

### ECONOMIC OVERVIEW

Despite Second Quarter's constant stream of breaking news, from Iraqi prisoner mistreatment to rocketing oil prices to election-related issues, the economy continued its recovery course as expected. Three months yielded consistent job gains and falling unemployment at the state level. In fact, Oregon posted a 6.7 percent unemployment rate in April, its lowest in over 33 months. Economists attribute the rate's slight rise to 6.8 percent during May to the fact that individuals, encouraged by increased market activity, are reentering the job market. Further, payroll employment is now more than half way to reaching the all-time peak level set in 2000, with 17,000 jobs added in May alone. The state has also closed the gap between its unemployment rate and that of the nation's, which at time of publication had

settled at 5.6 percent.

The Portland Metropolitan Area followed suit with the state as it also posted a 6.7 percent unemployment rate, a sharp decline from First Quarter's average of 7.9 percent. Professional and business services companies and leisure and hospitality businesses spearheaded the job growth during recent months.

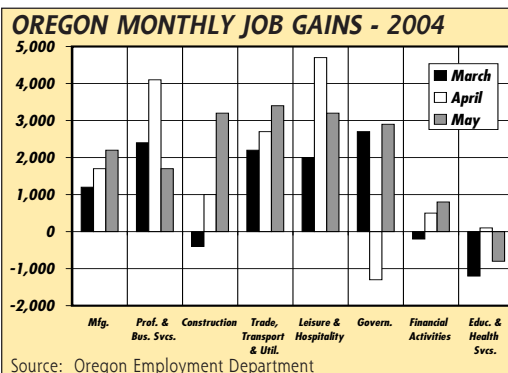
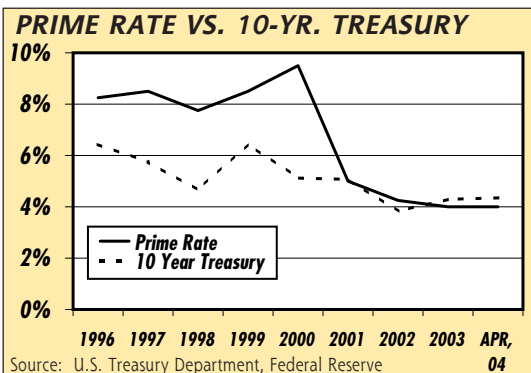
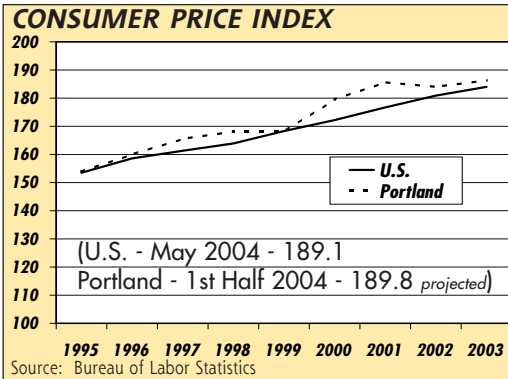
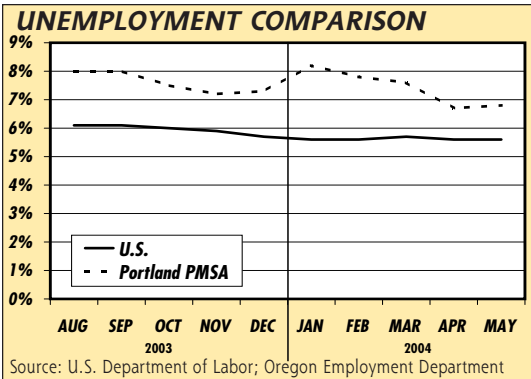
With the economy now on a firm growth path, it is widely expected that Federal Reserve policy-makers will raise a key short-term interest rate from the 46-year low of 1 percent for the first time in over four years. Federal Reserve Chairman Alan Greenspan noted that rates will rise gradually if the economy continues its smooth recovery pace, but did not rule out more aggressive action should the

threat of inflation arise.

One of the quarter's most pressing issues has been the rising price of oil. The issue has not dramatically affected the economy, as evidenced by the continued decline of unemployment, yet has had minor consequences. A local trend that emerged in part due to exorbitant gas prices is the rise in public transportation ridership. TriMet reported that April ridership figures reached an all-time high, with an average of 308,100 rides each weekday throughout the month. This represents a 3 percent increase from one year prior.

Speculative industrial development decidedly picked up during the quarter, indicating that confidence in market recovery is converting from a mind-set to concrete action. Trammell Crow announced it would begin construction on the final phase of Canyon Creek Business Park, bringing 85,000

	Change from	
	2Q,03	1Q,04
Population (#)	↑	n/a
Employment (#)	↑	↑
Unemployment (%)	↓	↓
Home Sales (#)	↑	↑
Home Values (\$)	↑	↑
Retail Sales (\$)	↑	↑



