Portland Industrial Market

OVERVIEW

Portland's Vacancy Decreases to 8.9%

Net Absorption Positive 462,073 SF in the Quarter

The Portland Industrial market ended the fourth quarter 2010 with a vacancy rate of 8.9%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 462,073 square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 616,470 square feet. Rental rates ended the fourth quarter at $6.09, a decrease over the previous quarter. There were no properties under construction at the end of the quarter.

Absorption

Net absorption for the overall Portland Industrial market was positive 462,073 square feet in the fourth quarter 2010. That compares to positive 172,424 square feet in the third quarter 2010, positive 69,639 square feet in the second quarter 2010, and negative (346,938) square feet in the first quarter 2010.

Tenants moving out of large blocks of space in 2010 include: Hollywood Entertainment Corp. moving out of (177,580) square feet at Parkway Corporate Center, Owens Corning moving out of (86,479) square feet at North Upland Distribution - Building 3, and Stanton Furniture moving out of (60,600) square feet at 10385 SW Avery St.

Tenants moving into large blocks of space in 2010 include: United Stationers Supply Co. moving into 195,510 square feet at Rivergate Corporate Ctr III - Bldg A, Quantum Resource Recovery, Inc. moving into 127,400 square feet at Waterfront Business Center – H1, K, L-1 & P, and Owens Corning moving into 123,120 square feet at Bybee Lake Logistics Center - Phase II.

The Flex building market recorded net absorption of positive 31,849 square feet in the fourth quarter 2010, compared to positive 91,745 square feet in the third quarter 2010, negative (58,057) in the second quarter 2010, and negative (282,806) in the first quarter 2010.

The Warehouse building market recorded net absorption of positive 430,224 square feet in the fourth quarter 2010 compared to positive 80,679 square feet in the third quarter 2010, positive 127,696 in the second quarter 2010, and negative (64,132) in the first quarter 2010.

Vacancy

The Industrial vacancy rate in the Portland market area decreased to 8.9% at the end of the fourth quarter 2010. The vacancy rate was 9.2% at the end of the third quarter 2010, 9.1% at the end of the second quarter 2010, and 9.1% at the end of the first quarter 2010.

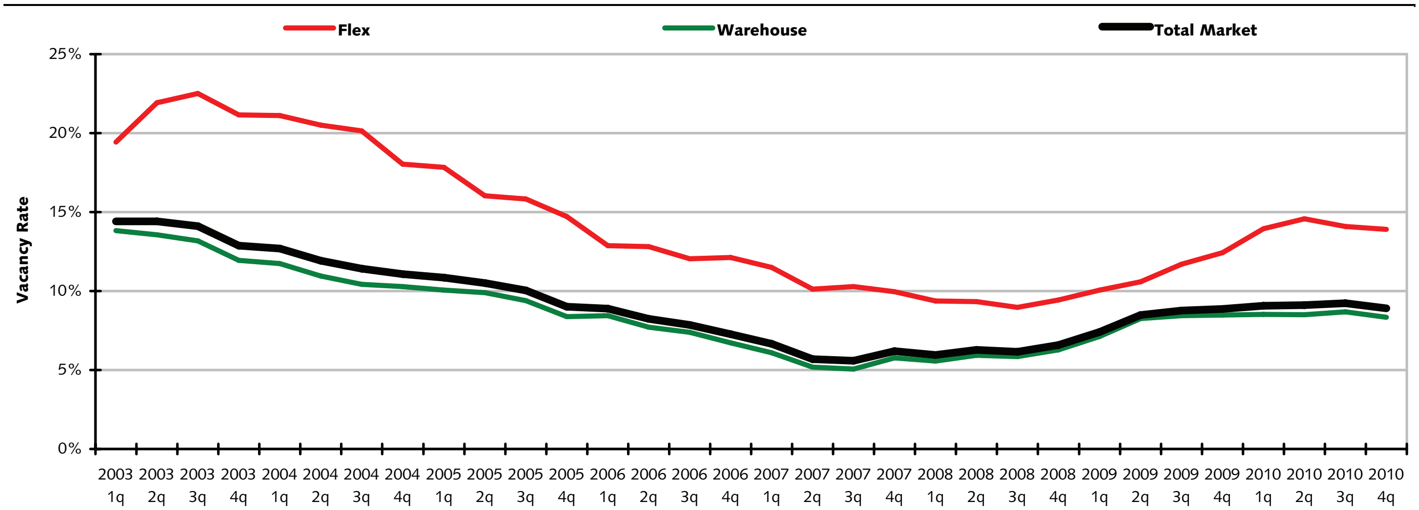
Flex projects reported a vacancy rate of 13.9% at the end of the fourth quarter 2010, 14.1% at the end of the third quarter 2010, 14.6% at the end of the second quarter 2010, and 13.9% at the end of the first quarter 2010.

