

ECONOMIC OVERVIEW

The Third Quarter saw the national economy making a slow, but steady recovery. Sobering news announced by the U.S. Department of Labor and Industries that the national economy added only 32,000 jobs in July was far short of the projected 200,000 many analysts had predicted, but proved to be a small setback as 144,000 jobs were created in August.

Oregon has followed suit posting the largest unemployment rate decrease of 1.9 percentage points last year. Though recent reports show the rate at 7.4 percent at the end of August, this speaks to a balancing effect on the unemployment rate due to the unusually strong hiring that occurred this Spring in construction and manufacturing. Construction hired above normal with 2,200 jobs, 300 more than typical August gains. Oregon also

posted a 5 percentage point increase in professional and business services accounting for one in nine payroll jobs.

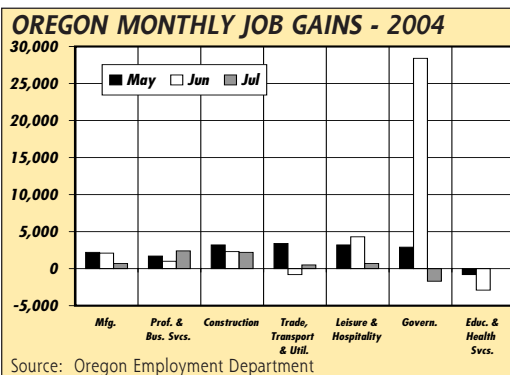
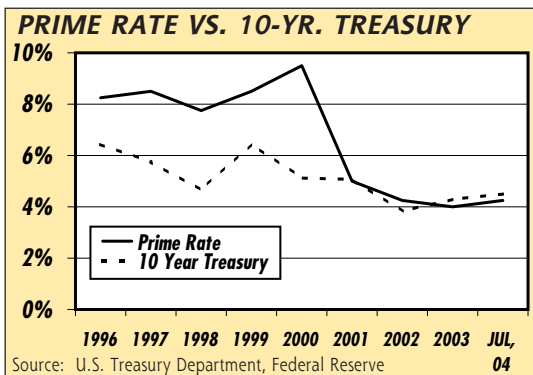
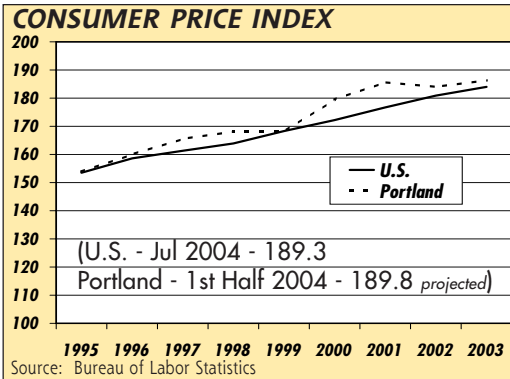
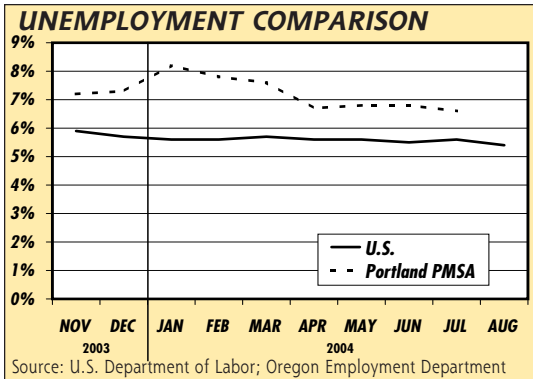
Other good news was the announcement by Oregon Steel that a new facility will be built in the area and the forest products industry is posting healthy earnings. Likewise, Oregon has managed to mitigate the blow of astronomical oil prices with Freightliner increasing employment as the demand for trucks increases and with reported gains in the recreational vehicle industry.

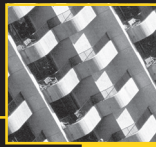
Job growth is still the key to economic recovery. While many signs are good, weakness in the tech sector continues to be an obstacle to growth. Oregon has played a prominent role in the chip manufacturing industry for many years with the likes of Micro-

chip Technology, Inc. in Gresham and CNC in Sherwood who are looking at technology spending increases. Intel, who has been moving high-end research and manufacturing from the Silicon Valley in California to the Pacific Northwest, plans on building another plant in Oregon, creating jobs and bringing attention to this sector.

Continuing population growth will also help with Oregon's job growth. During Oregon's recession between 2000 and 2003, 56 percent of the population growth was net in-migration. The 24-35-year-old, college-educated demographic was the largest group of this in-migration, a very desirable demographic to new and existing businesses. Hopefully, this will encourage businesses to look towards Oregon to take advantage of this pool of young and educated talent.

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





CENTRAL CITY OFFICE MARKET OVERVIEW

As predicted, the Portland Metro Area's Central City Office market made improvements in the Third Quarter with positive absorption and lower vacancy rates. The numbers mirror the area's slow economic recovery with the expectation that by the middle of 2005 the market should see significant growth.