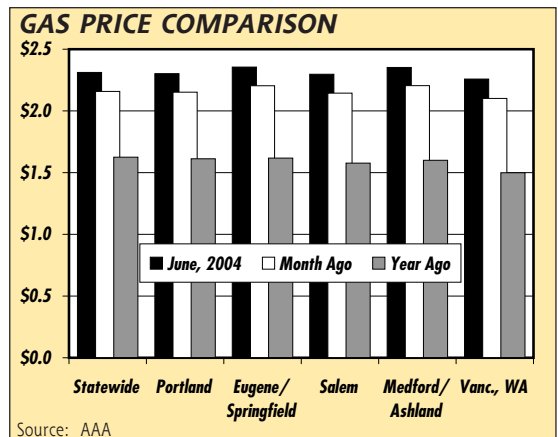
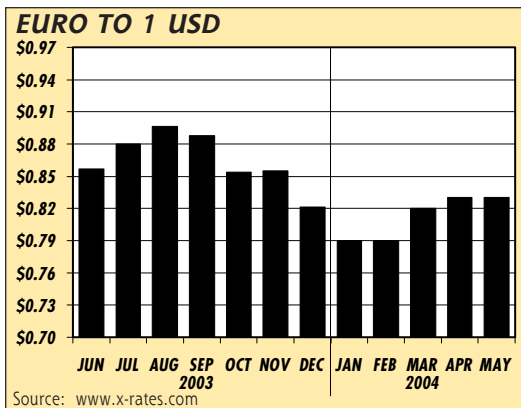
square feet (sf) to the market. The company is also adding 204,550 sf to Rivergate Corporate Center, Pannatoni Development has plans for 37,000 sf of development and Silver Oak Business Center will soon expand by 70,000 sf.

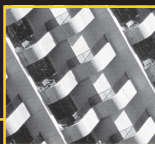
Changes in the economy belatedly emerge in the real estate market, thus Second Quarter's job gains have yet to pressure vacancy rates downward by inducing companies to seek more space. The office and industrial leasing markets continue to favor tenants who negotiate advantageous lease rates and concessions. However, encouraged by low interest rates, tenants are also jumping the fence and becoming buyers. The influx of potential owners into the market means sellers are able to be selective and achieve attractive prices for their property. Retail continues to outshine other sectors, with lifestyle centers emerging as the market's hottest commodity. Centers such as the Streets of Tanasbourne and Bridgeport Village are commanding impressive lease rates as well as the attention of national retailers.

Solid job gains, falling unemployment and increasing confidence all align with Norris, Beggs & Simpson's Fourth-Quarter prediction that the economy will steadily improve throughout the year. It will be during 2005, after the job market is well on its way to recovery, that the commercial real estate market will trumpet unmistakable improvements of its own.

## Economic Highlights

- ▶ The US trade deficit widened to a record \$48.3 billion in April, up from \$46.6 billion in March and was \$5.8 billion higher than in April 2003. Data simultaneously released revealed that national retail sales rose by 1.2 percent in May. Surging auto sales and high gasoline prices were largely responsible for the jump.
- ▶ The Portland City Council approved an amendment to the South Waterfront Central District Development Agreement. The Portland Development Commission, Oregon Health & Science University and private developers will all increase their contribution to the project in order to keep construction on schedule.
- ▶ The Airport Way Urban Renewal Area, which began in 1986, reached its legal maximum indebtedness of \$72.6 million, meaning there will be no new developments undertaken by the program. All tax increment income will now be used to retire bonds and returned to the taxing jurisdictions.
- ▶ Freightliner Corp. opened its \$5 million wind tunnel on Swan Island and plans to create about 300 new technology and engineering positions over the next 3 years. As the company develops its Swan Island campus, about 700 office workers in Northwest Portland will move to the new location.
- ▶ Washington-based Columbia Banking System purchased the Bank of Astoria for \$45.8 million. The acquisition yields Columbia \$2 billion in total assets; the combined entity will include 39 branches.
- ▶ MTR Western, a charter motor coach company serving an upscale market, purchased more than 5 acres at the Port of Ridgefield for a \$3.5 million operation that will bring 59 jobs to Clark County.
- ▶ OHSU announced it would set aside 45 acres of open space on Marquam Hill as park land as well as improve neighborhood livability and pursue economic development activities in partnership with the City of Portland.
- ▶ Salem will receive a \$10 million loan from the Oregon Economic and Community Development Department to help pay for work at the proposed Mill Creek Industrial Park. It is estimated the park could bring more than 5,000 jobs to Salem when completed.
- ▶ Denver-based Qwest will eliminate 160 jobs in two Portland offices. The telecommunications company closed a downtown service center for payphones, which eliminated 40 jobs. The next closure will occur by mid-summer at its small business center that employs 116.
- ▶ Minneapolis-based Logic Product Development chose downtown Vancouver as a satellite office site out of 20 regional possibilities. Logic develops small, single-board computing modules for a host of industries.





### CENTRAL CITY OFFICE MARKET OVERVIEW

There have been no great surprises for the Portland Central City Office Market during the Second Quarter 2004. Our previous projection of minor improvements in 2004 leading to more significant absorption in 2005 looks to be on target. Overall, the Central City market has held steady in the Second Quarter. Negative absorption of 110,408 square feet (sf) in the CBD was due primarily to a large space com-

ing available on the market after long sitting rented but vacant. Except for that space, vacancy changed by an insignificant amount. Positive absorption in the Lloyd and North/Northwest submarkets brought some balance, resulting in negative absorption of just 31,987 sf for the Central City.

Small but steady positive absorption

	Central City Change from		Suburban Change from	
	2Q,03	1Q,04	2Q,03	1Q,04
Vacancy	↓	↑	↑	↑
Absorption	↓	↓	↓	↓
Lease Rates	↓	↑	↓	↔
Construction	↓	↔	↓	↔

in the Lloyd and North/Northwest submarkets, aided this quarter by the relocation of government offices, has resulted in occupancy levels over 5 percentage points higher than Second Quarter 2003 for those markets. This increased occupancy has taken place almost entirely in Class A properties.