Warehouse projects reported a vacancy rate of 8.3% at the end of the fourth quarter 2010, 8.7% at the end of third quarter 2010, 8.5% at the end of the second quarter 2010, and 8.5% at the end of the first quarter 2010.

Largest Lease Signings

The largest lease signings occurring in 2010 included: the 195,510-square-foot lease signed by United Stationers Supply Co. at Rivergate Corporate Ctr III - Bldg A in the Northeast market; the 165,000-square-foot deal signed by Brooks Automation, Inc. at Southshore Corporate Park - Bldg A in the Northeast

Vacancy Rates by Building Type 2003-2010



Source: CoStar Property®

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market; and the 144,740-square-foot lease signed by Core-Mark International at Commerce Park Milwaukie - Bldg Five in the Southeast market.

Sublease Vacancy

The amount of vacant sublease space in the Portland market decreased to 616,470 square feet by the end of the fourth quarter 2010, from 645,292 square feet at the end of the third quarter 2010. There was 801,280 square feet vacant at the end of the second quarter 2010 and 823,029 square feet at the end of the first quarter 2010.

Portland's Flex projects reported vacant sublease space of 76,224 square feet at the end of fourth quarter 2010, down from the 77,339 square feet reported at the end of the third quarter 2010. There were 97,418 square feet of sublease space vacant at the end of the second quarter 2010, and 97,864 square feet at the end of the first quarter 2010.

Warehouse projects reported decreased vacant sublease space from the third quarter 2010 to the fourth quarter 2010. Sublease vacancy went from 567,953 square feet to 540,246 square feet during that time. There was 703,862 square feet at the end of the second quarter 2010, and 725,165 square feet at the end of the first quarter 2010.

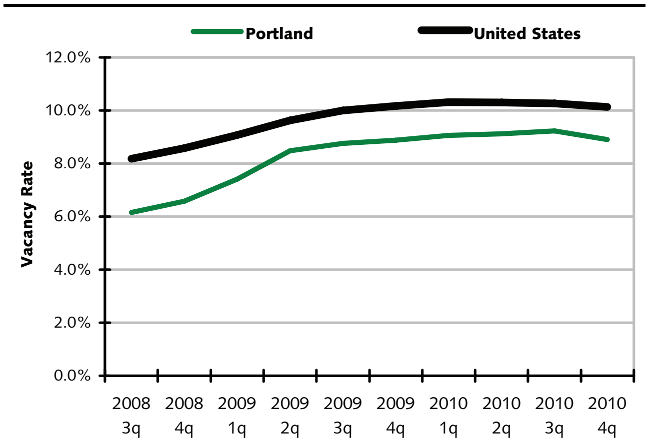
Rental Rates

The average quoted asking rental rate for available Industrial space was $6.09 per square foot per year at the end of the fourth quarter 2010 in the Portland market area. This represented a 1.1% decrease in quoted rental rates from the end of the third quarter 2010, when rents were reported at $6.16 per square foot.

