

Portland Market Update

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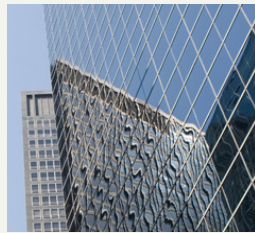
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OFFICE

The Wieden+Kennedy Building, located at 224 NW 13th Ave in the Pearl District, has been sold for \$65 million, or \$342 per s.f. The 190,151 s.f., six-story building was acquired by JPMorgan Asset Management. Built in 1908 for the Fuller Paint Company, the building later functioned as a warehouse in the 1940s. Wieden+Kennedy extensively remodeled in 2009 and it's been the company's headquarters. The building is on the National Historic Register and also houses the Bluehour restaurant.

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INDUSTRIAL

Mastercraft Furniture has leased 170,000 s.f. at the Tomkins Building, located at 1620 Wilco Road in the Stayton Industrial Park. The company is planning to add about 100 new jobs and will be relocating from Wilsonville to its new manufacturing facility in Stayton. The growth is the result of a successful 2010 contract with IKEA. The privately held Mastercraft has a deal to produce the company's propriety fabric-covered furniture products.

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MULTI-FAMILY

Current estimates indicate that just over 2,600 new units, in 21 projects, will be brought to the Portland area market in 2012. The current year total is still below the recent average of approximately 4,500 units constructed per year. Kidder Mathews placed the region's vacancy rate at 3.34% at the end of 2011, rivaling 2007, which was the tightest market in recent years. As a result, developers continue to pursue development sites and drive up land values.

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RETAIL

KEEN, the Portland-based footwear manufacturer, purchased the Pearl Building, located at 513 NW 13th Ave, for \$10.75 million, or \$215 per s.f. The 50,000 s.f. historic office and retail building will be the company's primary retail outlet and also its corporate headquarters. KEEN will remodel the building and plans to move in 150 employees by the end of the year.

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Office

Nike (NYSE: NKE) has purchased four office buildings and an adjacent 18-acre vacant lot, near its Washington County campus, for \$43.9 million. The seller was Piedmont Office Realty Trust (NYSE:PDM). The acquired buildings contain approximately 326,000 s.f. of office space. Nike had already been leasing two of the buildings and IBM will be moving out of the other two. The company has more than 7,000 employees in Oregon and continues to expand. In the fourth quarter of last year, Nike reportedly leased 160,000 s.f. in Beaverton.

The US Custom House, located at 220 NW Eighth Ave, was sold at auction for \$4.74 million to Eastern Real Estate, a firm based in California and Massachusetts. The 111 year-old landmark, 78,838 s.f. office building has been empty for more than five years. The General Services Administration has made multiple previous attempts to sell the building. Until now, no interested party has been able to raise the millions required to complete renovations and bring the structure up to codes. The ultimate use has not been disclosed.

Industrial

The Lower Willamette Group (LWG) has published a 16,000 page study to identify alternatives for cleaning up 11 miles of the lower Willamette River. The stretch, roughly between the Fremont Bridge and Sauvie Island, was declared a federal Superfund site in 2000 because of the pollution caused by decades of heavy manufacturing activity. The LWG is composed of ten parties who signed a legal agreement with the EPA to conduct the feasibility study combined with four other parties. The LWG, however, is only a small subset of

“potentially responsible parties”. The study concludes that sediment cleanup activities would last between two and 28 years and cost between \$169 million and \$1.8 billion.

Note: The “feasibility study” will now go to the EPA who will make the decisions on how to clean up the area and who will pay for it. Many of Portland’s largest companies depend on the river’s juncture of water, roads and rail. As a result, a well-conceived regional consensus is critical to address the environmental issues while encouraging further industrial development in Portland. ■

Multi-Family

Equity Residential Properties Trust, a Chicago based REIT (NYSE: EQR), has sold two large apartment complexes in Beaverton. Waterton Residential purchased the 554-unit LaSalle, located at 15021 SW Millikan Way, for \$77.2 million or just over \$139,000 per unit. The cap rate was 5.7% and occupancy was reportedly 96%. Sequoia Equities paid approximately \$34.3 million, or \$130,000 per unit, for the 264-unit Center Point, located at 15290 SW Millikan Way. The cap rate was 5.6%.

Note: The two complexes sold were the last Portland properties owned by Equity Residential which recently owned as many as eight apartments in the area. Equity Residential has decided to concentrate on larger, core markets and, as a result, has been selling its Portland holdings over the last year. Equity was once also a significant owner in the local office market. At one time, its Office Properties Trust owned over 1 million s.f. of space in the downtown and Kruse Way submarkets. Equity sold its office portfolio to the Blackstone Group in 2007. ■

Retail

T.J. Maxx has leased 31,020 s.f. at the Sixth Ave Center, located at 615 SW Alder St. The Schlesinger Companies, a family-owned real estate firm, signed the deal to lease a portion of the current Office Depot space to TJX Company for its first downtown T.J. Maxx store. The apparel retailer plans to open in the fall.

Note: Per the first quarter Kidder Mathews Portland retail review, the current vacancy rate in the Central Business District is 4.0%. In addition to T.J. Maxx, Target will be moving downtown and such prominent retailers as Nike, H&M and Sephora are investing in new locations. Significant changes are planned for Pioneer Place. Owner General Growth Properties plans landscape improvements and is targeting high-end tenants. Apple will likely take over the former Saks Fifth Ave space at 850 SW Fifth Ave and Punchbowl Social will open a food and fun center next year below Regal Cinemas. ■