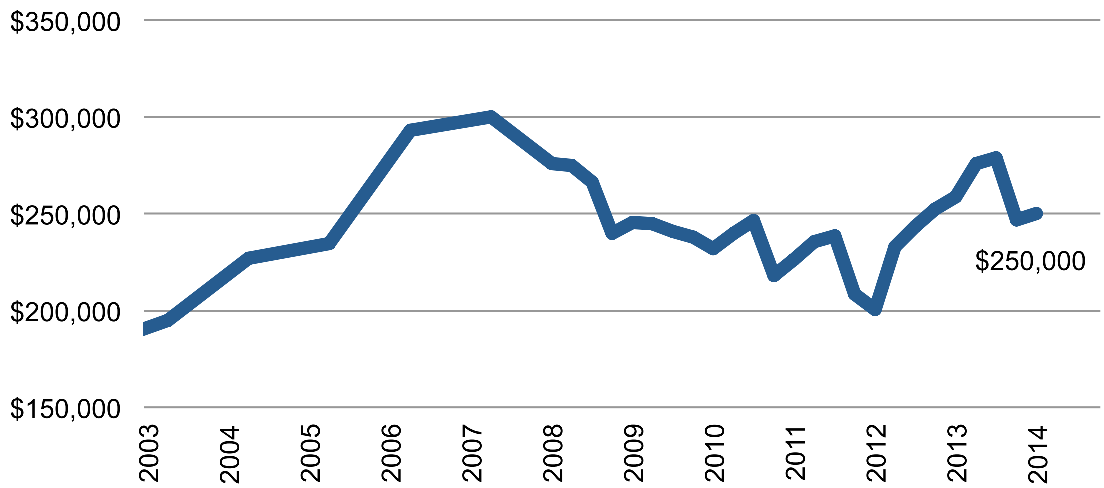
Days on market
Vancouver, existing homes



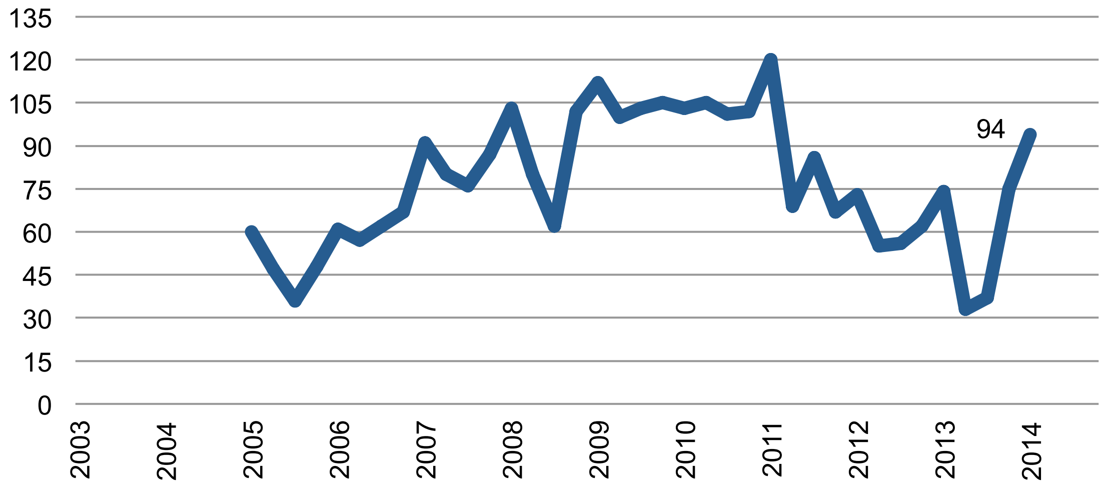
Number of transactions
Clark County, excluding Vancouver, existing homes



Median sales price
Clark County, excluding Vancouver, existing homes



Days on market
Clark County, excluding Vancouver, existing homes

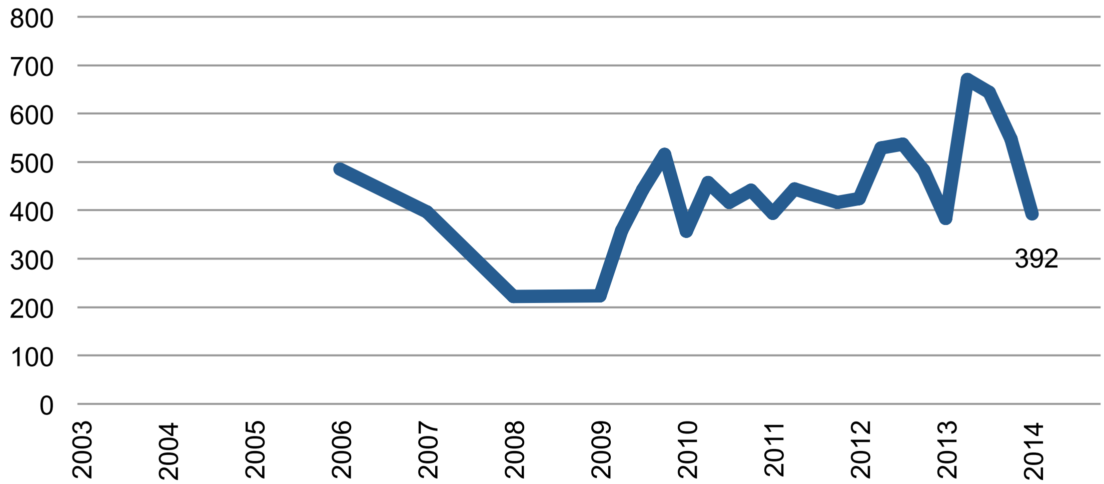


CENTRAL OREGON

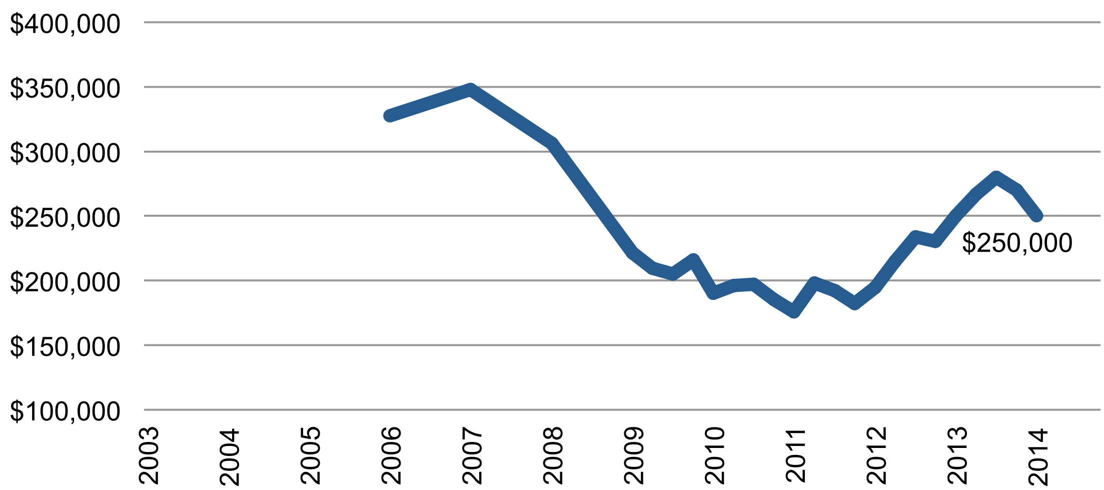
Existing home sales less than 1 acre in Bend were up slightly over the first quarter of 2013 from 384 to 392 in the first quarter of 2014 and the median house price stayed the same at $250,000. Average days on the market dropped year over year from 137 to 126.

Redmond saw an increase in sales of 13% for existing homes less than 1 acre. Sales in the first quarter of 2014 were 128 compared to sales in the first quarter of 2013 of 113. For the same period the median house price rose 11% to $179,945 from $162,000. Average days on the market held steady at 133.

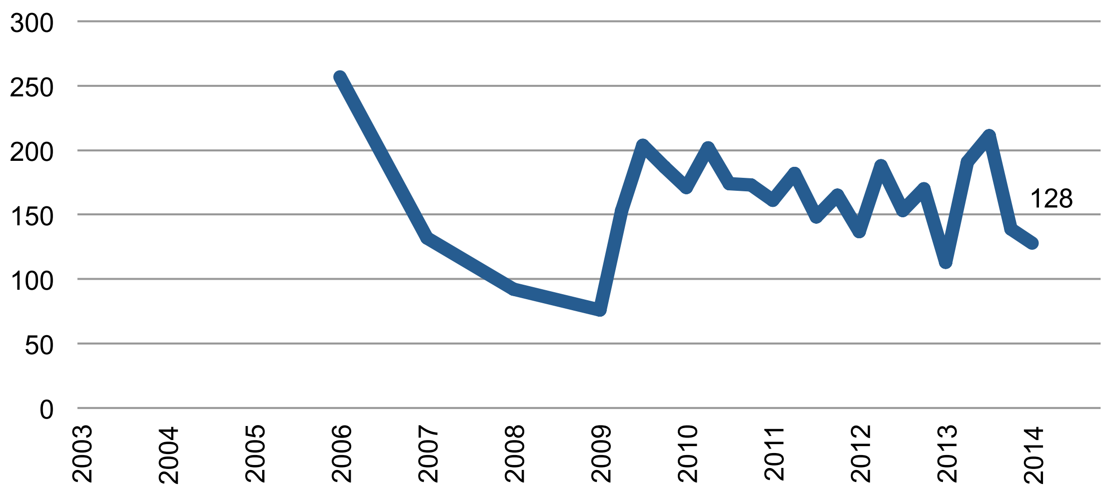
Number of transactions
Bend, under 1 acre