The average quoted rate within the Flex sector was $10.40 per square foot at the end of the fourth quarter 2010, while Warehouse rates stood at $5.39. At the end of the third quarter 2010, Flex rates were $10.36 per square foot, and Warehouse rates were $5.52.

U.S. Vacancy Comparison

Past 10 Quarters



Source: CoStar Property•

Deliveries and Construction

During the fourth quarter 2010, no new space was completed in the Portland market area. This compares to one building totaling 415,000 square feet that were completed in the third quarter 2010, four buildings totaling 189,743 square feet completed in the second quarter 2010, and nothing completed in the first quarter 2010.

There were 0 square feet of Industrial space under construction at the end of the fourth quarter 2010.

Some of the notable 2010 deliveries include: FedEx Ground, a 415,000-square-foot facility that delivered in third quarter 2010 and is now 100% occupied, and Morgan Distributing, a 105,000-square-foot building that delivered in second quarter 2010 and is now 100% occupied.

Inventory

Total Industrial inventory in the Portland market area amounted to 188,478,918 square feet in 5,534 buildings as of the end of the fourth quarter 2010. The Flex sector consisted of 18,863,132 square feet in 754 projects. The Warehouse sector consisted of 169,615,786 square feet in 4,780 buildings. Within the Industrial market there were 277 owner-occupied buildings accounting for 22,526,622 square feet of Industrial space.

Sales Activity

Tallying industrial building sales of 15,000 square feet or larger, Portland industrial sales figures fell during the third quarter 2010 in terms of dollar volume compared to the second quarter of 2010.

In the third quarter, seven industrial transactions closed with a total volume of $21,808,658. The seven buildings totaled 600,787 square feet and the average price per square foot equated to $36.30 per square foot. That compares to 16 transactions totaling $38,102,816 in the second quarter. The total square footage was 640,414 for an average price per square foot of $59.50.

Total year-to-date industrial building sales activity in 2010 is up compared to the previous year. In the first nine months of 2010, the market saw 35 industrial sales transactions with a total volume of $84,053,474. The price per square foot has averaged $48.81 this year. In the first nine months of 2009, the market posted 39 transactions with a total volume of $83,806,230. The price per square foot averaged $45.99.

Cap rates have been lower in 2010, averaging 8.07%, compared to the first nine months of last year when they averaged 9.89%.

One of the largest transactions that has occurred within the last four quarters in the Portland market is the sale of 22990 NW Bennett St in Hillsboro. This 151,000-square-foot industrial building sold for $11,675,000, or $77.32 per square foot. The property sold on 12/31/2009, as an owner-user transaction.

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CoStar Markets & Submarkets

In analyzing metropolitan areas in the U.S., CoStar has developed geographic designations to help group properties together, called Regions, Markets and Submarkets. Regions are the equivalent of metropolitan areas, or areas containing a large population nucleus, that together with adjacent communities have a high degree of economic and social integration. Regions are then divided into Markets, which are core areas within a metropolitan area that are known to be competitive with each other in terms of attracting and keeping tenants. Markets are then further subdivided into smaller units called Submarkets, which serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted competitive set, or peer group.

Markets	Submarkets			
CBD	CBD			
Clark County	Camas/Washougal Orchards	Cascade Park St Johns/Cntrl Vancouver	CBD/West Vancouver Vancouver Mall	Hazel Dell/Salmon Creek
I-5 Corridor	Kruse Way Tualatin	Lake Oswego/West Linn Wilsonville	Sherwood	Tigard
Lloyd District	Lloyd District			
Northeast	Airport Way Hayden Island/Swan Island	East Columbia Corridor NE Close-In	Gateway Rivergate	Gresham
Northwest	Guilds Lake	NW Close-In		
Southeast	Clackamas/Milwaukie	Mall 205	Oregon City	SE Close-In
Southwest	217 Corridor/Beaverton SW Close-In	Barbur Blvd/Capitol Hwy Sylvan/Hillsdale	Johns Landing	North Beaverton
Westside	Sunset Corridor/Hillsboro			