Government agencies continue to be the largest contributor to the

Lloyd District's positive absorption, posting 120,000 square feet (sf) this quarter. Strict guidelines such as seismic codes and ADA compliancy have forced government agencies out of the older buildings in the Central Business District (CBD) to newer properties offered in the Lloyd District. But even with the exodus of government agencies, the

	Central City Change from 3Q,03		Suburban Change from 3Q,03	
	2Q,04	2Q,04	2Q,04	2Q,04
Vacancy	↓	↑	↓	↓
Absorption	↑	↑	↑	↑
Lease Rates	↓	↔	↓	↓
Construction	↓	↔	↓	↓

CBD still saw absorption of 86,889 sf, the first positive absorption in the CBD this year. Though the North/Northwest market is showing negative absorption of 705 sf this quarter, its effect on the total Third Quarter absorption number is negligible.

Even with 226,342 sf of net absorption, there was only a slight drop in the Third Quarter's overall vacancy rate to 15.58 percent from the previous quarter, due in large part to the North/Northwest submarket's 23.17 percent of available space. Class A properties continue to post the lowest vacancies at 13.23 percent.

MARKET SUMMARY

Central City*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central Business	14,262,439	2,169,670	15.21	86,889	0
Lloyd	2,140,729	229,969	10.74	140,158	0
North/Northwest	2,044,823	473,792	23.17	(705)	0
TOTAL	18,447,991	2,873,431	15.58	226,342	0

Suburban*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE ** SQUARE FEET	%** VACANT	NET** ABSORPTION	UNDER CONSTRUCTION
Central 217	1,616,890	307,371	19.01	(1,077)	0
Southern 217	925,414	92,547	10.00	52,808	0
Barbur Boulevard	593,155	69,362	11.69	150	0
Beaverton-Hillsdale	455,992	70,659	15.50	2,258	0
Central Beaverton	579,675	96,021	16.56	14,414	0
I-5 South	1,434,906	117,731	8.20	(28,906)	10,017
Johns Landing	980,162	153,414	15.65	(1,656)	0
Kruse Way	2,070,671	198,257	9.52	47,205	0
Lake Oswego/West Linn	426,911	42,986	10.07	2,825	20,000
Northeast	932,091	154,091	16.53	5,818	84,293
Sunnyside/Clackamas	1,169,544	274,920	23.51	51,818	0
Southeast	606,748	123,757	20.40	99,395	0
Sylvan-Sunset	3,026,466	1,275,605	42.81	65,908	100,354
TOTAL	14,818,625	2,996,721	20.22	307,960	219,664
Vancouver	2,984,538	607,021	20.34	82,749	109,750

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

**Includes Sublease Space.

SUBURBAN OFFICE MARKET OVERVIEW

The suburban office market also improved this quarter with significant positive absorption occurring in the Southeast, Sylvan-Sunset and



Sunnyside/Clackamas submarkets. The total of these submarket's positive absorption accounts for two-thirds of the 307,960 sf net absorption. I-5 South, again this quarter, posted the lowest vacancy rate of all the submarkets. Class A buildings lead the leasing numbers with the Sunset Corridor posting the largest gains, nearly double any other submarkets. Although this is great news, this area's vacancy rate was also the highest at 42.81 percent. Substantial absorption must happen for the Sunset Corridor to see a balance of supply and demand. The largest tenant to take down space in this submarket is AIU, an online university that leased 74,677 sf in Greenbrier Court, a Class A office building in Cornell Oaks Corporate Center.

The overall vacancy rate in the suburban office market dropped from last quarter's 22.23 percent to its current 20.23 percent. The I-5 South and Kruse Way submarkets posted single digit vacancies of 8.20 and 9.57 percent respectively.

VANCOUVER OFFICE MARKET OVERVIEW

Southwest Washington had its second quarter in a row of positive absorption with 82,749 sf this quarter. The surprise was the surge in Class C buildings as 45,490 sf were absorbed. With 94,750 sf under construction and more than 500,000 sf proposed, it is easily one of the most anticipated office market expansion areas. Vacancy rates have dropped by nearly 4 percentage points from last quarter to

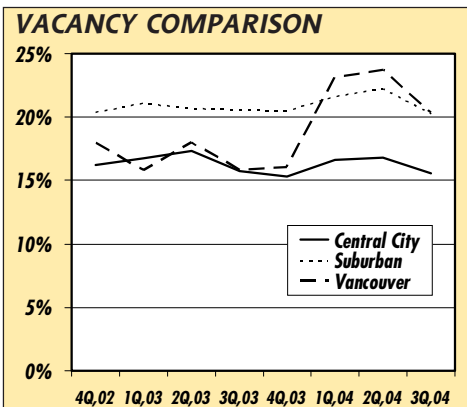
Office Highlights

SALES

- ▶ Louis Dreyfus Property Group sold the 204,848 sf, 11-story 400 SW 6th Avenue Building in Portland for \$30.25 million to Felton Properties, Inc.
- ▶ William J. Bonner of Peerless Pattern Works purchased a 36,500 sf warehouse/office building at 3325 and 3319 Northwest Yeon Avenue for \$1.835 million from Patricia R. Carter.
- ▶ DocuSource Partners purchased 23,635 sf of office space at 6955 Southwest Sandburg Street in Tigard for \$1.695 million from Northwest Medical Teams International.
- ▶ Venerable Group, Inc., purchased 20,000 sf of office space from Rhodes Bakery Equipment Inc. at 400 Northeast 11th Avenue for \$935,000
- ▶ Metro Holdings West VIII purchased the former Stars Antiques Building, 20,000 sf retail/office at 305 Northwest 21st Avenue for \$1.85 million from Real Estate Recovery Associates.
- ▶ Haines Building, LLC, purchased 13,237 sf for \$1.55 million from Edward L. Casey Jr. and Patrick D. Casey at the Tigard Triangle Office Building.