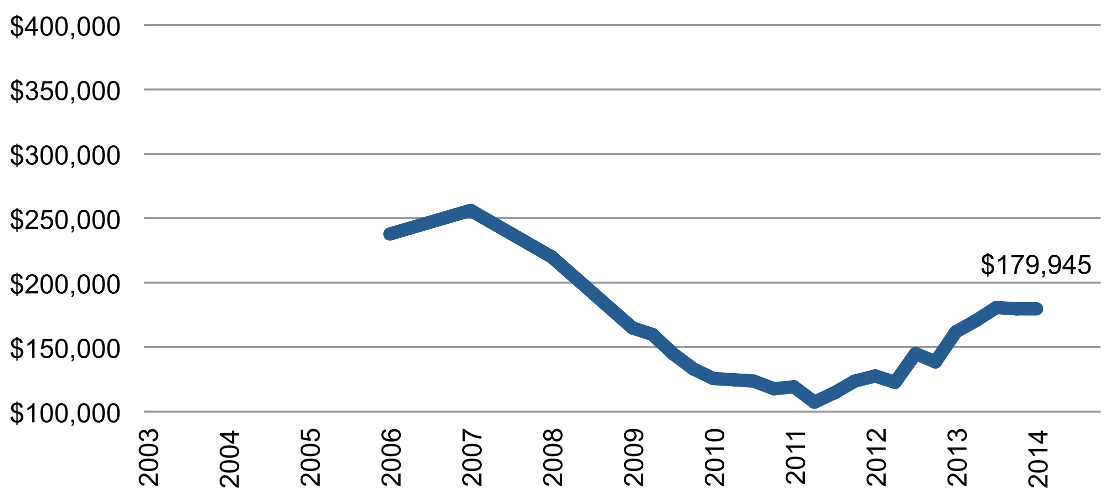
Median sales price
Bend, under 1 acre



Number of transactions
Redmond, under 1 acre



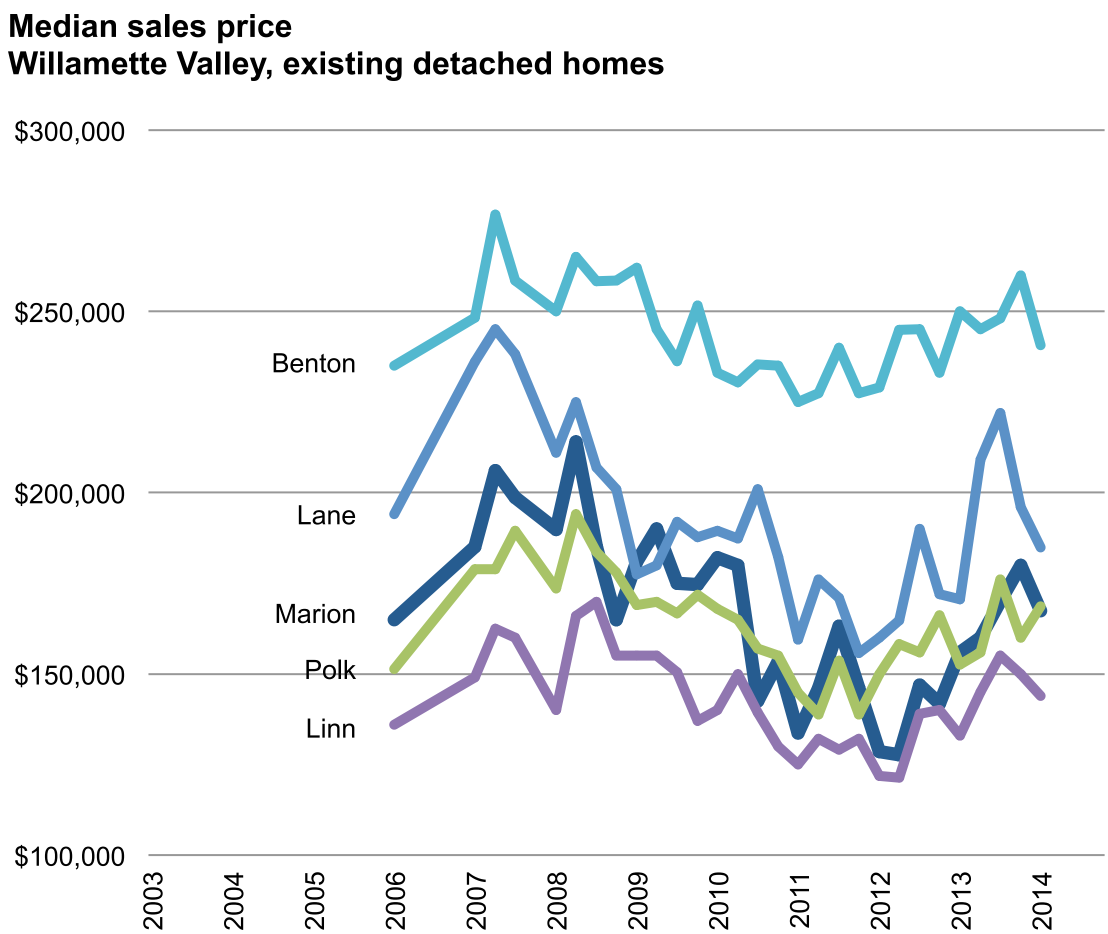
Median sales price
Redmond, under 1 acre



WILLAMETTE VALLEY

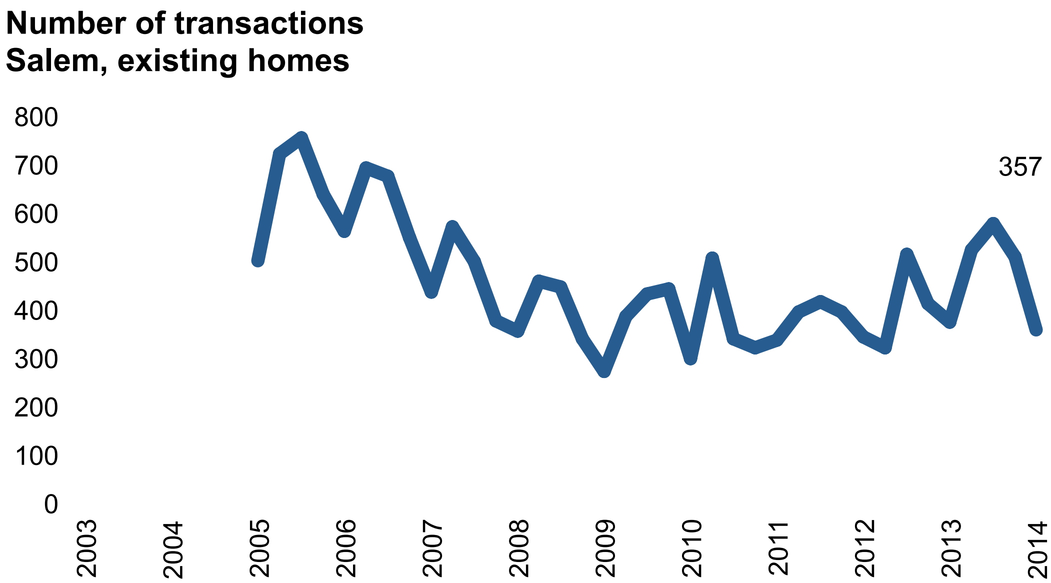
The valley showed mixed results for the first quarter in median price compared to the fourth quarter of 2013. Eugene, Polk County and Keizer all showed modest gains with Polk County leading the way with a 5.5% gain in median price. Marion, Lane, Linn, Benton Counties and Salem were all steady to down in median price. Benton County was down 7.7%.

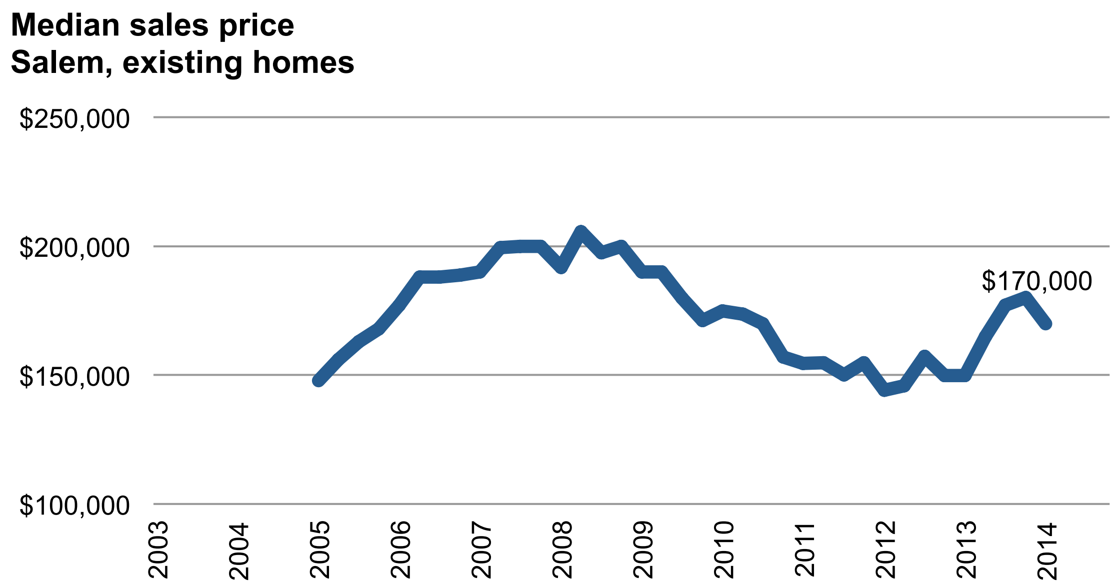
All 8 areas are up significantly from the first quarter of 2013 with the exception of Benton County which is down 2% from the first quarter of 2013.



