

Portland Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Construction Deliveries



Under Construction



Notable 2016 Lease Transactions

Elemental Technologies
1320 SW Broadway Street, Portland
101,400 s.f. leased

DAT Solutions
8405 SW Nimbus Avenue, Beaverton
53,792 s.f. leased

Tillamook
1400 NW 22nd Avenue, Portland
45,000 s.f. leased

Notable 2016 Sale Transactions

Lincoln Property Company
Pacwest Center
1211 SW 5th Avenue, Portland
545,522 s.f. purchased for \$170M (\$312/s.f.)

JLL Income Property Trust
Pioneer Tower
888 SW 5th Avenue, Portland
296,329 s.f. purchased for \$121.75M (\$411/s.f.)

Wealth Management Capital Holding GmbH
Park Square Campus
1621 SW 1st Ave, 100 SW Market St, Portland
295,789 s.f. purchased for \$94.4M (\$319/s.f.)

The Portland office real estate market held its own in the fourth quarter of 2016, while strong economic conditions, diversifying tenant demand, and an appealing investment and development environment indicated considerable growth potential in the new year. Metro Portland reported 82,794 square feet of positive net absorption, its seventh straight quarter in the black, but vacancies ticked up to 7.9% during the quarter, after the market added 189,051 square feet in construction deliveries, some of which were unoccupied at year's end. Rental rates climbed to a marketwide average of \$24.32, fully serviced, with landlords in downtown trophy buildings angling for the high-\$30s, triple-net. On the sale front, Portland-area assets attracted an array of buyers, from foreign institutional investors to local individuals. More inventory is on the way, with 14 office construction projects rising at the end of the quarter, including a future addition to the city's growing skyline.

Vacancy, Availability, and Net Absorption

After 82,794 square feet of positive net absorption in the fourth quarter, the Portland market gained 1,389,223 square feet of occupied office space in 2016. The downtown area had its worst period since the first quarter of 2015, dropping 21,302 square feet, as Pacific Interpreters left its 10,820 square foot office in the Union Bank Building (707 SW Washington Street) and Kaiser Permanente vacated a large block of space at Montgomery Park (2701 NW Vaughn Street). Conversely, suburban submarkets enjoyed 104,096 square feet of positive net absorption to end the year, led by the NE Close-In area, which added 33,084 square feet, and St. Johns/Central Vancouver, which picked up 27,037 square feet. Class A buildings across the metro area were up 38,248 square feet, as KLA-TenCor moved into 20,988 square feet at 2430 NW 206th Avenue in the Sunset Corridor/Hillsboro area and Smart Choice Payments occupied a 12,179 square foot subleased space at 10250 SW Greenburg Road in 217 Corridor/Beaverton.

Vacancies increased slightly across the Portland metro area, from 7.8% to 7.9%, with most submarkets reporting only incremental changes from the third quarter. The downtown vacancy rate was up 50 basis points, to 9.3%, while suburban vacancies slipped from 7.3% to 7.2%. Among the core office submarkets, Gateway was the tightest at quarter's end, reporting 1.4% vacant, and 217 Corridor/Beaverton had the highest share of empty space, at 17.4%. Overall, office vacancies in Greater Portland are near their cycle lows, having stayed at or just under

