

Real Estate Market Review

Portland Office

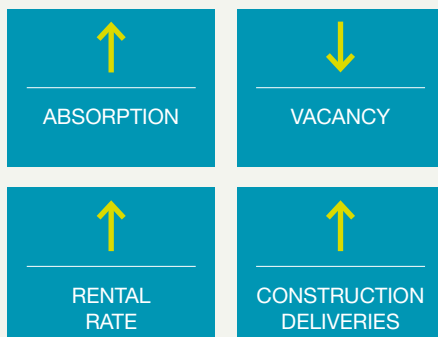
The Portland office market grew tighter during the third quarter, as tenants seeking large blocks of space awaited the delivery of several speculative projects set to come on line next year. Vacancies dropped to a cycle-low 7.4% on the strength of 478,730 square feet of positive net absorption, which pushed the year-to-date gain in occupied office space to 619,168 square feet. Rental rates rose to a marketwide average of \$25.06, fully serviced, with the upper floors of downtown trophies, including the under-construction Broadway Tower, asking in the mid-\$30s or higher. Institutional investors nationwide continue to bet on Portland's premier office assets, and buildings in the sought-after Pearl District are nearing or breaking the market's old price per square foot records. Technology and creative-sector tenants are a boon to both office landlords and the local economy, as the metro area's unemployment rate hovers around 4%, with much of the job growth occurring in office-based sectors.

Office vacancies in metro Portland fell to 7.4% this quarter, down 40 basis points year over year to a new cycle low. The Downtown area recorded 72,309 square feet of positive net absorption, led by Elemental Technologies' 100,106 square foot occupancy at 1320 SW Broadway, as the vacancy rate there returned to 9.1%, unchanged since this time in 2016. Suburban submarkets reported 403,610 square feet of newly occupied office space this quarter, trimming vacancies outside of downtown Portland to 6.6%. All product classes posted positive net absorption over the past three months, led by 251,982 square feet gained in Class A properties. The marketwide

Class A vacancy rate has dropped 280 basis points over the past three years, tightening sharply because of the lag between increasing demand and developers' rush to provide new supply.

Small and midsize spaces comprised the bulk of the Portland market's leasing activity during the third quarter, as a dip in the volume of larger deals limited the square footage taken to 862,300. Adidas turned in the summer's biggest lease, grabbing 79,657 square feet in Montgomery Park (2701 NW Vaughn Street) as part of its ongoing expansion around the United States. The German footwear

Market Forecast Trends



Notable Lease Transactions

Adidas
2701 NW Vaughn St., Portland
79,657 s.f. leased

Janrain
1233 NW 12th Ave., Portland
18,579 s.f. leased

Kittelson & Associates
851 SW 6th Ave., Portland
16,537 s.f. leased

Notable Sale Transactions

LaSalle Investment Management
Pearl West, Portland
155,465 s.f. | \$87.5M or \$563/s.f.

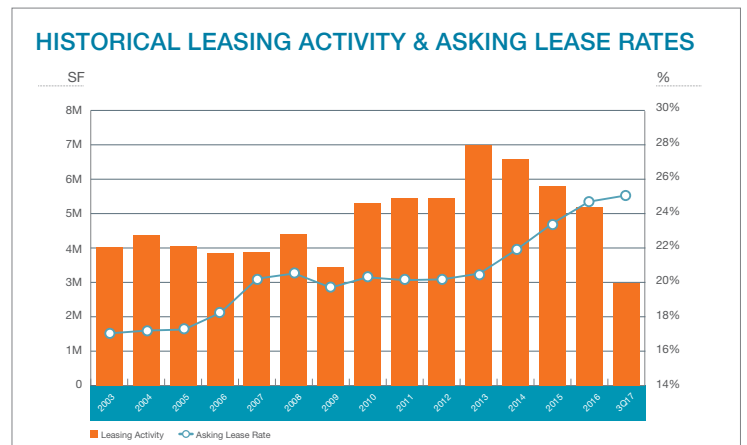
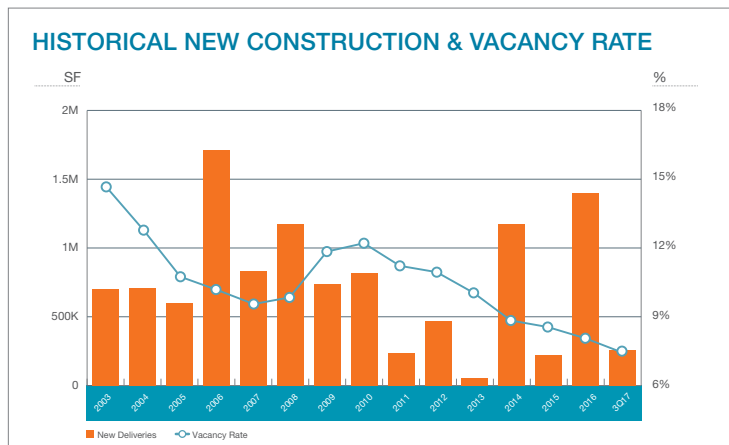
Deutsche Asset Management
Meier & Frank Building, Portland
133,260 s.f. | \$64.85M or \$487/s.f.

