

## OFFICE

## Portland Real Estate Market Review

Portland, Vancouver and Surrounding Areas

1st Quarter 2008

**T**he Portland regional office market has started off 2008 with mixed results. The market has demonstrated ongoing demand by tenants needing to occupy additional office space, but not enough demand to occupy all of the new space delivered to the market during the first quarter. As a result, the market experienced positive absorption, but at the same time the overall vacancy rate moved slightly higher. Portland's regional employment growth continues to exceed the U.S. average, but regional job growth has slowed over the past year.

#### VACANT SPACE/VACANCY RATE

The amount of vacant office space in the Portland region increased by 157,002 s.f. during the first quarter of 2008 pushing the vacancy rate up to 9.6% from the year end 2007 rate of 9.4%

#### NEW CONSTRUCTION ACTIVITY

New construction activity for office space has remained robust with 399,177 s.f. of new office space delivered to the market during the first quarter of 2008 and 1,504,667 s.f. of new office space currently under construction.

#### RENT FORECAST

Class "A" office rents have risen steadily over the past several years as demand for Class "A" space remains strong (Class "A" vacancy for the region stands at 8.1%). That trend is expected to continue as landlords limit lease concessions such as upfront free rent and tenant improvement allowances. Average rents vary between submarket.

#### MARKET DEMAND/ NET ABSORPTION

The overall amount of office vacant space increased by 157,002 s.f. during the first quarter of 2008, while 399,112 s.f. of

new space was delivered to the market, leading to a positive net absorption in the amount of 242,175 s.f. of office space so far this year.

#### PORTLAND CBD/ SURROUNDING AREA REVIEW

The Westside (\$16.00 to \$23.00/s.f./yr fully serviced), the Portland CBD (lease rates \$24.00 to \$33.50/s.f./yr fully serviced), the Southeast (\$17.00 to \$24.00/s.f./yr fully serviced), the Lloyd District (\$15.00 to \$24.00/s.f./yr fully serviced), I-5 Corridor (\$18.00 to \$32.00/s.f./yr fully serviced) and Clark County (\$18.00 to \$22.00/s.f./yr fully serviced) submarkets all experienced a decrease in vacancy rates and positive net absorption during the first quarter. The Northwest (\$25.00 to \$28.00/s.f./yr fully serviced), the Northeast (\$13.00 to \$18.00/s.f./yr fully serviced), and the Southwest (\$18.00 to \$27.00/s.f./yr fully serviced) submarkets all experienced an increase in vacancy rates and negative net absorption during the first quarter of 2008.

## Market Up Close

- With poor economic news on the national headlines and with over 1.5 million s.f. of mostly speculative office space under construction in the Portland market, owners and developers will keep a close eye on the local office market for signs of a downturn. While the slight uptick in vacancy rate during the first quarter maybe concerning, it is too early to determine the long-term trend. During 2007 the Portland office market experienced strong user demand for office space and posted a record level of net absorption.
- Class A office space in the Portland CBD remains scarce with a 6.0% vacancy rate. For the overall region, Class A space (155 buildings) has an 8.1% vacancy rate, Class B space (1,074 buildings) has an 11.5% vacancy rate and Class C space (1,968 buildings) has an 8.5% vacancy rate.
- Office buildings sales activity remained strong last year (2007) with 16 transactions (sales of 15,000 s.f. or larger office buildings) totaling \$85,370,743.

#### 2007 GVA Kidder Mathews Results

- \$2.5 Billion Total Transaction Volume
- 14 Million SF Leasing Transactions
- 11 Million SF Sales Transactions
- 22 Million SF Under Management
- 900 Valuation Assignments

## SUB-MARKET STATISTICS

	Portland CBD	Lloyd District	Northwest	Northeast	Southeast	Southwest	Westside	I-5 Corridor	Clark County	Overall Market Totals
Market Size			in sq. ft.	in sq. ft.	in sq. ft.	in sq. ft.	in sq. ft.	in sq. ft.	in sq. ft.	
4/1/08	22,550,260	3,303,678	3,938,655	5,448,912	5,062,975	10,635,994	9,576,706	8,694,932	8,159,646	77,371,758
1/1/08	22,433,260	3,303,678	3,938,655	5,448,912	5,062,975	10,576,051	9,557,352	8,549,583	8,102,115	76,972,581
1/1/07	22,554,260	3,303,678	3,938,655	5,319,871	4,885,771	10,556,927	9,480,132	8,323,008	7,856,530	76,218,832
1/1/06	22,527,133	3,300,378	3,938,655	5,278,670	4,881,126	10,250,670	9,379,519	8,099,544	7,674,649	75,330,344
<b>Vacant Space</b>										
4/1/08	2,015,427	143,147	169,104	380,306	341,031	1,380,286	943,243	1,066,409	960,183	7,399,106
1/1/08	1,919,874	190,906	156,147	372,350	392,645	1,215,018	1,111,859	936,489	946,816	7,242,104
1/1/07	2,456,661	280,072	296,071	467,377	550,488	1,250,207	1,257,334	968,195	1,005,371	8,531,866
1/1/06	2,657,601	458,143	359,041	454,813	609,034	1,378,199	1,122,514	627,904	947,543	8,464,721
<b>Vacancy Rate</b>										
4/1/08	8.94%	4.33%	4.29%	6.98%	6.74%	12.98%	9.85%	12.26%	11.77%	9.56%
1/1/08	8.56%	5.78%	3.96%	6.83%	7.76%	11.49%	11.63%	10.95%	11.69%	9.41%
1/1/07	10.89%	8.48%	7.52%	8.79%	11.27%	11.84%	13.26%	11.63%	12.80%	11.19%
1/1/06	11.80%	9.33%	6.83%	8.62%	12.48%	13.44%	11.97%	7.75%	12.35%	13.26%
<b>Under Construction</b>										
4/1/08	742,343	0	0	64,209	70,486	33,912	94,589	449,128	0	1,504,667
1/1/08	789,343	0	0	64,209	70,486	84,851	103,711	644,477	57,531	1,814,608
1/1/07	117,000	0	0	129,041	71,167	43,943	72,000	165,149	240,585	838,885
1/1/06	27,127	0	0	143,600	4,192	306,257	80,613	241,567	150,058	953,414
<b>Absorption</b>										
Q1 2008	21,447	47,789	-12,957	-7,956	51,614	-105,325	187,970	15,429	44,164	242,175
All of 2007	415,787	89,256	139,924	224,068	335,047	54,313	222,695	258,281	304,140	2,043,511
All of 2006	228,067	31,210	62,970	28,637	63,191	434,249	-34,207	-116,827	124,053	821,343
All of 2005	81,216	171,266	-49,742	42,366	168,872	74,504	390,920	185,292	907,412	1,972,106

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