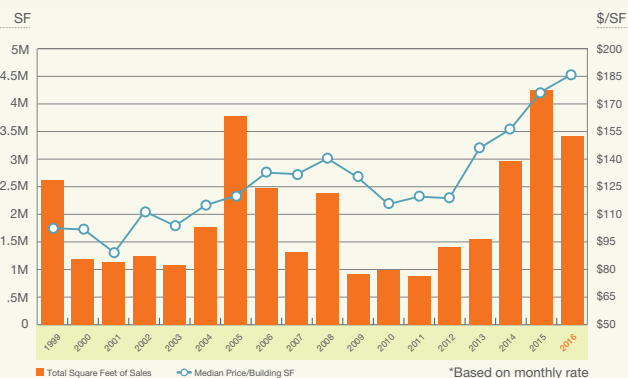
→ Continued, page 4

Area Review

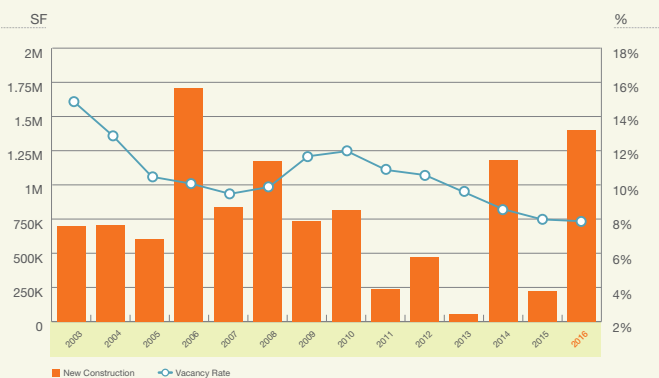
Portland Office Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
CBD	25,892,288	9.40%	9.80%	13.10%	13,503	244,480	241,612	1,156,518	\$29.37
Pearl District/Chinatown	2,368,094	3.90%	4.00%	6.60%	(34,805)	4,080	45,000	101,588	\$25.49
Downtown Total	28,260,382	8.90%	9.30%	12.50%	(21,302)	248,560	286,612	1,258,106	\$29.33
217 Corridor/Beaverton	3,484,067	16.50%	17.40%	18.90%	(7,481)	47,161	21,008	259,417	\$20.30
Airport Way	1,061,980	12.30%	12.70%	13.10%	(34,826)	(59,110)	2,174	20,104	\$19.38
Barbur Blvd/Capitol Hwy	879,208	7.80%	7.80%	8.90%	7,925	23,093	11,209	81,614	\$16.67
Camas/Washougal	525,149	3.90%	3.90%	3.90%	(3,080)	47,108	0	20,129	\$20.76
Cascade Park	2,745,253	7.80%	8.00%	10.40%	(19,047)	208,687	15,577	72,849	\$18.81
CBD/West Vancouver	2,365,439	8.00%	8.20%	9.50%	(2,669)	74,544	10,503	149,157	\$21.21
Clackamas/Milwaukie	2,333,462	6.80%	6.80%	7.10%	(136)	60,982	10,490	111,657	\$20.57
East Columbia Corridor	705,697	4.70%	4.70%	4.70%	6,282	6,275	777	5,552	\$17.65
Gateway	2,087,142	1.40%	1.40%	9.50%	5,766	109,575	1,722	24,710	\$18.81
Gresham	837,847	7.50%	7.70%	9.10%	13,344	36,851	3,148	40,307	\$18.46
Guilds Lake	563,047	10.80%	10.80%	15.40%	(4,200)	10,300	0	16,592	\$20.89
Hayden Isl/Swan Isl	1,192,159	2.00%	2.00%	2.00%	865	265,865	865	865	\$13.00
Hazel Dell/Salmon Creek	724,547	4.60%	4.60%	10.90%	10,612	33,143	850	46,052	\$24.74
Johns Landing	1,846,934	5.70%	6.00%	4.60%	4,109	(36,519)	24,881	85,188	\$22.17
Kruse Way	2,753,194	11.30%	11.80%	15.20%	14,088	(38,059)	67,368	148,060	\$29.03
Lake Oswego/West Linn	667,113	6.80%	6.80%	7.00%	(1,590)	1,963	15,660	42,244	\$26.05
Lloyd District	4,648,370	3.30%	3.40%	4.00%	26,844	68,730	12,700	144,053	\$23.24
Mall 205	601,651	9.10%	9.10%	8.90%	(8,375)	(21,525)	6,564	30,521	\$15.86
NE Close-In	1,156,243	4.50%	4.50%	4.90%	33,084	38,761	15,376	46,387	\$24.36
North Beaverton	2,770,019	4.60%	5.40%	5.80%	1,666	14,514	16,362	75,952	\$25.97
Orchards	476,473	14.00%	14.00%	13.80%	3,177	(33,834)	3,624	7,447	\$20.25
Oregon City	633,499	4.10%	4.10%	4.90%	8,345	37,655	0	26,204	\$16.26
Rivergate	48,123	0.00%	0.00%	0.00%	0	0	0	0	-
SE Close-In	2,509,852	2.90%	2.90%	4.00%	9,076	119,238	7,473	61,779	\$25.47
Sherwood	131,702	15.70%	15.70%	15.70%	0	0	0	110	\$23.20
St. Johns/Central Vancouver	1,262,619	12.70%	12.70%	17.30%	27,037	39,629	0	10,095	\$14.87
Sunset Corridor/Hillsboro	11,954,947	4.70%	5.30%	7.30%	11,854	75,526	14,941	162,452	\$21.27
SW Close-In	418,028	1.50%	1.50%	4.60%	5,318	28,948	3,583	32,366	\$18.24
Sylvan/Hillsdale	604,434	11.20%	11.20%	12.90%	6,476	24,246	25,210	90,774	\$20.03
Tigard	2,809,262	10.30%	11.40%	15.70%	(4,865)	(69,313)	25,305	336,378	\$21.24
Tualatin	1,127,126	15.30%	16.50%	17.30%	(9,520)	7,730	8,397	55,371	\$23.75
Vancouver Mall	798,519	4.50%	4.50%	4.50%	654	26,510	0	33,295	\$17.67
Wilsonville	1,108,389	4.10%	4.10%	8.90%	3,363	(8,011)	6,099	11,066	\$21.69
Suburban Total	57,831,494	6.90%	7.20%	9.10%	104,096	1,140,663	331,866	2,248,747	\$21.71
Class A	29,652,077	7.90%	8.50%	10.40%	38,248	902,329	256,018	1,121,430	\$28.28
Class B	42,656,200	7.90%	8.20%	10.80%	32,196	364,878	289,229	1,841,325	\$22.53
Class C	13,772,867	5.70%	5.70%	8.00%	12,350	122,016	73,231	544,098	\$19.03
Portland Total	86,091,876	7.60%	7.90%	10.20%	82,794	1,389,223	618,478	3,506,853	\$24.23