### MARKET SUMMARY

#### Central City\*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central Business	14,262,439	2,256,559	15.82	(110,408)	0
Lloyd	2,140,729	370,127	17.29	20,317	0
North/Northwest	2,044,823	473,087	23.14	58,104	0
<b>TOTAL</b>	<b>18,447,991</b>	<b>3,099,773</b>	<b>16.80</b>	<b>(31,987)</b>	<b>0</b>

#### Suburban\*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central 217	1,616,890	306,294	18.94	43,051	0
Southern 217	925,414	145,355	15.71	10,624	0
Barbur Boulevard	593,155	69,512	11.72	26,740	0
Beaverton-Hillsdale	455,992	72,917	15.99	(2,217)	0
Central Beaverton	579,675	107,435	18.53	(14,539)	0
I-5 South	1,410,606	64,525	4.57	8,474	35,017
Johns Landing	980,162	151,758	15.48	628	0
Kruse Way	2,070,671	245,462	11.85	(2,920)	0
Lake Oswego/West Linn	426,911	45,811	10.73	(1,056)	0
Northeast	932,091	159,909	17.16	1,817	84,293
Sunnyside/Clackamas	1,194,544	342,018	28.63	(13,255)	0
Southeast	606,748	223,152	36.78	5,279	0
Sylvan-Sunset	3,153,152	1,388,541	44.04	(53,792)	100,354
<b>TOTAL</b>	<b>14,946,011</b>	<b>3,322,689</b>	<b>22.23</b>	<b>8,834</b>	<b>219,664</b>
Vancouver	2,969,538	674,770	23.72	50,277	109,750

\* Additions and Subtractions to the numbers above are in our detailed report.

\*\*Includes Sublease Space.

### SUBURBAN OFFICE MARKET OVERVIEW

In the Second Quarter of 2004, the suburban Portland market experienced positive absorption for the third consecutive quarter, with Class B buildings having the strongest growth of 60,000 sf absorbed this quarter (approximately 1 percent of the total square feet in the market). However, Class A buildings remain stable and continue to show the most absorption year-to-date.

The west side submarkets



prevailed this quarter with positive absorption and increased occupancy overall. With 1.4 million sf, I-5 South is an area to watch with an occupancy rate of 95.4 percent, the highest of the 13 markets surveyed. Kruse Way, one of the largest submarkets with 2 million sf, remains strong with little change from last quarter's occupancy rate of 88.2 percent. The last part of this real estate triumvirate is the Central 217 submarket, whose occupancy increased 2 percentage points over the last quarter and 6 percentage points since the third quarter of 2003.

The east side submarkets did not fare as well this quarter, although two of the three submarkets tracked, Northeast and Southeast, rebounded from last quarter's negative absorption and are reflecting increased occupancy.

Overall, the Portland suburban office market continues to move forward, with the west side submarkets leading the way.

**VANCOUVER OFFICE MARKET OVERVIEW**

SW Washington also saw improvement this quarter, with overall positive absorption and growing occupancy rates, primarily in Class A buildings. In addition to attracting new companies, those tenants already established in Clark County are taking advantage of competitive market rents by relocating to Class A buildings. These two factors point toward continued stability and growth in the SW Washington office market.

With encouraging economic progress and employment slowly but steadily

**Office Highlights**

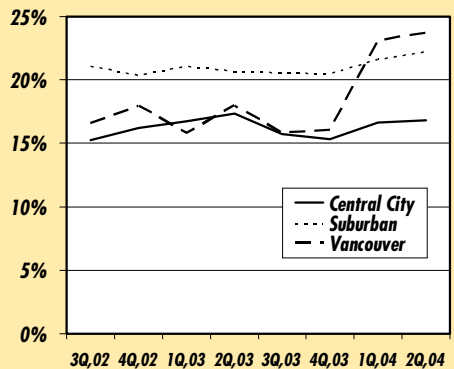
**SALES**

- ▶ NGP Duncan Plaza Portland, LLC, purchased 350,386 sf at the Robert Duncan Plaza in Portland from Marzer Venture for \$69.75 million.
- ▶ Lee Accommodations II, LLC, purchased 35,2321 sf at the Jefferson Office Park in Portland from GAPO, Inc., for \$2.6 million.
- ▶ Haines Building, LLC, purchased 13,237 sf of office space at 11675 Southwest 66th in Portland from Edward L & Patrik D. Casey Jr. for \$1.5 million.
- ▶ Cooper Mountain Vineyards, LLC, purchased 13,000 sf at the Wilson Park Building in Portland from Wilson Park Office Building, LLC, for \$1.4 million.
- ▶ Parkway Office, LLC, purchased 31,268 sf at Parkway Courtyard in Wilsonville from Equity Group Fund I, LLC, for \$3.3 million.
- ▶ OHH, LLC, purchased 28,064 sf at the Rader Engineering Building in Portland from AP Investment Ventures/AP Ventures, LLC, for \$950,000.