SALEM

Compared to the first quarter of 2013 the median price of existing homes has risen 13.4% from $149,900 to $170,000. The total number of sales dropped slightly quarter over quarter from 373 to 357. Average days on the market increased from 123 to 128.

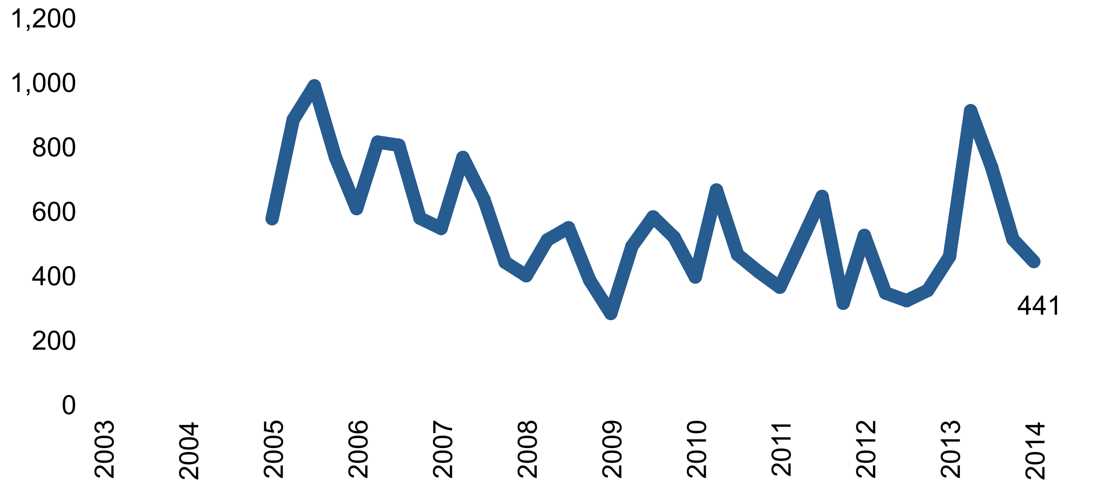




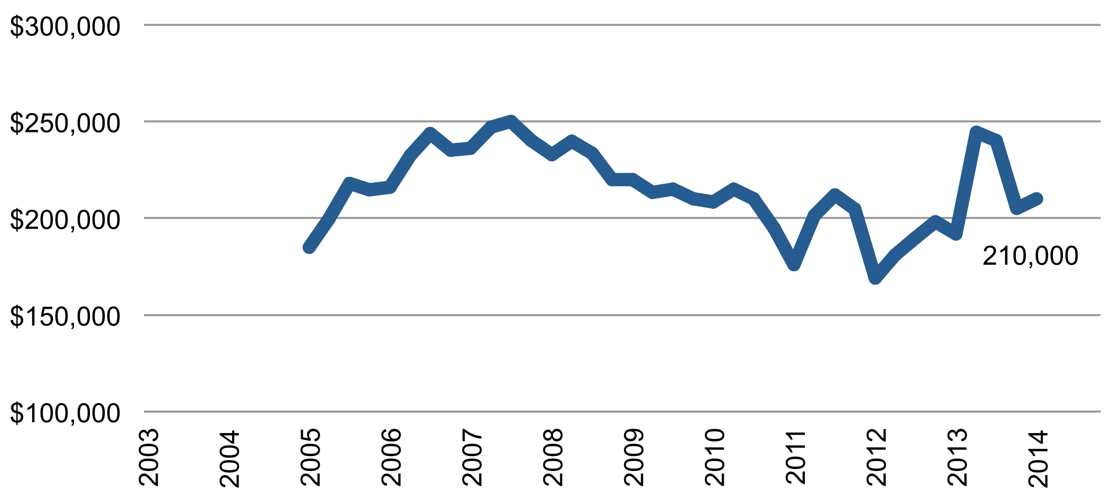
EUGENE/SPRINGFIELD

Home prices in the Eugene/Springfield area increased in the first quarter of 2014. The median price of an existing home increased by 9.3% over the first quarter of 2013 to $210,000 from $192,000. Unit sales dropped from 457 to 441 and average days on the market increased from 53 to 82 in the same period.

Number of transactions
Eugene-Springfield, existing homes



Median sales price
Eugene-Springfield, existing homes



SOUTHERN OREGON

Josephine County had an increase in existing home sales from 78 in the first quarter of 2013 to 86 in the first quarter of 2014. Average number of days on the market increased from 76 to 96. The median price rose 3.2% from $163,500 to $168,750.

Jackson County had a decrease in existing home sales from 389 in the first quarter of 2013 to 345 in the first quarter of 2014. Marketing time remained steady at 63 vs. 64 days. The median price rose 4.2% to $187,500.

MULTIFAMILY MARKET ANALYSIS

SCOTT HOLDEN

RMLS Student Fellow
Master of Real Estate Development Graduate Student

In the metro area multifamily permits are down in the first quarter, slightly up over last year's pace. Vacancy is up marginally to 3.4 percent. Neither is enough to register as significant and the building of new multifamily units is expected to continue throughout 2014.

According to REIS, U.S. apartment vacancy rates have fallen to 4 percent in the first quarter of 2014. Demand nationally and locally for multifamily units is high. Calvin Schnure, an economist and vice president for research and industry information for the National Association of Real Estate Investment Trusts noted, "This is not something that's hypothetical or theoretical, or just something that's coming out of a model. We have lots of evidence that people are doubled up … it's a huge number– it's an unprecedentedly huge number."

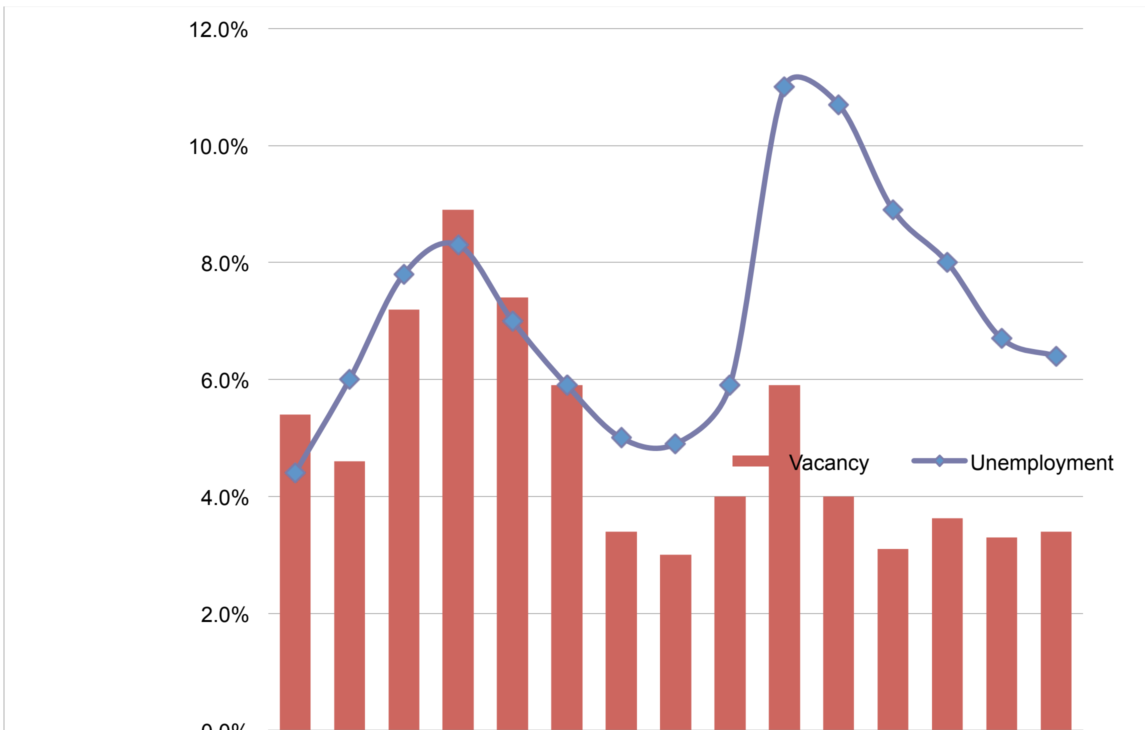
In Portland, the multifamily market still seems to be the market of choice. Buyers big and small are taking advantage of cap rates and scale that are now only available in tertiary markets. This has local developers continuing to redevelop current, repurpose different, and build new multifamily units to meet investor appetite and

■ Scott Holden is a Senior Relationship Manager at First Republic Bank. He is currently working towards the Master of Real Estate Development degree through a joint program of the School of Business Administration and the School of Urban Studies and Planning where he is an RMLS Student Fellow. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

consumer demand. As long as Portland can continue its population and job growth projections, supply should not dramatically outstrip demand in the long run. There is one, however, very large project that will drop a significant amount of units on the market at one time and may take time to absorb. Hassalo on 8th will finish 657 units at approximately the same time in the summer of 2015. This is in an area that is unique in that there has been very little housing and was previously dominated by mid-rise office buildings.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 6.4 percent, which is lower than the state average of 6.9 percent and the national average of 6.7 percent.