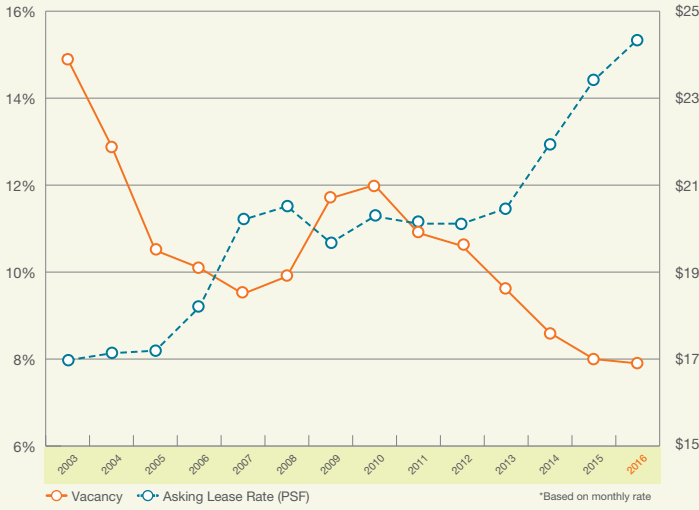
HISTORICAL SALES SF & MEDIAN SALE PRICE



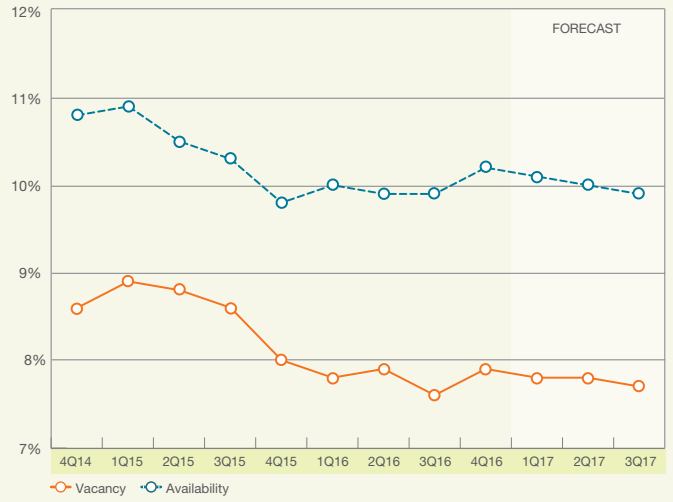
HISTORICAL NEW CONSTRUCTION & VACANCY RATE



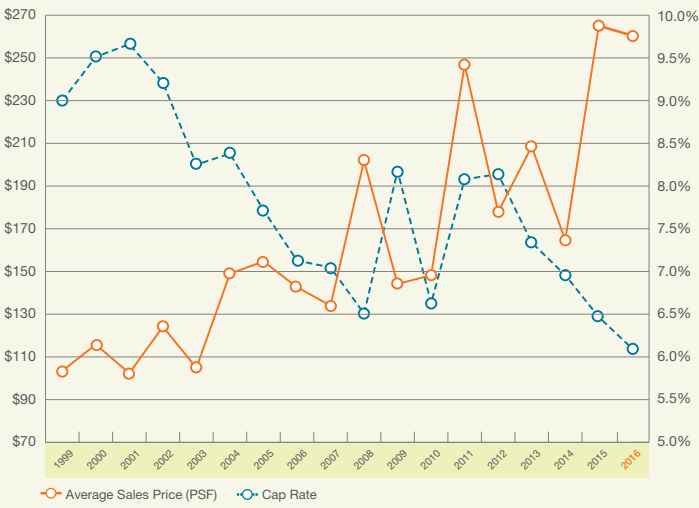
VACANCY VS ASKING LEASE RATE*