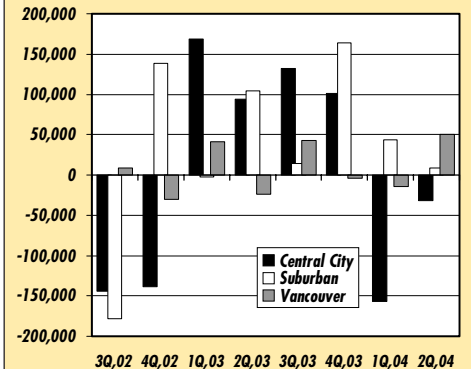
**LEASES**

- ▶ Accredited Home Lenders leased 27,721 sf at Creekside Corporate Park in Beaverton.
- ▶ Greene & Markley leased 14,095 sf at 1515 Market Square in Portland.
- ▶ City University leased 25,468 sf at Park Tower IV in Vancouver.
- ▶ Forest City Trading Group leased 15,782 sf at the Lincoln Building in Lincoln Center in Portland.
- ▶ Chicago Title leased 16,990 sf at Two Town Center in Clackamas.
- ▶ Columbia Ultimate leased 19,432 sf at the Electric Lightwave, Inc., Building in Vancouver.
- ▶ American Intercontinental University leased 74,000 sf at Cornell Oaks Corporate Center in Beaverton.
- ▶ PolyServe leased 25,000 sf at Building 20400 on Amberwood Drive in Beaverton.
- ▶ Gartner, Inc., leased 34,701 sf at the George Lawrence Building in Portland.
- ▶ Landerholm, Memovich, Lansverk & Whitesides leased 15,010 sf at Bank of America Financial Center in Vancouver.
- ▶ American Express Financial Advisors leased 10,129 sf at Five Lincoln Center in Portland.
- ▶ Digimarc Corp. leased 46,083 sf at Creekside Corporate Center in Beaverton.
- ▶ Prestige Care, Inc., leased 17,178 sf at Parkway Plaza IV in Vancouver.

**VACANCY COMPARISON**

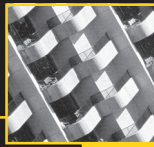


**ABSORPTION COMPARISON**



rising, a real estate recovery is no longer a fragile hope, but a near certainty. However, this year will likely

see continued improvement to the business climate without generating major changes in vacancy until 2005.



### INDUSTRIAL MARKET OVERVIEW

The industrial and flex markets suffered slight setbacks during Second Quarter, experiencing a rise in vacancy and negative absorption. The industrial market's vacancy rate underwent a 1.2 percentage point climb, from 16 to 17.2 percent. This change is largely attributable to the North/Northeast, Southeast and Southwest I-5 submarkets. Southwest Sunset and Vancouver held steady at approxi-

mately 24 percent and 17 percent, respectively, and the Northwest was the quarter's only submarket to decrease in vacancy, falling below market average to 10.2 percent.

The market currently favors tenants, as the rise in vacancy indicates. Rental rates have bottomed as landlords try to remain competitive

	INDUSTRIAL Change from 2Q,03		FLEX Change from 2Q,03	
	1Q,04	1Q,04	1Q,04	1Q,04
Vacancy	↔	↑	↓	↔
Absorption	↑	↑	↓	↓
Lease Rates	↔	↔	↔	↔
Construction	↓	↑	n/a	n/a

and entice the limited number of tenants looking for space. However, the weak leasing market is juxtaposed with an active selling market. Tenants

are becoming buyers as they are drawn by historically low interest rates. Facilities that are well-kept are selling rapidly. During the first six months of 2004, 106 industrial properties sold, coupled with an additional 41 properties currently on the market. Only 82 sale transactions were reported during the same period last year.

One of the quarter's most notable deals was the sale of Komatsu Silicon America's Hillsboro plant for \$5 million to the Park Corporation, controlled by native Oregonian Raymond Park. Komatsu built the 422,427 square foot (sf) silicon wafer manufacturing plant for a reported \$500 million in 1998, and was originally

### MARKET SUMMARY

#### Industrial & Business Parks\*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET ABSORPTION	UNDER** CONSTRUCTION
North/Northeast	16,364,255	3,002,300	18.50	(345,355)	222,050
Northwest	1,650,280	167,709	10.20	24,251	70,000
Southeast	5,540,875	920,153	16.60	(46,943)	0
Southwest 217	2,563,129	522,983	20.40	(42,885)	85,158
Southwest I-5	8,792,014	1,082,232	12.30	(119,516)	0
Southwest Sunset	4,228,381	1,018,808	24.10	11,778	0
Vancouver	7,835,088	1,367,591	17.50	(22,463)	43,250
<b>TOTAL</b>	<b>46,678,743</b>	<b>8,081,776</b>	<b>17.20</b>	<b>(541,133)</b>	<b>420,458</b>

#### Flex\*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET ABSORPTION	UNDER** CONSTRUCTION
North/Northeast	357,252	83,889	23.48	27,497	n/a
Southeast	144,433	13,300	9.21	1,600	n/a
Southwest 217	3,013,152	747,079	24.79	74,815	n/a
Southwest I-5	588,328	141,530	24.06	(20,348)	n/a
Southwest Sunset	5,526,091	1,736,682	31.43	(109,389)	n/a
Vancouver	725,984	107,867	14.86	17,588	n/a
<b>TOTAL</b>	<b>10,355,240</b>	<b>2,830,347</b>	<b>27.33</b>	<b>(8,237)</b>	<b>n/a</b>

\* Additions and Subtractions to the numbers above are in our detailed report.