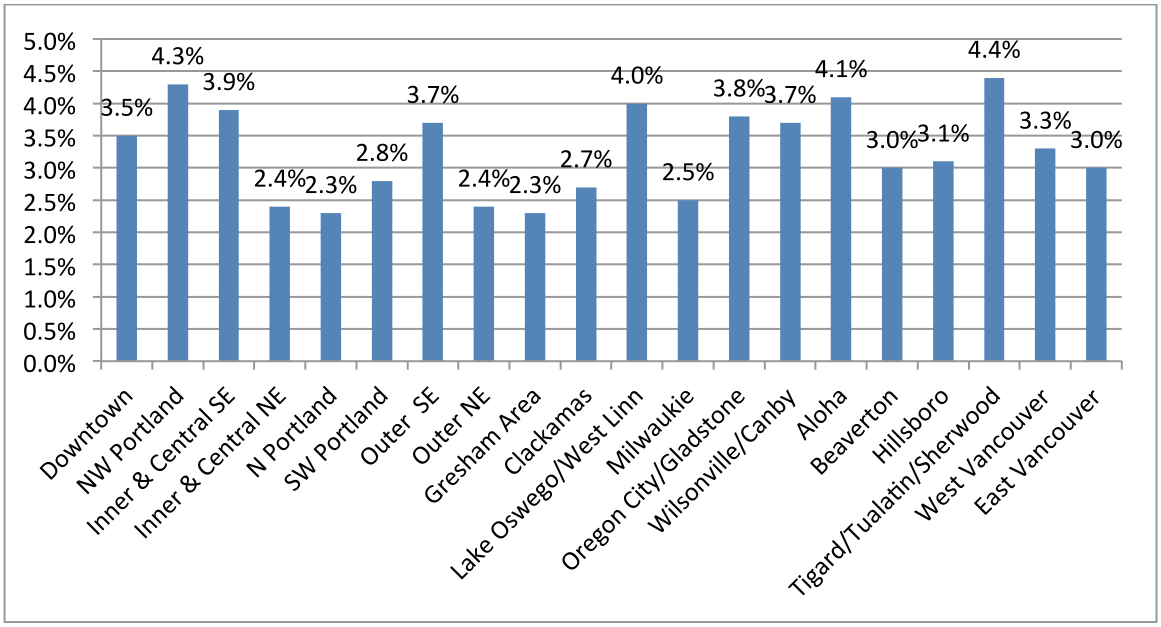
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Vacancy	5.4%	4.6%	7.2%	8.9%	7.4%	5.9%	3.4%	3.0%	4.0%	5.9%	4.0%	3.1%	3.6%	3.3%	3.4%
Unemployment	4.4%	6.0%	7.8%	8.3%	7.0%	5.9%	5.0%	4.9%	5.9%	11.0%	10.7%	8.9%	8.0%	6.7%	6.4%

These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 4.4 percent in Tigard/Tualatin/Sherwood and the lowest was Gresham area & N. Portland at 2.3 percent. The highest vacancy rate among studios was NW Portland at 5.81 percent. The highest vacancy rate for 1 BD, 1 BA was Central SE at 6.3 percent, while the lowest was Milwaukie with .93 percent. For 2 BD, 1 BA the highest vacancy was Lake Oswego/West Linn at 4.72 percent and the lowest was Clackamas at 1.06 percent. Ten submarkets reported a 0 percent vacancy rate among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed. Lake Oswego/West Linn and Wilsonville reported 9.56 percent and 7.02 percent vacancy respectively for 3 BD, 2 BA units which are significantly higher than other areas.

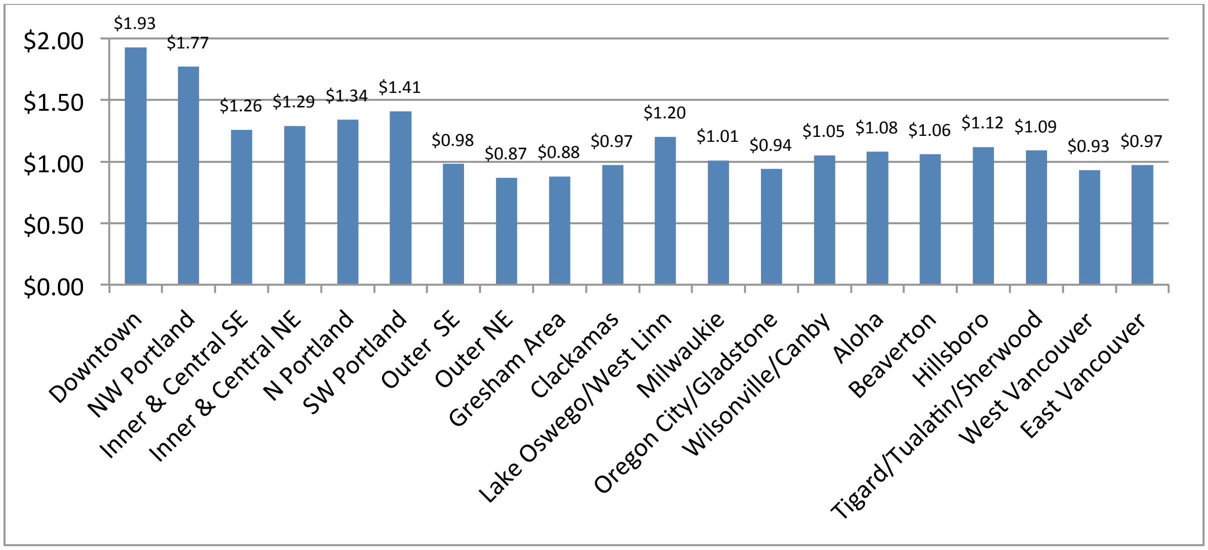
Figure 2: Vacancy Rates by Submarket Spring 2014Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a $1.93 average, followed by NW Portland at $1.77. The lowest overall rent/SF is shared between Outer NE at $0.87 per square foot and Gresham at $0.88. The highest rent/SF for studios was NW Portland at $2.09 and the lowest was Hillsboro/N of HWY 26 at $1.14. The highest rent/SF for 1 BD, 1 BA was Downtown at $1.93 and the lowest was Outer Northeast at $0.96. The highest rent/SF for 2 BD, 1 BA was Downtown at $1.98 and the lowest was $0.81 in Troutdale/Fairview/Wood Village/Gresham.

Figure 3: Rent / SF by Submarket Spring 2014 Portland Metropolitan Area



Source: MMHA

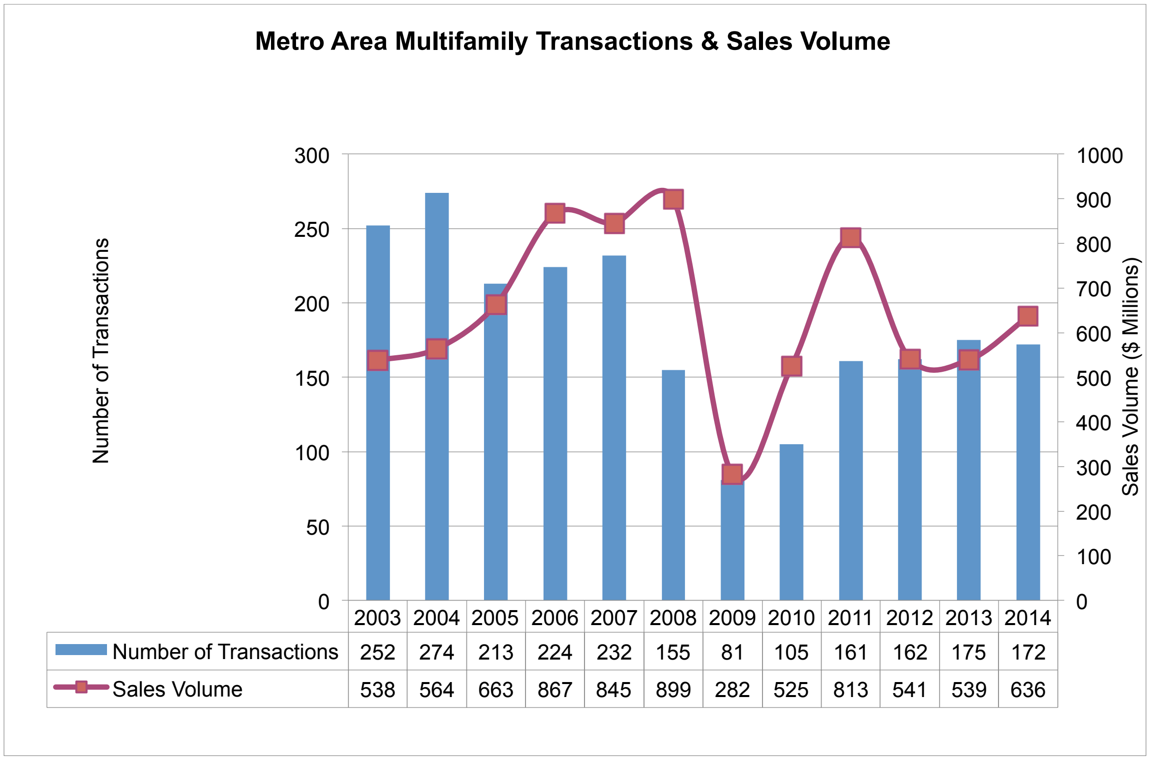
In Portland, approximately 70 percent of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the $50,000-$80,000 per unit range depending on rents, location, condition, and other factors. In the first quarter of 2014 the average sold price per unit was $110,027 and the median sold price per unit was $70,938. The average number of units was 25 and the average cap rate was 6.81 percent.