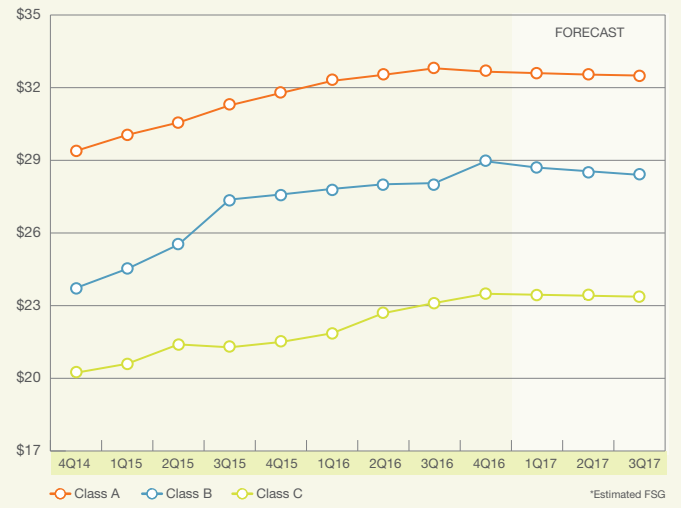
VACANCY VS AVAILABILITY



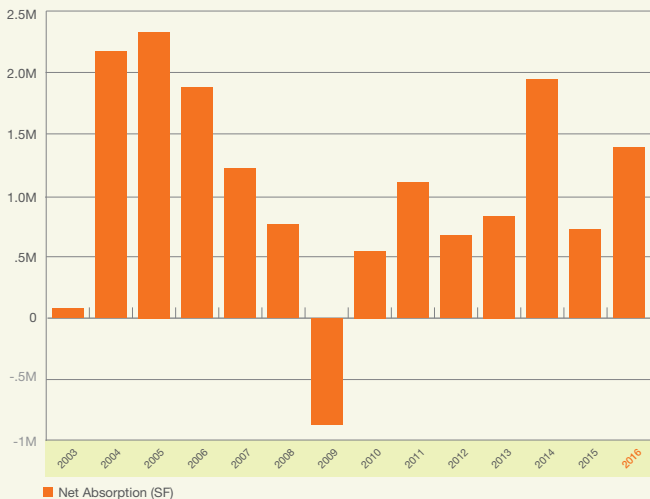
AVERAGE SALES PRICE & CAPITALIZATION RATES



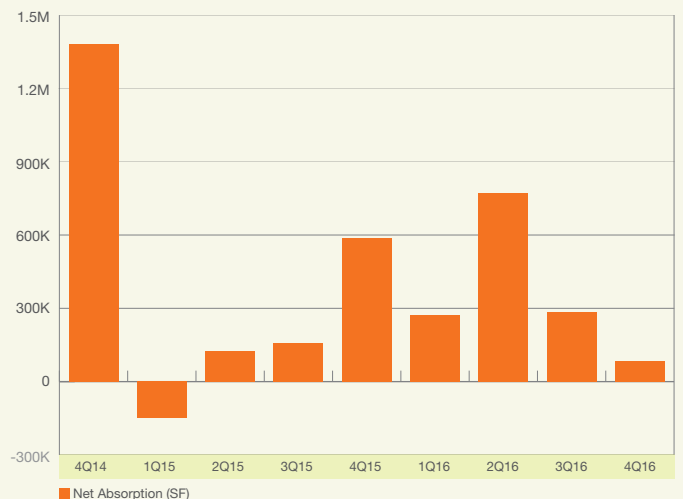
DOWNTOWN AREA ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

