INDUSTRIAL MARKET ANALYSIS

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For the past 33 months the employment drivers of Portland's industrial markets have been in mostly positive terrain. Manufacturing and trade, transportation, and utilities have shown stable growth and have contributed to growth in industrial markets. With 490,000 job connected to international trade statewide and approximately $1.5 billion in revenue, strength in the industrial market is a sign of current strength in retail and office and a sign of strength to come.

As demand for industrial products and jobs continues to grow, demand for industrial space has kept pace. Vacancy is at its lowest since 2008, large Class A space have been leased and is creating spillover demand for Class B and Class C space. New product is hitting the market and deals to construct large projections, speculative and otherwise, are being signed. Rents are mixed across the region, but mainly holding steady while deliveries and absorption are up for the quarter, with absorption moving into positive ground on the year.

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ABSORPTION & LEASING

Year to date absorption has broken into positive ground. The first quarter saw approximately 450,000 square feet of absorption, but the second quarter removed all the gains and nearly as much into negative territory with a total loss of approximately 800,000 square feet. Kidder Mathews reports third quarter movement as a positive 469,659 square feet, with Colliers International and CoStar reporting 499,297 square feet and 467,948 square feet, respectively. The net result is a positive gain so far for the year. Concessions and tenant improvements are down and rents are holding steady or rising.

Table 1: Major Industrial Lease Transactions, 3rd Quarter, 2013

Tenant	Property	SqFt	Submarket
Metal Improvement Company	5687 SE International Way	19,000	Clackamas/Milwaukie
Sunshine Pantry	10895 SW 5th Street	10,000	Beaverton/217
Perceptive Pixe	26755 SW 95th Avenue	165000	I-5 South
Chaucer Foods	2238 Yew Street	84600	Sunset Corridor
Streimer Sheet Metal	American Steel Building	21528	CBD/NW

Source: Jones Land LeSalle

Large Class A floor plans appear to be in short supply; leading absorption to spill over into Class B and Class C facilities, particularly in the 5,000 to 20,000 square feet range. Of the large leases, Bridgestone Tire has taken up the vacant 204,550 square feet left by Georgia-Pacific in the Columbia Corridor's Corporate Center II. DHL renewed their 109,200 square feet lease on Airport way.

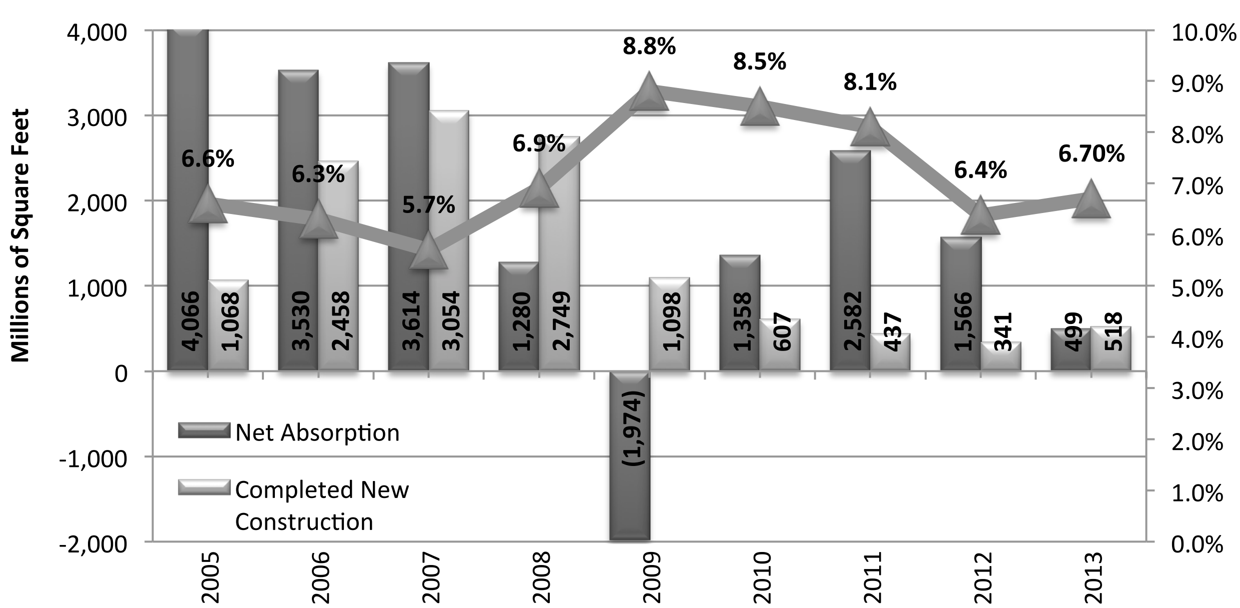
Clackamas County is currently experiencing gains in employment in manufacturing private-sector jobs. This, in turn, has led to a flurry of leasing activity. Wymore Transfer Co. has moved into 137,500 square feet in the Tree of Live Building. Multiple units at 205 Logistics Center, totaling 235,872 square feet, were taken up by Bob's Red Mill and Charlie's Produce. Inmare Logistics moved into 40,250 square feet at Clackamas Commons after being displaced by Wymore Transfer. CoStar is reporting that sublease vacant space is down by 34,343 square feet to 225,622 square feet on the year.