There were four deals over $10 million in the first quarter. Tupelo Alley (188 units) sold for $53 million, Vista at 23 (278 units) sold for $27 million, The Gables at Mountain Park (129 units) sold for $19.5 million, and Courtyard at Cedar Hills (145 units) sold for $11.67 million.

Due to the solid market fundamentals, apartments remain the favored asset class of investors in Portland and throughout the nation. Experts are projecting that the increases in sales volume and transactions will continue to be strong in through 2014.

Q1 2014 Major Sale Transactions					
Building	**Buyer**	**Price**	**Units**	**Price/Unit**	**Submarkets**
Tupelo Alley	JPMorgan Chase & Co. Investmer	53000000	188	$ 281,915	NE Close-In
Vista at 23	Bridge Investment Group Partners	27000000	278	$ 97,122	Gresham-Northeast I
The Gables at Mountain Park	Sares-Regis Group	19500000	129	$ 151,163	Mt Park MF
Courtyard At Cedar Hills	Prime Residential	11675000	145	$ 107,356	Central Beaverton MI
Tabor East Apartments	Metro4rent Properties	7295000	72	$ 101,319	South Tabor MF
Reserve at Ashbrook	Gerding Edlen Development Inc.	7128000	43	$ 165,767	Tigard Neighborhood

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, Through March 2014 (annualized)



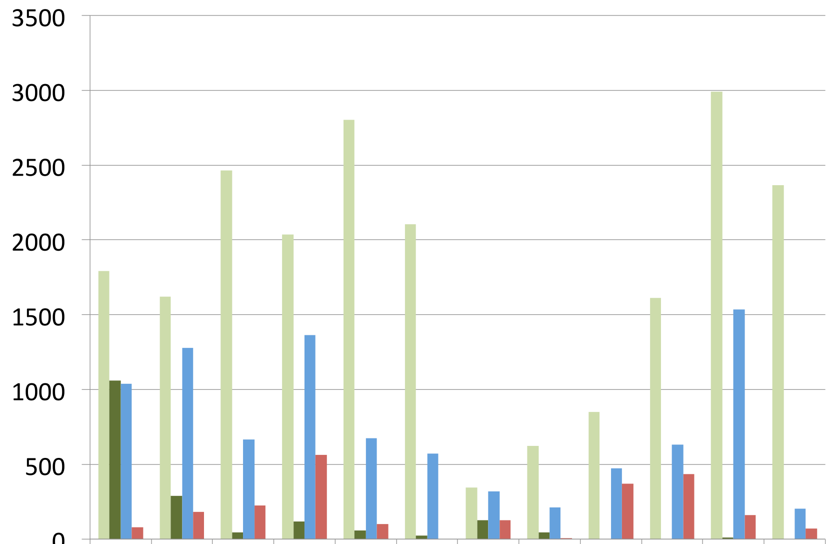
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of Transactions	252	274	213	224	232	155	81	105	161	162	175	172
Sales Volume	538	564	663	867	845	899	282	525	813	541	539	636

Source: Costar

Through March of 2014, multifamily building permits were down across all counties. Washington County issued permits for 51 multifamily units in the first quarter of 2014 versus 765 multifamily units in the first quarter of 2013. The City of Portland's pace is below 2013's from and annual pace of 2891 to 2272 in 2014. According to the Barry Apartment Report, in 2014 and 2015, we expect completion of around 12,000 to 14,000 new apartment units. This should cause vacancies to gradually rise to a more modest 4.5 percent to 5.35 percent by late 2015 and a more balanced market. Prior to the downturn the Portland Metro area was building about 4000 new multi-family units per year.

Figure 5: Multifamily Building Permits Issued, March 2014

Number of permits through March 2014 is annualized



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
City of Portland	1793	1623	2466	2038	2802	2103	345	622	852	1,612	2,992	2368
Multnomah Co. (excluding Portland)	1062	288	46	119	56	24	125	47	0	0	12	0
Washington Co.	1040	1279	664	1364	674	572	319	212	473	630	1,537	204
Clackamas County	81	181	226	564	100	0	128	5	371	435	159	72

Source: US Census

Metro is projecting that Portland alone will require 5,000 multifamily units per year through 2035 to accommodate growth of 205,594 people within the city limits.

OFFICE MARKET ANALYSIS

Geoff Falkenberg

Oregon Association of Realtors Fellow

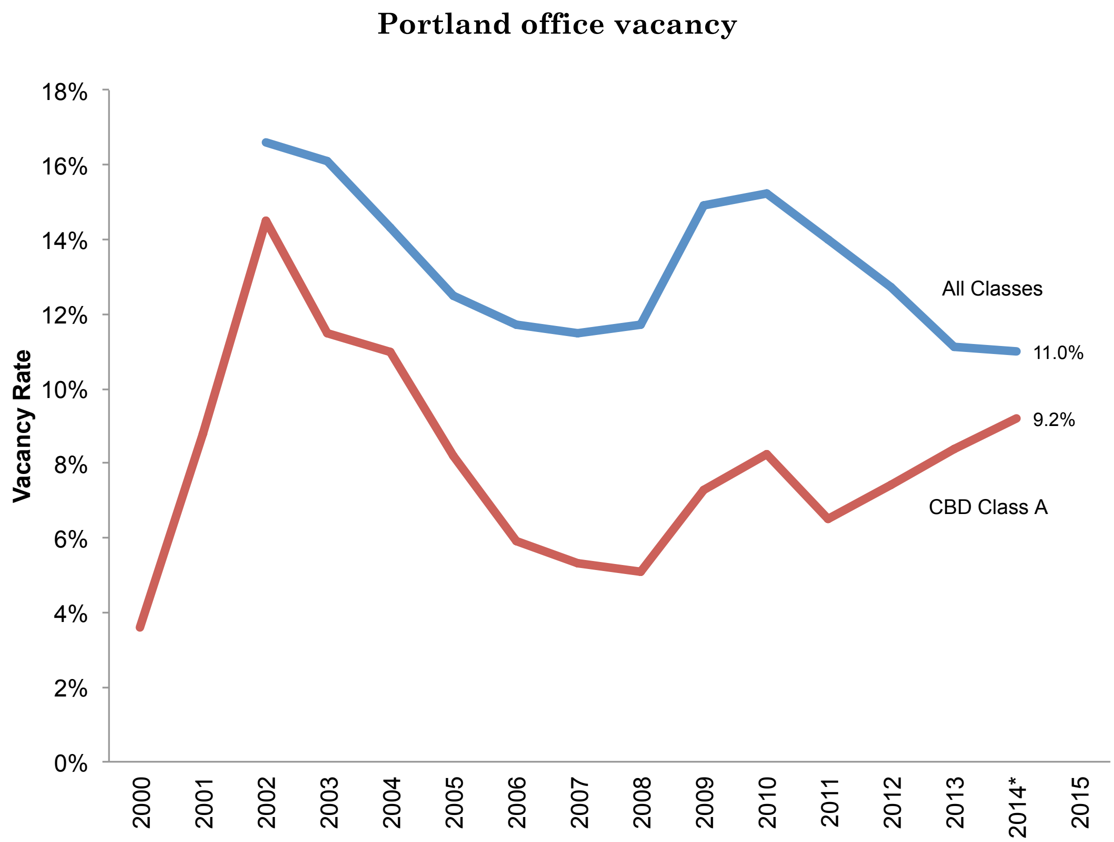
Over the last year, the Portland area added 27,500 new jobs and is project to continue to improve. Employment growth is predicted to put demand pressure on the already strong office market. For example, during the first quarter of 2014, vacancy continued to move down as five building were brought onto the market. Absorption, though relatively flat, remained in positive territory. CoStar reports that rental rates in the Portland area increased by 2.6 percent from fourth quarter 2013.

VACANCY

According to Jones Lang Lasalle, Portland has nudged out both New York and San Francisco to claim the distinction of having the lowest office vacancy in the U.S. At 11.0 percent, vacancy in Portland is being influenced by two main factors: creative demand and lack of new supply. This juxtaposition is leaving developers scratching their heads on how to bring new product to the CBD.

With the Park Blocks, a considerably large amount of Class A office space will come online relatively soon and absorb a proportionate amount of pent up Class A demand. The majority of new demand lies in tech and industrial office start-up companies, but leave open the question of whether developers can convince banks to lend on projects.