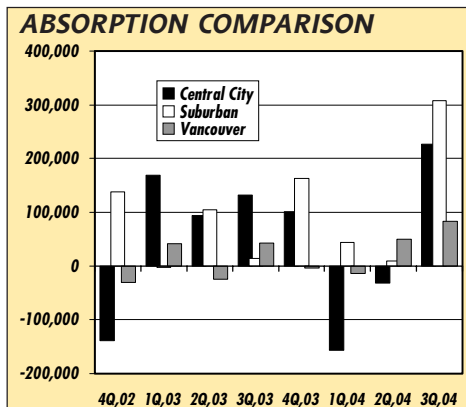
LEASES

- ▶ Partners on Demand has subleased 60,040 sf of office space at 12100 Southwest Tualatin Road in Tualatin.
- ▶ Portland Bureau of Environmental Services leased 46,000 sf of office space at Portland Opera Plaza.
- ▶ Corinthian College leased 35,479 sf of office space at 401 and 425 Southwest Washington Street.
- ▶ The State of Oregon leased 31,991 sf of office space at 4560 Southeast International Way in Milwaukie.
- ▶ Accredited Home Lenders leased 27,721 sf at Creekside Place in Beaverton.
- ▶ LandAmerica Financial Group subleased 27,000 sf at Jantzen Park Building.
- ▶ Pixelworks leased 24,113 sf at 7720 Southwest Mohawk Street in Tualatin.
- ▶ Media Systems leased 20,082 sf at 100 Southeast Salmon Street and 119 Southeast Main Street.
- ▶ American Medical Response Northwest, Inc., leased 17,930 sf at the York Facility, 9800 Southeast McBrod Avenue in Milwaukie.
- ▶ Genesis Financial Solutions leased 15,798 sf at Creekside Corporate Park in Beaverton.



20.34 percent.

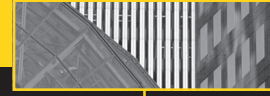
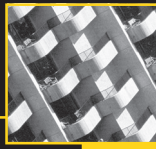
This quarter brings good news for the entire office market. Though some areas continue to struggle, such as the



CBD and Sunset Corridor, the strong numbers showing for other market areas can only be an encouraging indicator of future growth patterns.

Multi-Family

PORTLAND METROPOLITAN AREA



THIRD QUARTER 2004

PORTLAND METRO MULTI-FAMILY MARKET OVERVIEW

The Portland/Vancouver multi-family market is finally starting to pull in higher occupancy rates with an eye towards raising rents in the near future. Oregon's current economic soup of healthy population growth and optimistic job growth are paving the way towards a strong future for the market, despite recent reports of a rise in the unemployment rate.

Currently, the overall vacancy rate is 5.51 percent, a nice drop from 6.38 percent last quarter. Seasoned units decreased their vacancy over 1 percentage point from last quarter's rate, but new units continue to have the lowest

vacancy rate. The North and Northeast Portland markets are enjoying yet another dip in vacancies with Tigard and Tualatin also showing decreases.

A tumble in rent appears in all types of units, but the overall average rental rate stayed the same this quarter at \$753/unit/month. Newer units experienced the greatest drop in overall average rent and average rent per square foot, running at \$764/unit/month this quarter. One possible explanation for this is the slow elimination of concessions by landlords to entice occupants. Not only does the elimination give a better indication of actual rent rates

	Newer Units Change from 3Q,03		Seasoned Units Change from 3Q,03	
	2Q,04	3Q,03	2Q,04	3Q,03
Vacancy	↓	↓	↓	↓
Rental Rates	↓	↓	↔	↔
Concessions	↔	↓	↔	↓

without the artificial inflation, it also indicates market stabilization. Seasoned units remained steady with no change to last quarter's average per square foot of \$0.85.

Currently, owners are cautious as they watch the rising occupancy levels. If the levels continue to rise and stabilize through the Winter, we could see rent increases by Spring 2005. For now, it is still a renter's market as they have the ability to take advantage of soft rental rates created by fierce competition between new and seasoned units for occupants.