\*\* Under construction numbers for industrial also include flex buildings.



marketing the property at \$40 million. The steeply discounted sale price indicates the profound effects the unexpected downturn in the semiconductor industry had on its players. The new owner will work in conjunction with Hillsboro's economic development department to land an appropriate user for the facility.

Second Quarter witnessed a decisive increase in development activity as well. Panattoni Development is responding to the buying trend in the industrial market by building a 37,000 sf facility in the Columbia Corridor that the company will then sell. In addition, Trammell Crow announced it would begin construction on the final phase of Canyon Creek Business Park, bringing 85,000 sf to the market and is also adding 204,550 sf to Rivergate Corporate Center.

As part of an ongoing effort to spur the pace of development, Governor Kulongoski announced in May that 11 Oregon sites are "project ready" for industrial development. These sites total over 900 acres and include land located at the Port of Portland and on Westmark Drive in Hillsboro. The Oregon Economic Development As-

# Industrial/Flex Highlights

## LEASES

- ▶ Cyber Acoustics leased 20,000 sf of industrial space at 5720 Northeast 121<sup>st</sup> Avenue in Vancouver.
- ▶ Pronto Distribution leased 27,709 sf of industrial space at 4250 Northwest Yeon Avenue.
- ▶ Metro Latex Paint Recycling leased 22,500 sf of industrial space at 4825 North Basin Avenue.
- ▶ Sears, Roebuck & Co. leased 26,286 sf of industrial space at 217 Distribution Center in Beaverton.
- ▶ Leupold & Stevens leased 20,000 sf of industrial space at Fry Space Center in Beaverton.
- ▶ Print Trucking Co. leased 17,186 sf of industrial space with 2,182 sf of office space at Stafford Distribution Center in Wilsonville.
- ▶ WBG leased 16,000 sf of industrial space at 2500 National Way in Woodburn.
- ▶ Manufacturers Supply leased 40,600 sf of industrial space at 3201 Northwest Lower Bridge Road in Vancouver.
- ▶ First, Inc., leased 51,603 sf of space at 2455 Northwest 26<sup>th</sup> Avenue.
- ▶ NW Kar Parts & Glass, dba Global Automotive Parts Co., leased 21,510 sf of industrial space at Foster 205 Commerce Center.

## SALES

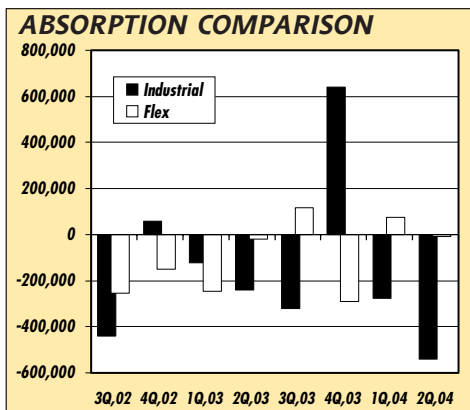
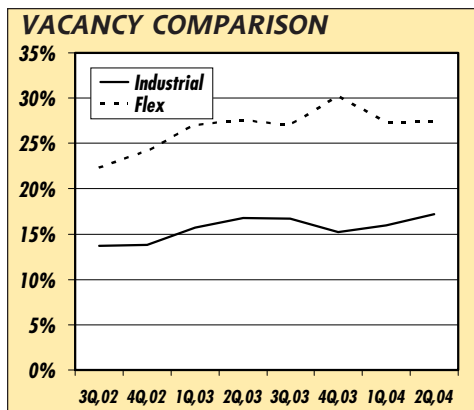
- ▶ Michael Czysz purchased 17,800 sf of industrial space at 911-915 Northeast Davis Street for \$1.2 million from Lindquist Development Co.
- ▶ Northwest Medical Teams purchased 61,722 sf of warehouse/office space on 2.99 acres of land at 14150 Southwest Milton Court in Tigard for \$4.5 million from Shenin-Mendenhall, LLC.
- ▶ SP Property Investments purchased a 15,360 sf industrial building at 2306 Northwest Reed Street for \$1.29 million from Schnitzer Investment.

sociation, Pacific Power and other private-sector entities will jointly market this land to site selectors.

## **FLEX MARKET OVERVIEW**

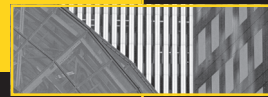
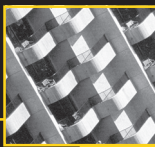
The Portland Metropolitan Area's flex market underwent a negligible

rise in vacancy during Second Quarter, from 27.27 percent to 27.33 percent. Interestingly, several submarkets experienced dramatic fluctuations in vacancy, yet these changes balanced one another and therefore left the overall vacancy rate relatively unchanged. Most notable was the 3 percentage point decline in Southwest 217, which accounts for 29 percent of the market, and North/Northeast's drop from 31.18 percent to 23.48 percent. Vancouver continued its steady decline, posting a 14.86 vacancy rate at the quarter's close.



# Retail

PORTLAND METROPOLITAN AREA



SECOND QUARTER 2004

## RETAIL MARKET OVERVIEW

The Portland retail market continued to prove its stability in the Second Quarter 2004. Vacancy rates remained approximately the same as First Quarter 2004, with a slight drop in the overall vacancy rate to 5.0 percent from last quarter's 5.1 percent. Retailers consistently added jobs to their payroll, contributing to the state's half-percentage point unemployment drop and bolstering its economic recovery. The improving job market, success of the Urban Growth Boundary (UGB) in controlling growth and protecting property value, lack of sales tax, and ability of Portland to attract and retain its population all make Portland a desirable retail market.