■ Geoff Falkenberg is the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.



Source: Jones Lang Lasalle

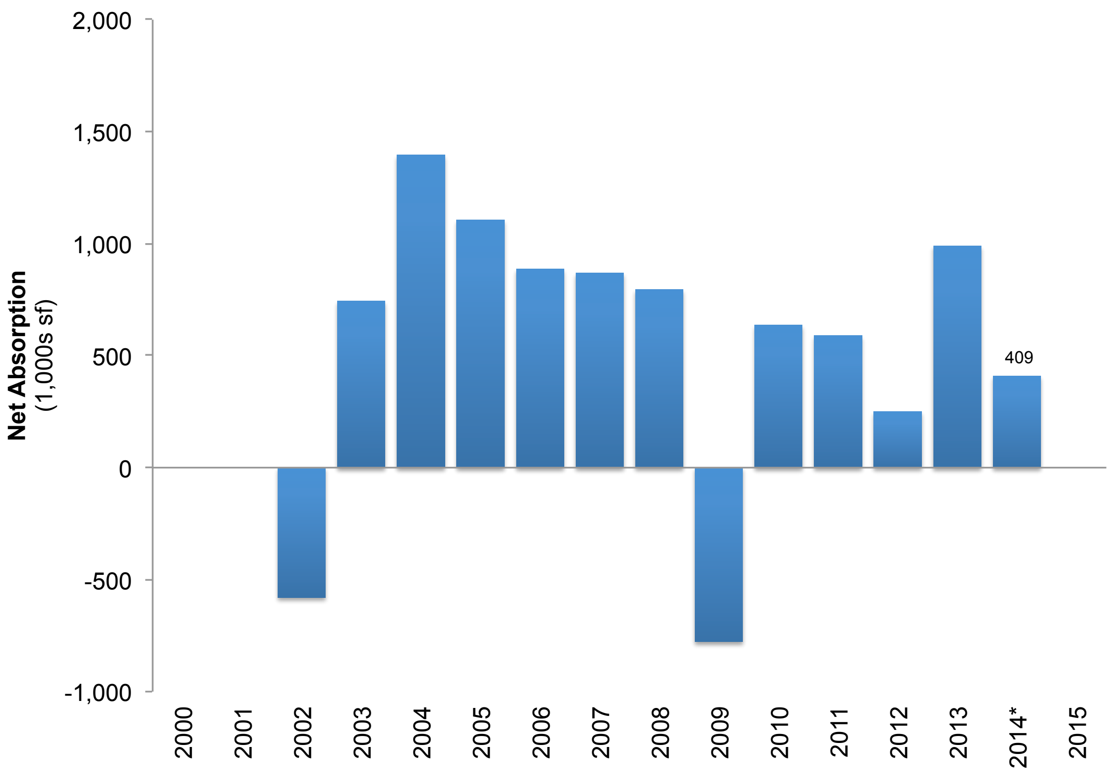
Though low vacancy in Portland is dominated by the urban submarkets on both sides of the river vacancy is dropping in the suburban markets as well. Rental rates are on the rise and tenant improvements continue to subside as the CBD remains a landlords market, making suburban tenancy more attractive.

ABSORPTION AND LEASING

CoStar is reporting absorption for the first quarter of 2014 at 459,667 square feet, while Jones Lang Lasalle is reporting 327,299 square feet. Variances in the definition of Portland aside, tenants are finding their way into the Portland office market despite the lack of large and contiguous spaces. According to CoStar, in the fourth quarter of 2013 absorption stood at 79,109 square feet and at negative 155,629 square feet in the third quarter of 2013. However the first quarter of 2014 showed a relatively strong start.

The renewal of the US Bank lease in the US Bancorp Tower is the largest Portland lease signing in the last 15 years, according to Kidder Mathews, and will result in increased availability of Class A space as there is a downsizing in the renewal. Puppet Labs has taken interest in the renovations at Block 300 and have signed a nearly 75,000 square foot lease. The Daily Journal of Commerce reports that specialized tenant improvements include modern mechanical and power resources, bicycle parking for all employees, and room for dogs.

Portland office vacancy

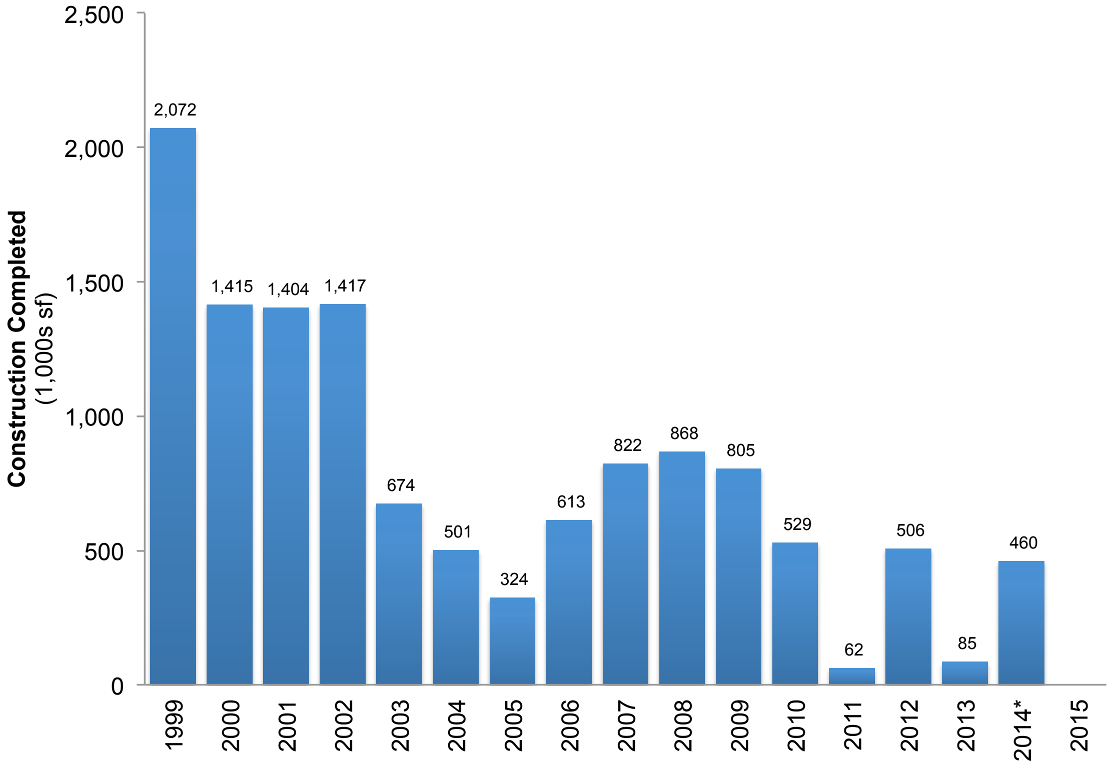


Source: Jones Lang Lasalle, CoStar, Kidder Mathews

CONSTRUCTION AND DELIVERIES

Over the course of the first quarter of 2014, CoStar reports 157,601 square feet in five buildings were delivered to the Portland market. During the last three quarters a total of 39,316 square feet were delivered to the market. In particular, 4310 SW Macadam Ave was finalized this last quarter, bringing approximately 100,000 square feet to the market. Park Avenue West Tower is well under way and will bring approximately 273,000 square feet, 77 percent of which are already preleased, to market by 2016.