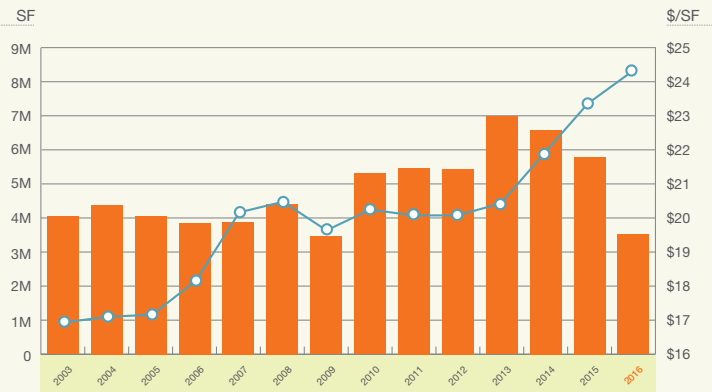
- Seattle
206.296.9600
- Bellevue
425.454.7040
- South Seattle
206.248.7300
- Tacoma
253.722.1400
- Olympia
360.705.2800
- Portland
503.221.9900
- San Francisco
415.229.8888
- Redwood Shores
650.769.3600
- Silicon Valley
408.970.9400
- Sacramento
916.970.9700
- Roseville
916.751.3600
- Orange County
949.557.5000
- Inland Empire
916.751.3600
- San Diego
858.509.1200
- Carlsbad
760.430.1000
- Reno
775.301.1300
- Phoenix
602.513.5200

Contact

Brian Hatcher
Executive VP, Brokerage
Pacific Northwest
206.296.9600
bhatcher@kiddermathews.com

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATE

■ Leasing Activity
○ Asking Lease Rate



8% throughout 2016 after peaking at 11.2% in the second quarter of 2012.

Leasing Activity

Leasing activity this quarter totaled 211 transactions and 618,478 square feet. Downtown submarkets accounted for approximately 39% of the space leased, up from 23% during the third quarter. Recently renovated spaces played host to the quarter's two largest pacts, as Tillamook took the entire 45,000 square foot Pettygrove Building at 1400 NW 22nd Avenue and Expensify grabbed 24,390 square feet of creative space in the former Bank of the West building at 401 SW 5th Avenue. The combination of local talent, easy air travel to Silicon Valley, and relatively low-cost office space has recently made Portland a desirable market in which to park customer-service operations. To wit, the Japanese tech firm Mercari, Inc., took 19,082 square feet at 110 SW Yamhill Street this quarter, with plans to eventually house 100 customer-service employees at the site. Meanwhile, the influx of technology-sector companies reaped peripheral benefits for real estate this quarter, as the tech exec-search firm Parker Remick signed on at 1001 SW Fifth Avenue and the venture-capital provider Silicon Valley Bank moved into a permanent office at 308 SW First Avenue after initially working out of a nearby co-working space.

Investment Activity

More than 1,000,000 square feet of Portland-area office real estate changed hands during the fourth quarter, with outlays totaling \$242.6 million. The biggest investment splash of the year came from Lincoln Property Company in Dallas, which acquired the Pacwest Center for \$170 million or \$312 per square foot in late December. Portland also drew interest from abroad, as German-based Wealth Management Capital Holding GmbH, bought the two-building Park Square Campus from Clarion Partners for \$94.35 million (\$319/sf). CDK Plaza, a 180,772

square foot Class B asset in the CBD area, went from KBS to Bixby Land Company for \$33.4 million (\$185/sf). The Board of Trade Building turned into a fine value-add endeavor for New Urban Properties, which acquired the 88,175 square foot structure for \$9.8 million (\$111/sf) in November 2014, renovated the property, attracted several new tenants, and flipped it to Kensington Management for \$18 million (\$204/sf) after less than two years. In the quarter's largest suburban transaction, Thomas J. Garnier bought 5435 and 5445 Dawson Creek Drive in Hillsboro for \$15.35 million (\$120/sf); the two buildings serve as the headquarters of the telecommunications firm Radisys Corporation.

Construction Activity

Six buildings totaling 189,051 square feet were delivered in the past three months. The largest of these was 38 NW Davis Street, a 90,991 square foot Class A structure in the CBD area, more than half of which was preleased to Ankrom Moisan Architects in 2014. After 17 developments were completed in 2016, cranes and shovels still abound in metro Portland, as 14 projects were under construction at the end of the year. The largest office project underway is the Nike North Expansion at the company's world campus in Beaverton, where nearly 1.3 million square feet of Class A space is on the way, with the first 412,000 square feet set for delivery in mid-2017. The Broadway Tower at 1455 SW Broadway, a 19-story, mixed-use building featuring 175,000 square feet of office space and a 180-room hotel, broke ground in the third quarter and has spaces available for lease in the low-to-high \$30s, triple net. In the Guilds Lake submarket, the two-building Field Office complex—which will total more than 300,000 square feet—is scheduled for delivery in early 2018. Finally, the Towne Storage Building conversion from warehouse to creative office space will add 108,750 square feet to the Lloyd District inventory by the summer of 2017.

Data Source: CoStar

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.