The expansion of national and regional retailers into the area demonstrates this fact. For example, Romano's Macaroni Grill opened its first Oregon restaurant in downtown

Portland and San Francisco-based Zao Noodle Bar, a chain of six restaurants, plans to expand into Portland early next year. In addition, Panda Express Restaurant Group plans to add approximately 20 fast food Chinese restaurants in Oregon within two to five years, six of which may open by year's end.

The newest developments, specifically The Brewery Blocks, Streets of Tanasbourne and Bridgeport Village, have been especially successful in drawing prominent national retailers into the area. Diesel Jeans and PF Chang's China Bistro recently opened their first Portland locations, and Anthropologie, West Elm, Crate & Barrel and Z Gallerie are all scheduled to open their first area stores during the coming months.

Local retailers are also expanding. Island Joe's, which opened in March at 538 Southwest 6th Avenue, plans

	Change from	
	2Q,03	1Q,04
Vacancy	↓	↔
Absorption	↓	↓
Lease Rates	↔	↔
Construction	↔	↔

to open 130 additional stores in the next five years. New Seasons Market Corp., a Portland-based partnership between three individuals and Wild Oats Markets, Inc., is in the process of adding a fifth store in Southeast Portland, which will soon be followed by a North Portland store, adjacent to the new Interstate light-rail line. Whole Foods Market, Inc., the nation's largest natural foods grocery, is thriving in the Pearl District and is reportedly looking for a second Portland location. In fact, Portland is slated to see at least six new or remodeled grocery stores open in the next year.

Construction has started at Washington Square on the first phase of a 100,000 square foot (sf) expansion to add a four-level parking garage to the mall. The second phase, which will include construction of space for a restaurant and 28 retailers, is expected to be completed by the 2005 holiday shopping season. As a result, an estimated 300

## MARKET SUMMARY

Retail*					
SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,148,046	346,039	6.7	(27,163)	0
Central City	2,581,855	175,465	6.8	(850)	26,317
Southeast/East Clackamas	5,336,563	322,920	6.1	22,068	0
Eastside	5,240,986	299,120	5.7	5,597	25,000
Sunset Corridor	4,420,994	121,653	2.8	5,801	771,626
Southwest	9,377,531	412,923	4.4	(16,604)	500,000
Vancouver	6,497,104	249,483	3.8	5,055	324,000
<b>TOTAL</b>	<b>38,603,079</b>	<b>1,927,603</b>	<b>5.0</b>	<b>(6,096)</b>	<b>1,646,943</b>

\* Additions and Subtractions to the numbers above are in our detailed report.



retail jobs will be added.

The increasing number of downtown condos and apartments has augmented the inner city's attraction to major retailers such as Home Depot, Costco, Target and Wal-Mart. However, the typical size of a downtown block, 40,000 sf, means these big-box retailers must adjust their store model or develop an alternate approach to gaining close proximity to downtown shoppers.

One such plan was recently unveiled by the Portland Development Commission (PDC). It calls for a 100,000 sf Home Depot and up to 450 housing units in the six-block area located at the east end of the Burnside Bridge. Also included are 70,000 sf of smaller retailers, 150,000 sf of office space and approximately 500,000 sf of parking. The PDC, which owns one and one-half blocks, is currently negotiating with local property owners to expand its ownership by an additional three blocks.

Home Depot's plan is not expected to be replicated on a widespread basis. In addition to the issue of size, retailers contend with higher costs in the downtown market and the downtown market itself must contend with the rising prominence of lifestyle centers, such as Bridgeport Village and the Streets of Tanasbourne. As aforementioned, these centers have been successful in attracting the attention of retailers and obtaining impressive lease rates.

Vacancy rates are expected to hold steady for the rest of the year, as is the

## Retail Highlights

### SALES

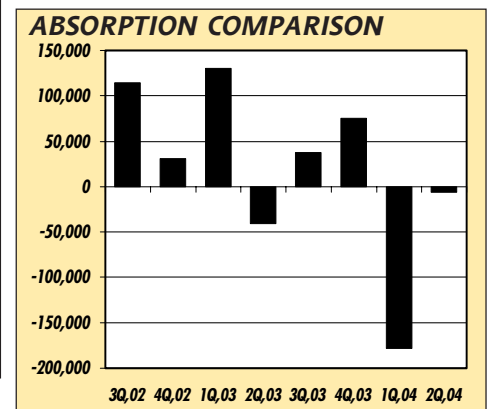
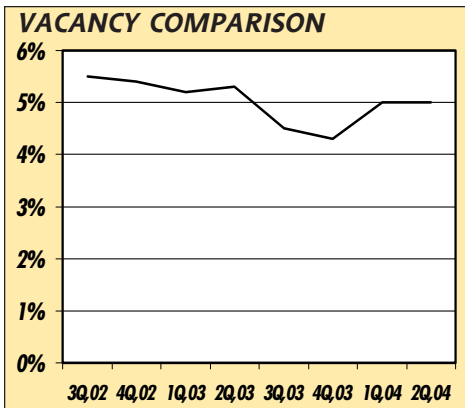
- ▶ Banner Bank purchased 1.2 acres from Davis Commercial Center at 3301 Southeast 162nd Avenue in Vancouver.
- ▶ Paul S. Markley has purchased Village Square, an 84,387 sf shopping center at 16000-16100 Southeast Stark Street, for \$5 million from Ryan Lawrence, Eloise Carson and Don Vallaster.
- ▶ Judith Huck and Joe Huck, dba Classique Floors, have purchased the former Heber Hardware building, with 6,000 sf at 14127 Southeast Stark Street, for \$510,000 from Ed Heber, Fred Heber and Aileen Hoffman.
- ▶ Vinh Nguyen and Christina Nguyen have purchased a 2,916 sf retail/office building at 7816 Northeast Sandy Boulevard for \$467,000 from Dick Reynolds and Eva Reynolds.
- ▶ Russme Properties, LLC, has purchased 6,600 sf in the Anspach Building at 7901 Southeast Stark Street in Portland from Gary and Danise Odell, and John and Rosemary Childress for \$416,500.