VACANCY

Jones Lang LeSalle reports a vacancy rate of 6.6 percent. Colliers International reports 6.7 percent, and CoStar reports 6.9 percent. Certain submarkets seem to be faring better than others. For example, East Columbia Corridor has a vacancy of 5.6 percent and airport way is also low at 6.0 percent. The Sunset Corridor and Rivergate are on the higher side with 9.5 percent and 11.5 percent, respectively. It is important to note Sunset and Rivergate submarkets have larger facilities that are prone to more volatile swings.

Overall the Portland market is out performing the national vacancy, which stands at approximately 15.4 percent. Seattle, San Francisco, and Los Angeles stand at 15.5 percent, 9.1 percent and16.7 percent, respectively.

Figure 2: Current Quarter Industrial Absorption, New Construction, & Vacancy



Source: Colliers ***International***

DELIVERIES & CONSTRUCTION

It is expected that GDP will grow—but grow modestly—through 2017. As a result, expect small increases in business investments and exports. These two factors in particular push for large industrial spaces beyond what the current stock can supply.

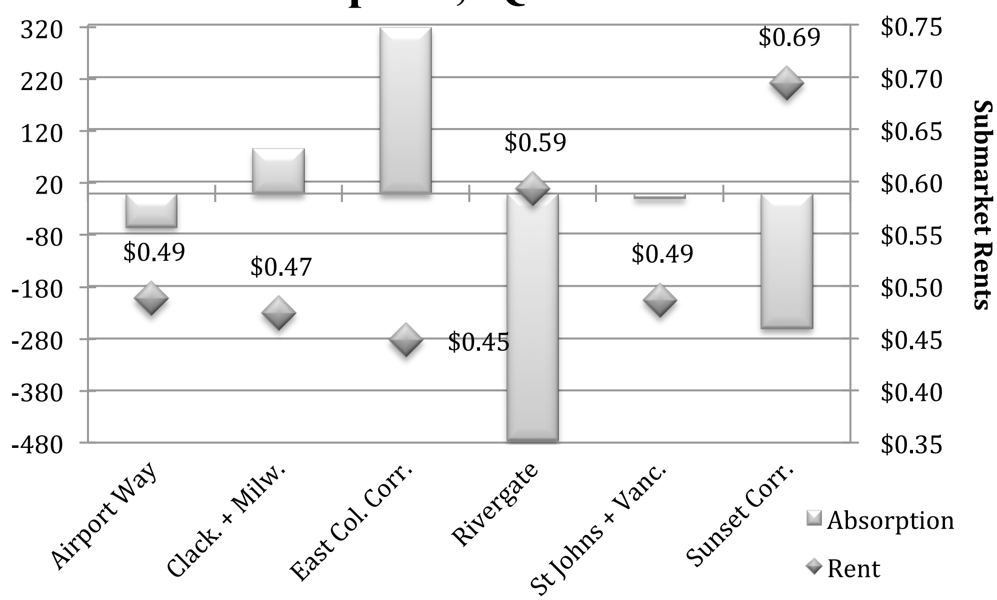
During the third quarter, Portland saw the first speculative industrial development break ground since 2007. The Class A 490,000 square feet PDX

Logistics Center is being developed near the airport by Portland based Capstone Partners, with an option to develop a third building of 342,000 square feet later.

There currently is a shortage of industrial space for companies seeking 100,000 square feet or more. This is the pool that Capstone hopes to break in to. In fact, Colliers International leasing broker, Paul Breuer, is teasingly taking $5 bets that the site will be fully leased before it is completed in October 2014. At this time there is over 1,860,000 square feet of industrial space being developed, with 1.8 million square feet consisting of Intel's D1X fab.

Within the last three months six industrial warehouses, totaling 130,573 square feet were delivered to the greater Portland market, of these five were Class B. Two of the Class B were in Hillsboro, one was in Tualatin, and two were in Vancouver.

Figure 3: Submarket Rents & Overall Absorption, Q3 2013



Source: CoStar, Industrial Quarterly Report

RENTAL RATES

Quarter over quarter, rental rates down slightly. The Portland average rent stands at 44.9 cents, per Colliers International, 46 cents per Kidder Matthews, and 52.4 cents per CoStar. All agencies are reporting a minor drop of approximately 0.5 percent since the end of the second quarter. This may be shrugged off due to most new leases having been signed on smaller Class B and Class C buildings, which would demand lower rents and keep average rents from rising. Rents are heavily segmented by the local submarkets.

For the past 33 months the employment drivers of Portland's industrial markets have been in mostly positive terrain. Manufacturing and trade, transportation, and utilities have shown stable growth and have contributed the most to industrial markets. With 490,000 job connected to international trade statewide and approximately $1.5 billion in revenue, strength in the industrial market is a sign of current strength in retail and office and a hint of strength to come.

As demand for industrial products and jobs continues to grow, demand for industrial space keeps step. Vacancy is at its lowest since 2008, large Class A space having been leased is creating spill over demand for Class B and C space. New product is hitting the market and deals to construct large projections, speculative and otherwise, are being signed. Rents are mixed across the region, but mainly holding steady while deliveries and absorption are up for the quarter, with absorption moving into positive ground on the year. ■