Portland area office construction completed



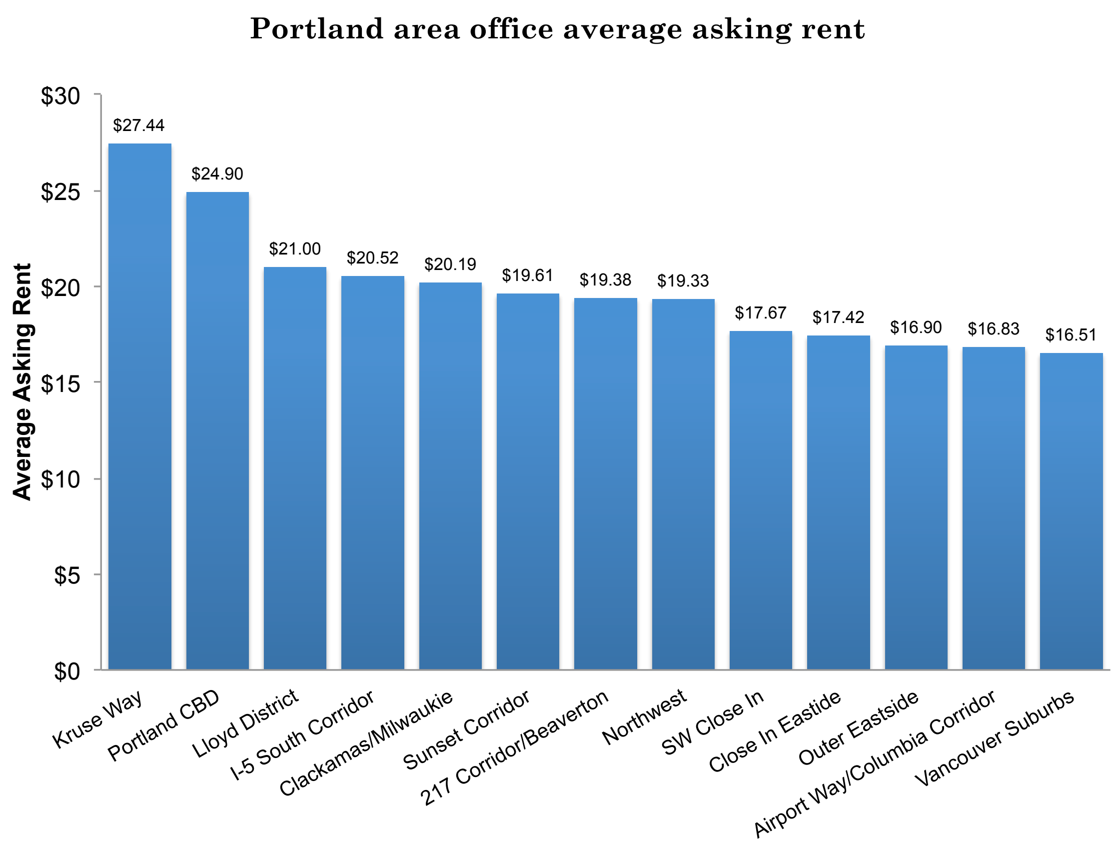
Source: CoStar

Completed lease transactions				
Tenant	Building/Address	Submarket	SF	Type
Stoel Rives	Park Avenue West	CBD	131,906	New
Nike	Greenbrier Court	Sunset Corridor	74,677	New
Coaxis	1510 SE Water Avenue	Close in Eastside	40,000	New
US Army Corps of Engineers	1201 Lloyd Building	Lloyd district	37,811	New
AT&T Mobility	South Place Office Building	I-5 South Corridor	27,529	Renewal
K&L Gates LLP	Umpqua Bank Plaza	CBD	21,200	New
Fios Inc	Pittock Block	CBD	20,000	Renewal
Regus	5 Lincoln Center	217 Corridor/Beaverton	19,463	Renewal
Kronos	Tigard Triangle Commons	I-5 South Corridor	19,353	New
Avanti Destinations	Columbia Square	CBD	17,349	New
Barran Liebman LLP	ODS Tower	CBD	16,400	Extension
Stoll Berne	Former Police Headquarters Building	CBD	15,785	Renewal
Compound Photonics	Bank of America Building	CBD/West Vancouver	12,135	New
Pacess Global	2000 SW First Avenue	CBD	12,103	New
Durham & Bates Agencies	Morgan Building	CBD	11,363	Renewal
Walker Macy	111 SW Oak Street	CBD	11,000	Renewal

Source: Jones Lang Lasalle

RENTAL RATES

Rents are increasing in many bright spots across the metro area. In particular the Brewery Blocks are welcoming new tenants at $38 per square foot and Park Avenue West is signing new leases above $40 per square foot. Class B rents are up 3 percent from a year ago as the trend to convert traditional office space to creative space continues.



Source: Jones Lang Lasalle

INDUSTRIAL MARKET ANALYSIS

Geoff Falkenberg

Oregon Association of Realtors Fellow

The first quarter of 2014 showed positive trends in the industrial sector of Portland's market. Deliveries were null, but many developments are in the making. Vacancy continues to drop while absorption remains strong. Rents are feeding off the increasing demand and relatively slow pace of growth and as a result are growing at a steady pace.

ABSORPTION & LEASING

As reported by CoStar, net absorption in the metro area stood at a positive 212,086 square feet for the first quarter, as compared to the 1,146,383 square feet of the fourth quarter 2013. A total of 364,021 were vacated between DHL Global Forwarding, Southern Wines & Spirits, and Baggallini. Across the metro area new leases were signed that more than made up for the losses.

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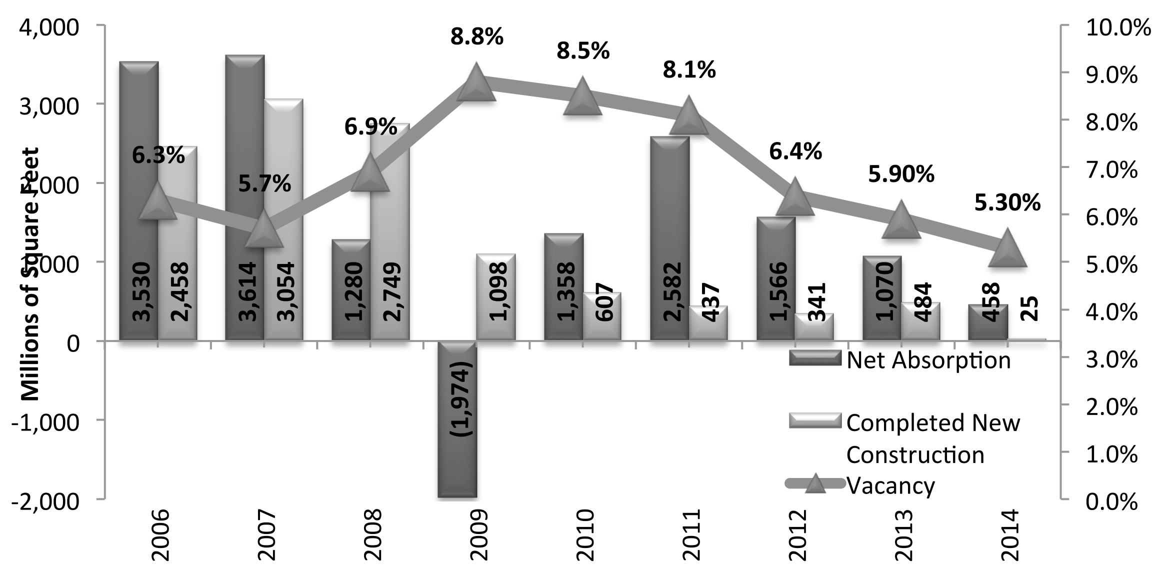
Major industrial lease transactions

Tenant	Property	SqFt	Submarket
Colgate-Palmolive	Rivergate Corp Ctr III	210,330	Rivergate
Lucky Distribution	5001 N Lagoon Ave	47,000	Hayden/Swan Island
GTS	4033 NW Yeon Ave	151,363	CBD/Guilds Lake
Nike	15005 SW Tualatin Valley Hwy	199,911	Sunset Corridor
Earl & Brown	5825 SW Arctic Dr	57247	217Corridor/Beaverton

Source: Jones Lang Lasalle

New construction, net absorption, and new construction



Source: Jones Lang Lasalle

VACANCY

Vacancy continued its downward trajectory during the first quarter of 2014 to end at 5.30%, according to Jones Lang Lasalle. This downward trend is reminiscent of a worrisome trend in the industrial area in that Portland has a limited amount of space set aside for industrial development. Currently the city is looking to reposition the Central Eastside Industrial District, further limiting industrial opportunities. In addition, the west end of Hayden Island is slated to be largely hands off to development.

DELIVERIES & CONSTRUCTION

There were no new buildings delivered to the market during the first quarter of 2014. Over the last three quarters 189,285 square feet of industrial space was delivered. Currently there is over 2.8 million square feet of industrial space under construction. The largest development being the Intel Ronler Acres D1X, comprising 1.8 million square feet. Another noteworthy development is the PDX Logistics Center, containing 383,000 square feet, which is has no pre-leases so far.

RENTAL RATES

The average rental rate in Portland for the first quarter was $6.26. This is a 1.3% increase from the fourth quarter of 2013.

Submarket rental rates, per square foot

Airport way	$0.92
Sunset Corridor	0.91
Clackamas and Milwaukee	0.86
St. Johns	0.82
East Columbia Corridor	0.59
Rivergate	0.40

Source: CoStar

RETAIL MARKET ANALYSIS

Geoff Falkenberg

Oregon Association of Realtors Fellow

The retail sector continued its positive trends in Portland over the course of the first quarter 2014. Vacancy remains relatively flat. Absorption has stayed in positive territory. Eleven different retail sites were delivered this first quarter. Rents continue to rise and are up 2.6% from a year ago according to CoStar.

VACANCY

Norris, Beggs, and Simpson are reporting that vacancy has increased 40 points from last quarter to 6.1%. While both Costar and Kidder Mathews report a 10 point increase to 5.1% and 5.3%, respectively. In any case, vacancy is relatively flat and in a strong position. This is good news given that deliveries continue to hit the market and that while office and industrial are both doing expressively well in the current market, retail has yet to find its new stride in the new economy dominated by the growth of online sales and a shrinking middle class.