With the race to fill vacancies occurring between apartments, another issue is the low interest rates, which continue to lure first-time homebuyers even with the Federal Reserve's hikes. This challenging market has led apartment owners to seek possible solutions other than

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	\$878 (\$1.25)	\$1,204 (\$1.32)	\$1,485 (\$1.25)	\$2,430 (\$1.30)	6.00
Southeast Portland	\$587 (\$0.89)	\$683 (\$0.78)	\$733 (\$0.73)	\$873 (\$0.75)	6.13
North/Northeast Portland	\$629 (\$0.92)	\$716 (\$0.78)	\$829 (\$0.83)	\$783 (\$0.67)	6.50
Southwest Portland	\$617 (\$0.89)	\$658 (\$0.79)	\$920 (\$0.84)	\$782 (\$0.63)	4.95
Gresham/Troutdale	\$550 (\$0.81)	\$616 (\$0.72)	\$678 (\$0.71)	\$812 (\$0.71)	6.77
Lake Oswego/West Linn	\$738 (\$0.94)	\$831 (\$0.86)	\$1,001 (\$0.89)	\$1,138 (\$0.80)	5.82
Wilsonville	\$605 (\$0.85)	\$683 (\$0.75)	\$733 (\$0.76)	\$870 (\$0.77)	6.07
Tigard/Tualatin	\$589 (\$0.87)	\$664 (\$0.77)	\$767 (\$0.76)	\$897 (\$0.76)	5.54
Beaverton/Aloha	\$612 (\$0.88)	\$681 (\$0.76)	\$776 (\$0.78)	\$928 (\$0.79)	4.80
Hillsboro	\$672 (\$0.91)	\$717 (\$0.76)	\$822 (\$0.78)	\$1,011 (\$0.78)	3.34
Clackamas/Or Cty/MLwk	\$581 (\$0.83)	\$657 (\$0.75)	\$718 (\$0.75)	\$861 (\$0.71)	3.44
Vancouver	\$587 (\$0.83)	\$643 (\$0.71)	\$748 (\$0.72)	\$858 (\$0.71)	3.97
OVERALL	\$641 (\$0.91)	\$717 (\$0.80)	\$837 (\$0.80)	\$966 (\$0.76)	5.51

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



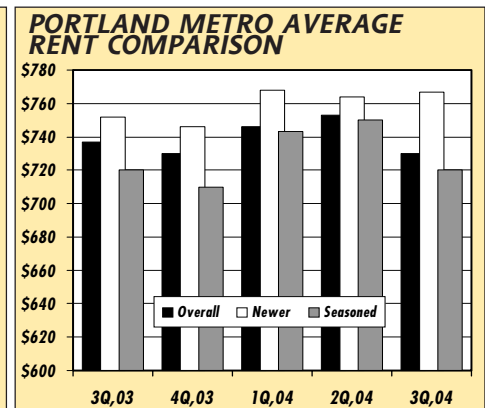
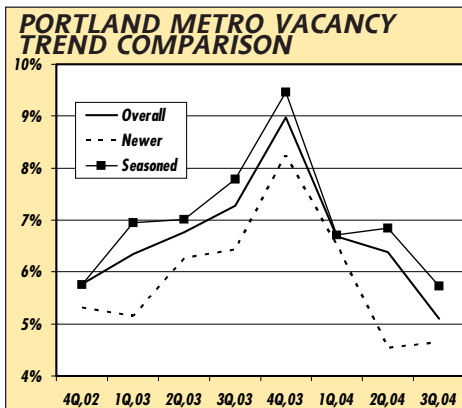
holding on to their buildings and one such answer has been condo conversions, a strong housing trend growing in the Portland/Vancouver apartment market. The typical condo tenant consists of either young professionals or retirees. The wants of this demographic are consistent with the amenities condo communities provide such as arranged maintenance, landscaping and easy access to urban centers.

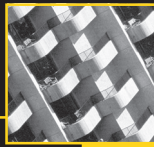
The rate of purchase and interest in these single-family dwellings has made converters eager to buy apartment buildings to redevelop into condo communities. The expense to convert is far less than developing from the foundation up and conversion turnaround times occur more quickly. In the last five years, the number of newly constructed condos has nearly doubled to 15,000 units, suggesting that the demand for urban homes has intensified. With apartment building owners eager to find a profit in the rental market, and with demand for purchasing these sites high, owners are opting to sell the apartment at a price per unit that is significantly higher than they would get from renting it.

With this quarter's drop in vacancy and rising interest rates, both of which should ultimately lead to increased rents and property value, the Portland/Vancouver multifamily market is optimistic about its future.