### LEASES

- ▶ The White House has leased 2,220 sf of retail space at A Street Station, 220 A Avenue in Lake Oswego.
- ▶ Taco Del Mar has leased 1,200 sf from Barbur Plaza at 9055-3 Southwest Barbur Boulevard in Portland.
- ▶ AT&T Wireless Services has leased 3,000 sf of retail space at Sunset Esplanade Shopping Center in Hillsboro.
- ▶ Sally Beauty Supply Co. has leased 1,617 sf of retail space at Riverstone Marketplace in Camas, Washington.
- ▶ Sunshine, LLC, dba Quiznos Sub, has leased 1,500 sf of retail space at Esther Short Commons Commercial in downtown Vancouver.
- ▶ Starbucks Corp has leased 1,500 sf at 462 West 14th Avenue in Vancouver.
- ▶ Cookies by Design has leased 1,300 sf at 3820 Southwest Hall Boulevard in Beaverton.
- ▶ Cort Business Services has leased 11,500 sf of retail space at 8282 Southeast 82nd Avenue.

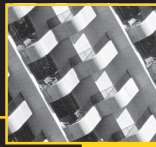
interest among national retailers in expanding into the Portland market. These expansions are changing the landscape of Portland's retail market, converting it from a market domi-

nated by local and regional retailers to one that offers shoppers a healthy mix of local and national stores. Worth watching is the effect of these national retailers, and their deeper pockets, on rent rates in select areas.



# Multi-Family

PORTLAND METROPOLITAN AREA



SECOND QUARTER 2004

## PORTLAND METRO MULTI-FAMILY MARKET OVERVIEW

The Portland Metropolitan area Multi-family leasing market continued to improve in the second quarter of 2004. A strengthening economy has picked the area's job market out of the doldrums, bringing apartment opportunities with it. In fact, both the Portland PMSA and Oregon as a whole have unemployment rates nearly 1% lower than a year ago. The state has added over 33,000 jobs in the past 12 months, most of them in the first half of 2004. All of this job creation means Joe & Suzy Tenant are getting jobs and are now able to move out of mom's house and look for their own apartment. As such, the overall vacancy rate has dropped 0.31 percentage points

from last quarter to 6.38 percent. This is a cumulative decrease of 2.3 percentage points for the year, down from a 2003 high of 8.98 percent in the fourth quarter. Seasoned units showed a slightly higher vacancy rate this quarter at 6.84 percent, while new units fell 1.03 percentage points to 4.54 percent. The only market to show an increase in vacancy overall was the Tigard & Tualatin market, which had a 0.66 percentage point increase to 7.20 percent.

The overall average rental rate for the entire market rose \$7 this quarter to \$753 per unit, per month as owners & managers have been able to hold the line on concessions and rents as vacant units fill up. The increase in

	Newer Units Change from 2Q,03		Seasoned Units Change from 2Q,03	
	1Q,04		1Q,04	
Vacancy	↑	↓	↓	↑
Rental Rates	↑	↓	↑	↑
Concessions	↔	↓	↔	↓

rent was felt in all unit types, excluding the odd-ball 3-bedroom/1-bath units. Breaking down the overall average into Seasoned and New shows that the newer units fell slightly in price to \$764 this quarter while Seasoned rose to \$750. On a per sf basis, the quarterly changes were not significant enough to alter last quarter's averages of \$0.85 for Seasoned, \$0.87 for New and \$0.85 overall.

Even with the economic upswing in full gear and occupancy on the rise, apartment managers cannot rest on their laurels. Inflation, a common side effect of economic expansion, can take a severe bite out of operations. In May 2004 alone, energy prices rose 4.6 percent according to the Bureau of Labor and Statistics. The past 12 months have seen a 15 percent increase in energy costs. Astute managers are proactively searching for ways to mitigate increased expenses, including conservation measures and individual metering.