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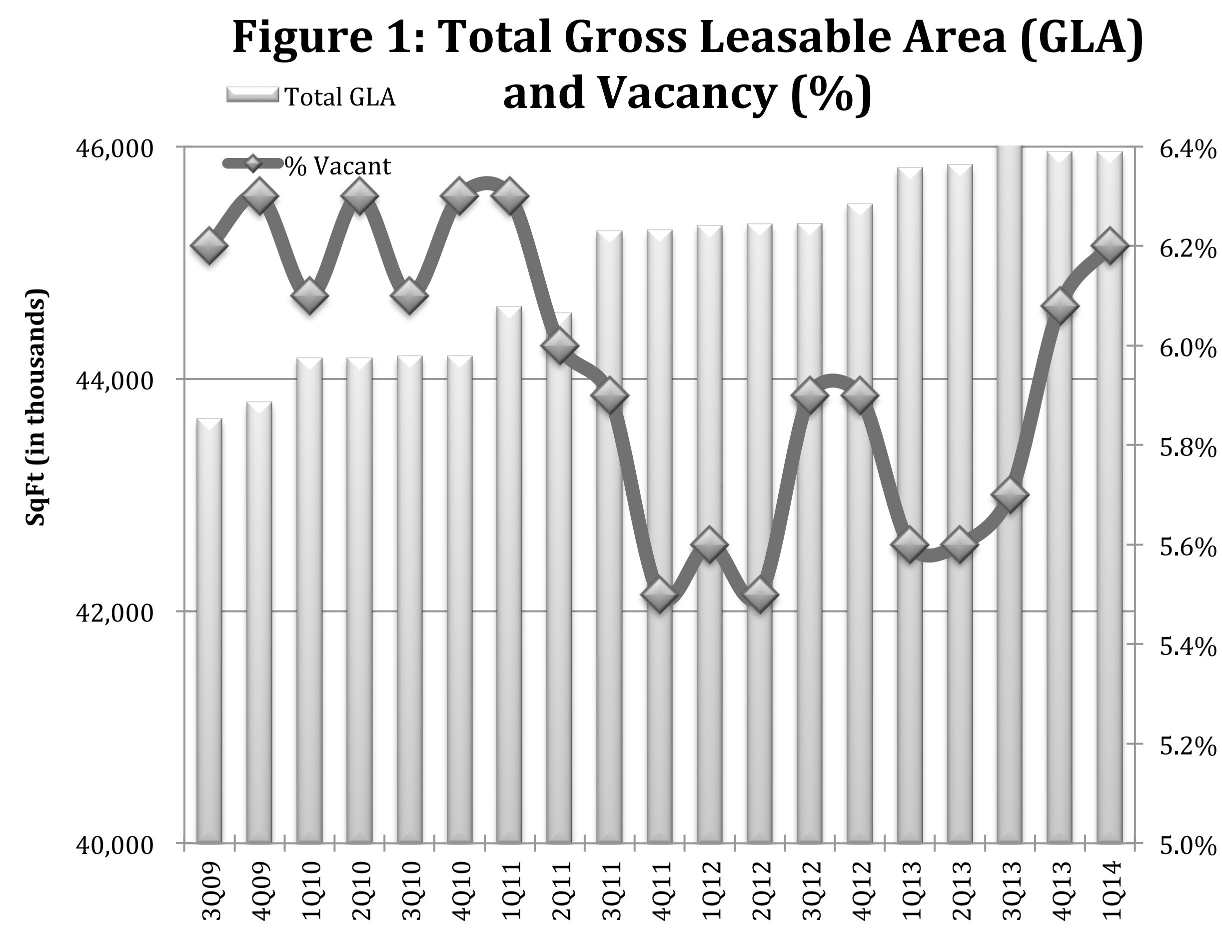
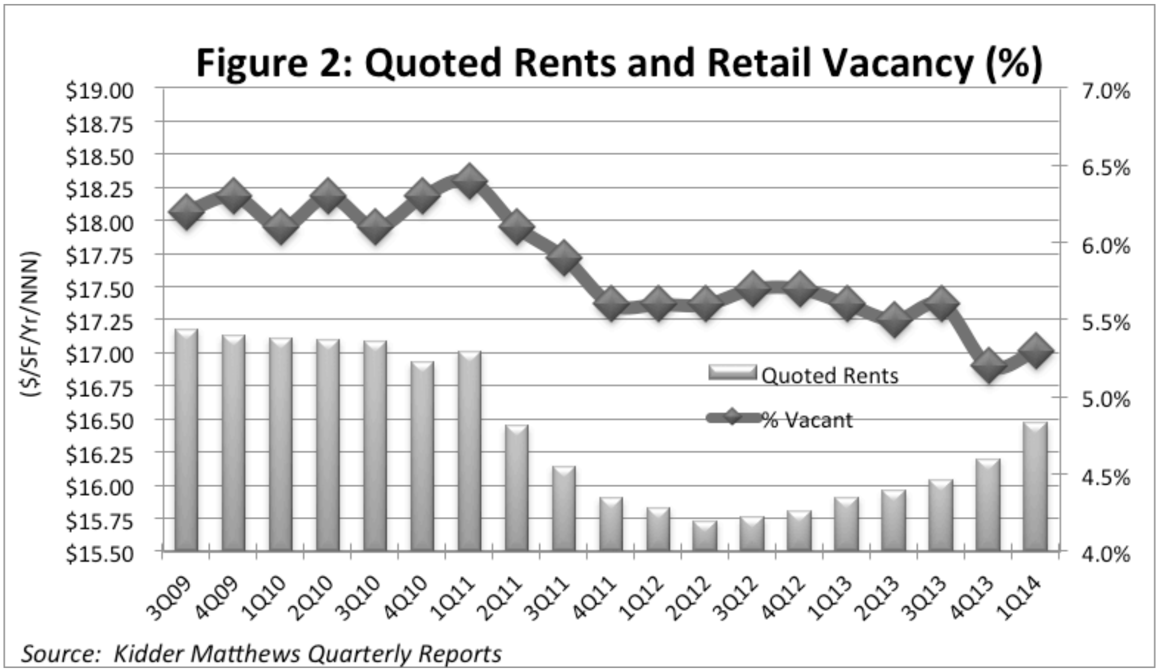


Source: Norris, Beggs, & Simpson Retail Reports

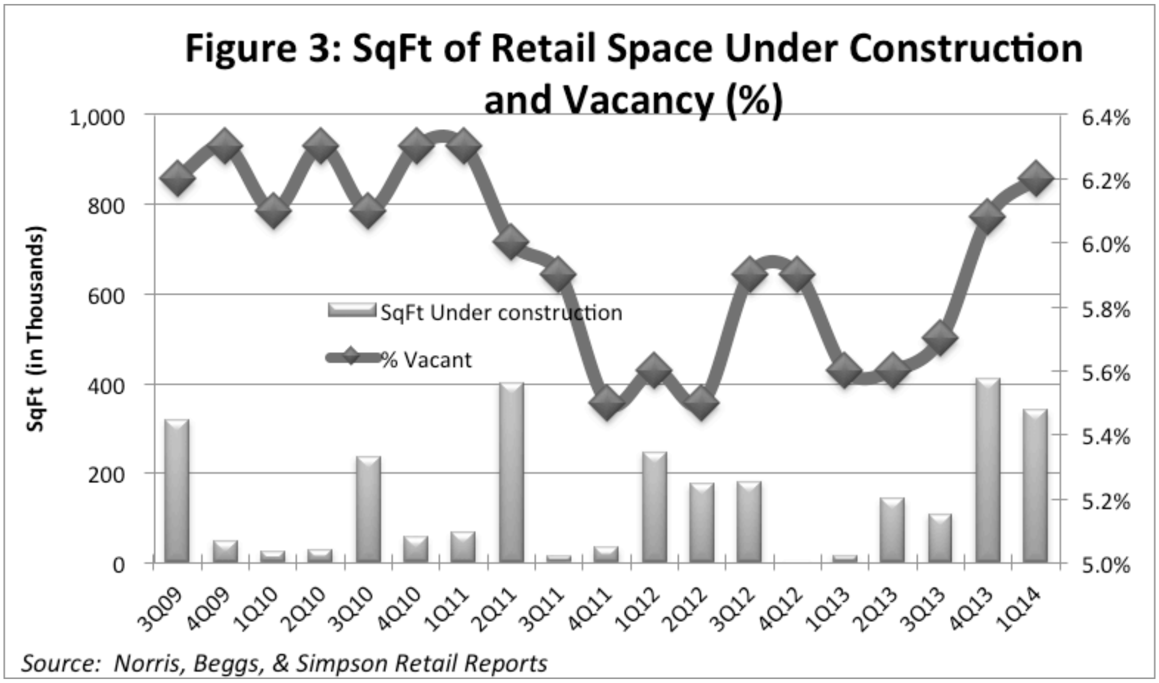
RENTS

Rental rates continue to rise despite the moderate uptick in vacancy. As stability rises in certain areas around Portland, increases in rents are soon follow. Rents remain flat for areas with higher levels of vacancy. Close in retail rents outpace suburban grocer anchor centers, while lifestyle centers are commanding the highest rents. Tenant improvements and free rent is being offered less as the market begins to move into a landlord's market.



DELIVERIES AND CONSTRUCTION

Eleven new buildings bringing a net of 192,150 square feet of new retail space were delivered during the first quarter of 2014. As compared to the last three quarters which saw 263,715 square feet delivered to the market. A total of approximately 970,000 square feet were finalized in the first quarter, but due to closings of Kmart and Albertsons the net increase was nominal. Currently there are 537,227 square feet of retail under construction according to CoStar. In particular, Mill Creek Town Center, with a 154,000 square foot Walmart, is now fully tenanted.



ABSORPTION

Absorption for the first quarter of 2014 remained positive despite large vacancies left by Albertsons in three locations across the metro. In total the net absorption is reported to be 44,554 square feet. Nordstrom announced they would be vacating their Lloyd Center and Vancouver locations due to low sales. This has been greeted as a welcomed opportunity to reposition the mall with tenants in-line with the themed changes taking place across the way in American Assets Trust's development, Hassalo on Eighth.