Multi-Family Highlights

- ▶ 12 of the 20 apartment sales this quarter were over \$1 million, totaling \$61,624,000. Properties that sold for over \$1 million had an average size of 70 units per property and the average price per unit was \$63,438. CAP rates were not reported for all properties, but the median for the 8 reported was 7.12 percent.
- ▶ Holland Holdings I Arbor Heights, LLC, purchased Arbor Heights Apartments. The 348 units located at 15001 SW 109th Avenue in Tigard were built in 1987 and sold for \$27.54 million.
- ▶ Warnke-Lombard, LLC, purchased Royal Ascot Apartments for \$6.65 million. The 92 units located at 700 Southeast 5th Avenue in Canby were sold by Jays Canby, LLC.
- ▶ Highland Hills Apartments, LLC, purchased Highland Hills Apartments from Thomas E. Harrington Trust. The 107 units sold for \$5.575 million and are located at 14100 SW Allen Boulevard in Beaverton.
- ▶ California Boardwalk Limited Investors & Calabazas Creek Limited Investors sold Wellington Estates, an 80-unit apartment complex in Tigard for \$4.925 million.
- ▶ Powell Court Apartments were purchased by Santa Olimpia Co, LP, for \$4.99 million. This 70,584 sf property houses 72 apartments and is located at 16916 Southeast Powell Boulevard in Portland.
- ▶ GBJ Rene, LLC, purchased the 31-unit Rene Village Apartment Homes. The 1981 property located at 600-660 Southeast Rene Avenue sold for \$1.7 million.
- ▶ Carlo Tamburrino, acquired Bobby Court Apartments for \$1.375 million. The 27 units are located between 10941 and 11041 Southeast Bush Street in Portland.
- ▶ For \$1.36 million, Hurricane Investment, LLC, sold The Diplomat Apartments to Philip & Mariel Bartmaster. The 27-unit property is located at 10950 Northeast Wygant Street in Portland.
- ▶ Jane Lundin purchased an 18-unit apartment complex from Nebraska Court, LLC. Located between 2403 & 2417 Southwest Nebraska Street, the property sold for \$1.3 million.
- ▶ Thomas & Roberta Lawre purchased a 16-unit complex from Kachlik Investment Properties, LLC. The 13,824 sf property is located at on Southeast 122nd Avenue in Portland. The apartments sold for \$1.145 million.





INDUSTRIAL MARKET OVERVIEW

The Portland Metro industrial market is saw a drop in vacancy rates in the Third Quarter, as all submarkets experienced positive absorption. The overall vacancy rate decreased 2 percentage points to 15.6 percent. This good news may be a harbinger of a stronger leasing market getting ready to emerge.

The Southeast submarket posted the most significant absorption of

248,654 square feet (sf) and a vacancy reduction of 4.5 percentage points. The Southwest/Sunset market is still posting the highest vacancy rate at 22.1 percent, but is experiencing positive absorption with deals like the 68,800 sf lease at Tanasbourne Business Center.

The numbers suggest that activity

	INDUSTRIAL Change from 3Q,03		FLEX Change from 3Q,03	
	2Q,04	2Q,04	2Q,04	2Q,04
Vacancy	↓	↑	↑	↑
Absorption	↑	↑	↓	↓
Lease Rates	↔	↔	↔	↔
Construction	↑	↔	n/a	n/a

is rising in the industrial market, but leasing and decision making is still slower than desired. Much of the movement we are seeing is occurring

in a small handful of large deals. The North/Northeast moved 102,577 sf at PDX Corporate Center East with, accounting for 50 percent of the total square footage absorbed in this market. The North/Northeast is a strong submarket with over 16 million total square feet, but other areas are experiencing increased activity and lower vacancy rates. Goodwill leased 107,850 sf out of the available 212,000 sf at Heleco Distribution Center in the Southeast, like the North/Northeast submarket accounting for more than half of the absorbed total square footage. The Northwest and Southwest I-5 submarkets posted vacancy rates of 9.1 and 10.6 percent respectively,

MARKET SUMMARY

Industrial & Business Parks*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET ABSORPTION	UNDER** CONSTRUCTION
North/Northeast	16,266,755	2,950,509	18.10	208,821	204,550
Northwest	1,650,280	150,283	9.10	17,426	0
Southeast	5,540,875	671,499	12.10	248,654	70,000
Southwest 217	2,563,129	451,821	17.60	71,162	0
Southwest I-5	8,792,014	929,647	10.60	152,585	45,050
Southwest Sunset	4,228,381	933,457	22.10	85,351	0
Vancouver	7,833,338	1,232,197	15.70	135,394	87,500
TOTAL	46,874,772	7,319,413	15.00	919,393	407,100

Flex*

SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET ABSORPTION	UNDER** CONSTRUCTION
North/Northeast	357,252	79,743	22.32	4,146	n/a
Southeast	144,433	11,500	7.96	1,800	n/a
Southwest 217	3,013,152	834,580	27.70	(87,501)	n/a
Southwest I-5	588,328	145,835	24.79	(4,305)	n/a
Southwest Sunset	5,526,091	1,927,762	34.88	(191,080)	n/a
Vancouver	769,234	78,277	10.18	35,490	n/a
TOTAL	10,398,490	2,830,347	29.60	(241,450)	n/a

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

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

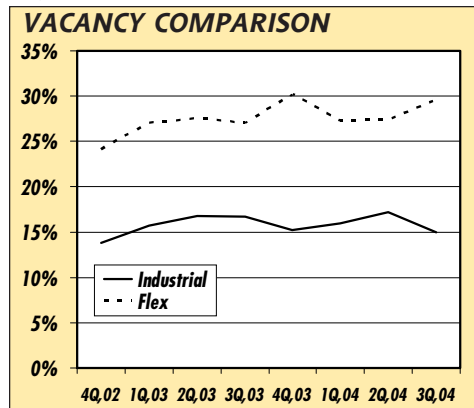
and the Southwest I-5 also positively absorbed 152,585 sf. Vancouver decreased its vacancy rate by nearly 4 percentage points from last quarter to 15.7 percent and absorbed 135,394 sf.