## MARKET SUMMARY

### Multi-Family\*

SUBMARKET	AVERAGE RENT PER UNIT				% VACANT
	1 BD/1 BTH	2 BD/1 BTH	2 BD/2 BTH	3 BD/2 BTH	
Downtown Portland	\$881 (\$1.26)	\$1,273 (\$1.39)	\$1,495 (\$1.26)	\$2,445 (\$1.31)	5.63
Southeast Portland	\$589 (\$0.89)	\$682 (\$0.78)	\$731 (\$0.73)	\$872 (\$0.75)	6.78
North/Northeast Portland	\$631 (\$0.92)	\$718 (\$0.78)	\$830 (\$0.84)	\$781 (\$0.67)	7.14
Southwest Portland	\$615 (\$0.90)	\$654 (\$0.80)	\$832 (\$0.79)	\$742 (\$0.61)	8.10
Gresham/Troutdale	\$555 (\$0.80)	\$617 (\$0.72)	\$676 (\$0.71)	\$812 (\$0.71)	7.20
Lake Oswego/West Linn	\$737 (\$0.94)	\$833 (\$0.87)	\$999 (\$0.88)	\$1,136 (\$0.79)	5.22
Wilsonville	\$604 (\$0.85)	\$681 (\$0.75)	\$732 (\$0.76)	\$881 (\$0.78)	6.40
Tigard/Tualatin	\$588 (\$0.87)	\$661 (\$0.77)	\$767 (\$0.76)	\$904 (\$0.76)	7.20
Beaverton/Aloha	\$608 (\$0.88)	\$675 (\$0.76)	\$768 (\$0.77)	\$926 (\$0.78)	6.45
Hillsboro	\$670 (\$0.91)	\$717 (\$0.75)	\$814 (\$0.78)	\$1,008 (\$0.77)	2.72
Clackamas/Or Cty/MLwk	\$580 (\$0.83)	\$658 (\$0.75)	\$716 (\$0.74)	\$859 (\$0.71)	4.08
Vancouver	\$586 (\$0.83)	\$641 (\$0.71)	\$744 (\$0.72)	\$857 (\$0.72)	4.88
<b>OVERALL</b>	<b>\$640 (\$0.91)</b>	<b>\$721 (\$0.80)</b>	<b>\$831 (\$0.80)</b>	<b>\$966 (\$0.77)</b>	<b>6.38</b>

\* Additions and Subtractions to the numbers above are in our detailed report.



Properties that are able to absorb expense increases should continue to see favorable capitalization rates for the immediate future. With the Federal Reserve poised to raise interest rates this summer, investors will eventually need to increase CAP rates over the current median of 7.2 percent when valuing potential investments. Even with the era of rock-bottom rates seemingly near an end, commercial real estate, especially multi-family product, continues to be a highly sought after investment vehicle. See our highlights section for more details.

**CLARK COUNTY  
MULTI-FAMILY  
MARKET OVERVIEW**

The Clark County apartment market saw continued improvement in vacancy rates this quarter, falling 1.06 percentage points to 4.88 percent. This brings the total drop for the first half of the year to over three percentage points; down from a fourth quarter 2003 high of 8.1 percent. New units are still slightly worse off than seasonal, 5.14 percent vacant compared to 4.82 percent, but are gaining ground. The increase in occupancy appears to be the result of market conditions rather than concessions as average rental rates were nearly flat, averaging \$688 per unit, per month, for the entire market. New units averaged a \$4 per month gain, from \$756 to \$760, while seasoned units fell \$6 to \$672. Apartment sales activity was quiet in Vancouver this quarter with only five sales totaling \$6.5 million in volume the past three months.

**Multi-Family Highlights**

- ▶ 21 of the 39 apartment sales this quarter were over \$1 million, totaling \$118,777,000. Properties that sold for over \$1 million had a median size of 43 units per property and the median price per unit was \$50,208. CAP rates were not reported for all properties, but the median for the 16 reported was 7.36 percent.
- ▶ F&F / WC Reflections Associates, LLC, purchased the Reflections at Summer Creek apartments. The 351 units located at 11103 Southwest Davies Road were built in 1991 and sold for \$25 million.
- ▶ Uptown Heights Condominiums, LLC, purchased Hilltop Condominiums at Uptown for \$15.3 million. The 108 units located at 335 Northwest Uptown Terrace will be converted into condos.
- ▶ Overlook Associates, LLC, purchased Overlook at Causey Lane from WCL Real Estate, LP. The 276 units sold for \$13.1 million and are located at 11408 Southeast 90th Avenue.
- ▶ Sunflower Apartments were purchased by 1440 Alta Vista, Inc., for \$11.2 million. This 178,132 sf property houses 238 apartments and is located at 11547 Southwest 135th Avenue.
- ▶ Tigard Colony, LP, purchased the 156-unit Pacific Crest Apartment Homes. The 1969 property located at 16095 Southwest Murdock Street in Tigard sold for \$6.53 million.
- ▶ Envoy Condominiums, LLC, acquired the Envoy Apartment Building for \$5.5 million. The 43 units are located between 2336 & 2380 Osage Street.
- ▶ For \$4.7 million, Alan Kinsel sold the Campbell Court Apartments to Timothy and Marianne Gray. The 35,712 sf property is located at 530 Northwest 23rd Avenue.
- ▶ Harold and Annie T Buell purchased the 70-unit Cambridge Townhomes Apartments from David Kornblum. Located at 717 Northeast 82nd Avenue in Vancouver, the property sold for \$3.5 million.
- ▶ Case-Grace Manor, LLC, purchased the 60-unit Grace Manor Apartments from Anderegg Trust. The 53,523 sf property is located at 3323 Southwest Multnomah Boulevard. The apartments sold for \$3.025 million.
- ▶ The 52-unit Regency Town Homes were purchased by Esmael Naghdi & Afsaneh Maghsoudi. The 17441 Southeast Division Street property sold for \$2.265 million.
- ▶ 5353 Southeast 28th Avenue, LLC, purchased Birchwood Place for \$2.165 million. The 38 family units are located at 5353 Southeast 28th Avenue.