FLEX MARKET OVERVIEW

The Portland/Vancouver flex market changed nominally in the Third Quarter of 2004. Vacancy rates finished at 26.99 percent with Southwest/Sunset and Southwest 217 showing increases of about 3 percentage points each at 34.88 and 27.70 percent respectively.

The Southwest/Sunset experienced negative absorption of 191,080 sf this quarter, adding to the 1,927,762 available sf in that submarket. Like the industrial market, the flex market is experiencing the same sluggish leasing activity. It is also matching the industrial market for hot and cold submarkets, with the Southwest/Sunset area recording the highest vacancy rate and available square footage. Vancouver shines with 35,490 sf absorbed and a vacancy rate of just 10.18 percent, but on a comparatively small base.

With the anemic industrial and flex leasing markets comes a robust selling environment. The low interest



Industrial/Flex Highlights

LEASES

- ▶ Gensco leased 20,000 sf of industrial space at the Dehen Building from Dehen Jackets.
- ▶ GEMSCO leased 20,000 sf of warehouse space at 1040 Northeast 44th Avenue and will occupy half of the building.
- ▶ US Environmental Services leased a 23,400 sf industrial building located at 5061 North Lagoon Avenue in Portland, where it will occupy Building 1 of the two-building complex.
- ▶ Exel leased 50,431 sf of industrial space at 15011 North Lombard Street.
- ▶ Schmilne leased 15,034 sf at Riverside Industrial Park in Portland.
- ▶ Xincom Corp. leased 12,500 sf of industrial space at Hubbard Industrial Park in Hubbard.
- ▶ Custom Cast Corp. leased 11,375 sf from Beauport Industrial Park in Tualatin.

SALES

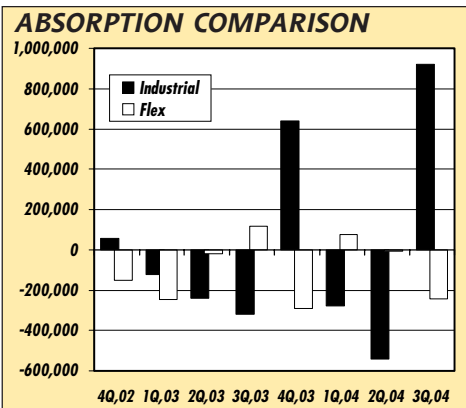
- ▶ Peerless Pattern Works purchased a 36,500 sf warehouse/office building at 3325 and 3319 Northwest Yeon Avenue for \$1.835 million.
- ▶ Plastic product maker Lachenmeier, LLC, dba Multicraft Plastics, purchased the 115,000 sf 7298 SW Tech Center Drive in Portland for \$4.2 million.
- ▶ Davis TCC, LLC, purchased 3740 NW Aloclek Place a 210,000 sf industrial building in Hillsboro. Total consideration for the deal was \$6.2 million.
- ▶ Future Logistics, Inc., purchased 20,350 sf from Southshore Venture, LLC, The Commons at Southshore in Gresham.
- ▶ M.S. Jones Holdings purchased a 14,726 sf industrial building at 10655 Southwest Avery Street in Tualatin for \$1.045 million.
- ▶ Jointway International purchased a 21,000 sf industrial distribution warehouse at 1645 Northeast 72nd Avenue for \$1.234 million.

rates are making it much easier for buyers to finance purchases. Landlords, who are finding it difficult to lease out space, have turned to selling properties to turn a profit.

The numbers posted this quarter provide a bit of light on what has been

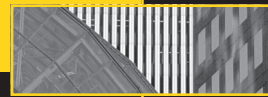
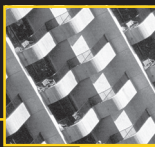
a gloomy market over the last several quarters. The traditional industrial strongholds like North/Northeast are seeing smaller markets like the Southeast and Vancouver warming up and possibly heralding a period of increased activity and decision making. Hopefully, the lowered vacancy rates and rising interest rates will begin motivating businesses to make faster and more assured leasing decisions and facilitate positive absorption in all submarkets.

Though this quarter is just a small beginning, there are good signs that the momentum will build throughout 2005.



Retail

PORTLAND METROPOLITAN AREA



THIRD QUARTER 2004

RETAIL MARKET OVERVIEW

The Portland/Vancouver retail market continued to outpace the other commercial market segments with vacancy rates dropping 60 basis points from 5.0 to 4.4 this quarter, suggesting that consumer spending has not been tempered. Increased job growth may be encouraging consumer spending and the above-average population growth of the Portland Metro Area could be enticing retailers to grow their businesses here.

Particularly hot retail spots have been the Southeast/Clackamas and the Southwest submarkets. Southeast/Clackamas absorbed 106,484 square feet (sf). The largest portion of this can be attributed to Coastal Farm & Ranch's 82,000 sf lease in the Oregon City Shopping Center. In the Southwest submarket, the emergence of two lifestyle centers and the soon-to-be expanded Washington Square are all affirmations of the strength of our re-

tail base. Projects like The Streets of Tanasbourne and Bridgeport Village provide the co-tenancy, area demographics and ambience that will attract the ever discriminating shopper.

Though these lifestyle centers are great news for the Southwest submarket, Central City is feeling the consumer bite these centers can take. With a negative absorption of 22,902 sf, Central City could benefit from companies like Costco Wholesale finding a close-in location. Costco, which typically builds 140,000 to 150,000 sf stores, wants to be in or around downtown and is looking for creative solutions to establish a presence here.

Anthropologie, located at the corner of 11th and Couch in the much touted Brewery Blocks, has opened its doors adding 10,000 sf of trendsetting apparel to an area dominated by galleries, restaurants and home furnis-

	Change from	
	3Q,03	2Q,04
Vacancy	↓	↓
Absorption	↑	↑
Lease Rates	↔	↔
Construction	↔	↔

ing stores. Anthropologie joins a multitude of other retailers who are turning the Brewery Blocks into a vibrant shopping area. Diesel, Peet's Coffee and Tea, Sur La Table and Whole Foods Market all cater to the area's sophisticated inhabitants. Pacific Coast Restaurants leased 14,000 sf to open its newest concept, Henry's 12th Street Tavern, and joins other restaurant chains, P.F. Chang's and Baja Fresh Mexican Grill. Another planned addition to this area is Lucy Activewear, Inc., a Portland-based online company featuring women's athletic apparel, that shifted focus towards brick-and-mortar stores in 2001.

The 122nd/Gresham area had a negative absorption of 41,913 sf and owns the highest submarket vacancy rate of 7.6 percent. The Crossings at Gresham Station will be coming on-line in the Second Quarter of 2005. This mixed-use building will include 20,000 sf of retail

MARKET SUMMARY

Retail*					
SUBMARKET	RENTABLE SQUARE FEET	AVAILABLE SQUARE FEET	% VACANT	NET QTR. ABSORPTION	UNDER CONSTRUCTION
122nd/Gresham	5,148,046	389,981	7.6	(41,913)	0
Central City	2,594,772	194,307	7.5	(22,902)	26,317
Southeast/East Clackamas	5,336,563	216,436	4.1	106,484	50,000
Eastside	5,240,986	230,596	4.4	16,124	0
Sunset Corridor	4,420,994	98,378	2.2	23,275	771,626
Southwest	9,377,531	356,201	3.8	56,722	500,000
Vancouver	6,485,004	205,425	3.2	38,000	324,000
TOTAL	38,603,896	1,691,324	4.4	175,790	1,671,943

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



space, topped by 80 apartments and will be located close to the planned TriMet Max lighttrail station at Civic Drive. Ideally located between Gresham Station Phases I and II, The Crossings will benefit from the existing retail anchors already in place.

Another trend emerging is new development clusters within close-in neighborhoods. Clinton Street, LLC, is developing Local 49, a 10,900 sf retail project at the corner of Southeast 21st and Clinton Street. New businesses cropping up in the area include New Seasons Market on Southeast 19th and Division, Starbucks, and two new restaurants, Lauro and Hedge House.

Large format retailers expanding in the Portland Metro area include Costco, Home Depot, Target, Lowe's and Wal-Mart, who just announced the siting of two new stores in Vancouver.

Kohl's, a Wisconsin-based department store chain, is also considering various opportunities in the Portland Metro Area. Kohl's arrival introduces the first new mass-merchandise retailer in the Portland area since Wal-Mart opened its doors in 1997.

With the vacancy rates trending down, competition for prime locations and choice properties will be an exciting race to watch. The strong retail environment will entice new retailers and force existing businesses to come up with innovative ways to stay fresh, whether it means expansion, relocation or redesigning themselves. The future of the Portland Metro Area's retail market is full of possibilities.

Retail Highlights

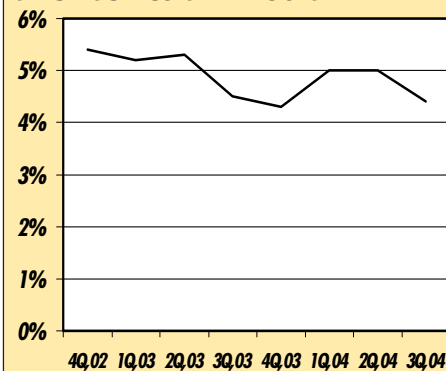
SALES & LEASES

- ▶ McCormick & Schmick's Seafood Grill leased 8,000 sf at Bridgeport Village.
- ▶ Chico's FAS, Inc., leased 4,201 sf at Uptown Shopping Center.
- ▶ Wisconsin-based retailer, Kohl's, plans to build an undetermined number of Portland-area stores, making it the first mass-merchandise retailer to enter the area since 1997.
- ▶ Tuesday Morning, Corp., a Dallas-based chain, is opening an 11,500 sf space in the JM Plaza at 628 Northeast 81st Street.
- ▶ Nordstrom Rack is relocating to ODS Tower with a planned expansion from 19,000 to 33,698 sf.
- ▶ Chipotle opens a third location in Hillsboro. The store is located inside the 370,000 sf Streets of Tanasbourne retail center.
- ▶ REI, the Seattle-based outdoor retailer will be opening a new store in Hillsboro in October and hiring 50 employees.
- ▶ Rouse Co., owner of Pioneer Place, is being sold to General Growth Properties, Inc., based in Chicago, for \$7.2 billion in cash and the assumption of \$5.4 billion in debt.
- ▶ Target Corp. is selling Mervyn's for \$1.65 billion in cash. The 257 Mervyn's stores, including four in the Portland area, are being sold to an investment consortium.

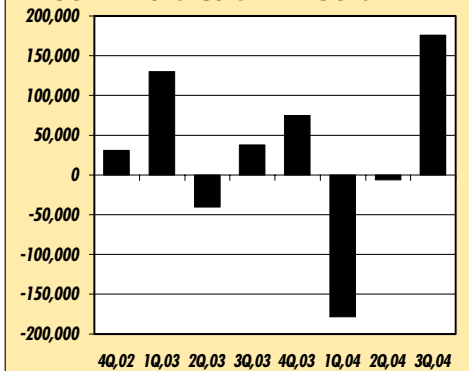
OTHER NOTEWORTHY NEWS

- ▶ Costco opened in Clark County in August, with 148,665 sf of space and is expected to bring hundreds of jobs to the area.
- ▶ New Seasons Market will open a 2-story, 37,000 sf store at 2543 Southeast 20th, featuring 25,000 sf of retail and 12,000 sf of office and storage space.
- ▶ US Bank will open a new branch in Raleigh Hills with construction of a 3,000 sf building at 8205 Southwest Beaverton-Hillsdale Highway.
- ▶ Construction has begun on a \$10 million movie theater and retail complex south of Battle Ground's city center.
- ▶ The four new Oregon-chartered banks, Bank of Oswego in Lake Oswego, Pacific West Bank in West Linn, and Summit Bank and Century Bank in Eugene opening indicate a strong economic recovery in Oregon.
- ▶ Clark County's taxable retail sales topped \$873.2 million in the first quarter of 2004. Total first-quarter sales in the County were up 7.5 percent compared to the statewide rate of 6.3 percent.

VACANCY COMPARISON



ABSORPTION COMPARISON



How does the current economic environment and forecast affect the Oregon commercial real estate market? The recent increase in interest rates this quarter did not have a significant impact on the market. Low rates continue to make the office, industrial and apartment markets buyer-driven. Rising oil prices are also not affecting most of Oregon's industries, but it is affecting consumers. They are tempering their spending, which does affect the retail market. In contrast, the explosion of lifestyle centers in the Portland Metropolitan Area seems to indicate a strong presence of high-end spenders.

The state economic forecast, released on August 31, 2004, predicts that employment will grow another 2 percent this year and 2.3 percent in 2005. The forecast also foresees 2004 ending with job growth in all economic sectors except high-tech. This is good news considering that Oregon continues to grow in population and has the workforce to facilitate greater job growth. The promising forecast is welcome to a state that has experienced one of the worst unemployment rates

for the last two years and huge cuts to programs and services funded by the state budget. With cautious optimism, Oregon looks toward steady progress through 2004 with continuing momentum through 2005.

Economic Highlights

- ▶ The Fed pushed up the prime rate to 1.25 percent, from a 46-year low of 1 percent. It marked the first rate increase in four years and was aimed at making sure that inflation doesn't become a problem for the economy, which is on a solid recovery path despite hitting some potholes in June.
- ▶ First-time claims for U.S. jobless benefits in June held at a level suggesting an improving labor market, but government reports released showed wage growth over the past year has dragged along at its slowest pace in more than 20 years.
- ▶ The Port of Portland Commission voted unanimously to approve the purchase of a 700-acre parcel of property in eastern Multnomah County from Alcoa Inc. The Port is considering a range of options for the land that include a large industrial park and an intermodal rail yard. Closing of the \$17.5 million deal will take the next year or two.
- ▶ The Sunrise Corridor project, a corridor that would directly connect I-205 and Hwy. 26, is in the planning phase once again due to the UGB expansion into the Damsacus area. Residential development and increased traffic have been discussed as motivators for the project's implementation.
- ▶ Three Portland-area tech companies received more than \$38 million in venture capital. PolyServe Inc., EnSequence, Inc., and IMove, Inc., all announced funding rounds.
- ▶ PSU's two-towered, 10-story residence hall will open in September. The \$47.5 million, 217,000 sf complex is the latest public/private partnership between PSU, the PSU Foundation and Gerding/Edlen Development, LLC.
- ▶ The Oregon state Employment Department leased a little over half of the 60,000 sf at the International Plaza Building, adding 161 jobs.
- ▶ The Portland City Council has approved an amendment to the South Waterfront Central District Development Agreement. Both public and private partners have agreed to increase their funding commitments to keep the project on schedule.
- ▶ The Oregon Investment Fund, the \$100 million venture capital account that was launched earlier this year by the Oregon State Treasury, has hired its Oregon manager and opened an office in downtown Portland. Credit Suisse officials have said they intend for \$80 million of the money to be parceled out to other investment funds, and \$20 million to be invested directly in promising young companies.
- ▶ Oregon's inflation-adjusted minimum wage will increase by 20 cents to \$7.25 an hour January 1, 2005, state officials stated, likely making it the second-highest in the nation.