NBP Capital
Blagen Block & New Market Theater, Portland
124,754 s.f. | \$32.25M or \$259/s.f.

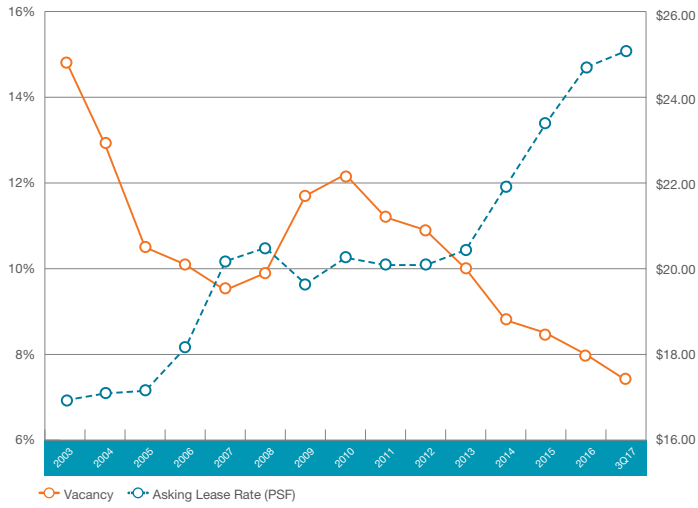
Area Review

Submarket Statistics

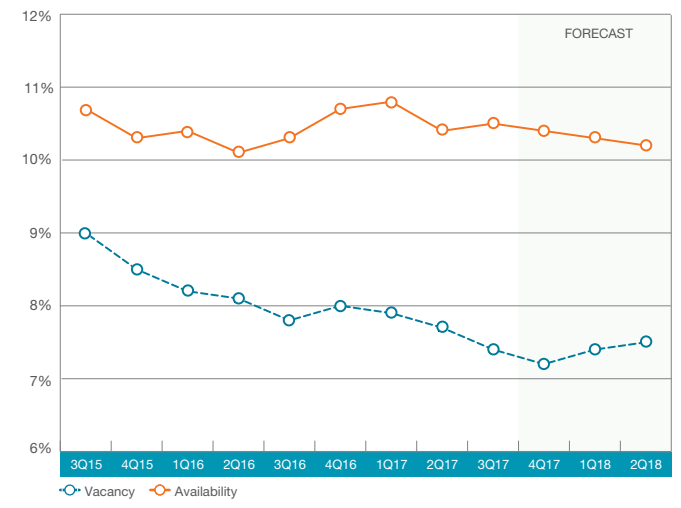
| Submarket | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q3 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate |
|-----------------------------|-------------------|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------------|----------------------|----------------|
| CBD | 25,858,927 | 9.1% | 9.3% | 14.1% | 93,775 | 248,602 | 243,356 | 1,073,699 | \$30.16 |
| Pearl District/Chinatown | 2,334,552 | 6.5% | 6.6% | 9.7% | (21,466) | (54,877) | 32,032 | 125,305 | \$29.25 |
| Downtown Total | 28,193,479 | 8.9% | 9.1% | 13.7% | 72,309 | 193,725 | 275,391 | 1,199,007 | \$30.15 |
| 217 Corridor/Beaverton | 3,484,954 | 15.2% | 15.4% | 18.0% | 50,824 | 68,075 | 41,841 | 151,038 | \$19.88 |
| Airport Way | 1,092,796 | 7.5% | 7.9% | 12.3% | 2,664 | 48,700 | 10,000 | 36,986 | \$14.86 |
| Barbur Blvd/Capitol Hwy | 988,806 | 6.3% | 6.3% | 9.9% | 104,724 | 94,632 | 23,082 | 53,346 | \$18.14 |
| Camas/Washougal | 535,149 | 2.1% | 2.1% | 5.8% | 10,540 | 9,038 | 0 | 700 | \$22.46 |
| Cascade Park | 2,744,150 | 9.5% | 9.5% | 12.0% | (24,508) | (19,400) | 22,817 | 59,330 | \$19.85 |
| CBD/West Vancouver | 2,328,795 | 8.2% | 8.6% | 8.4% | (10,397) | (8,973) | 42,336 | 102,643 | \$21.73 |
| Clackamas/Milwaukie | 2,348,601 | 2.4% | 2.4% | 3.5% | 49,275 | 95,013 | 48,429 | 151,838 | \$19.69 |
| East Columbia Corridor | 684,947 | 0.0% | 0.0% | 0.0% | 12,620 | 12,620 | 3,000 | 15,620 | \$17.53 |
| Gateway | 2,087,333 | 1.0% | 1.0% | 9.8% | 20,926 | 7,567 | 25,730 | 37,245 | \$19.30 |
| Gresham | 834,621 | 8.1% | 8.1% | 7.4% | 14,755 | (2,035) | 18,693 | 21,430 | \$19.19 |
| Guilds Lake | 563,047 | 10.5% | 10.5% | 41.5% | (1,400) | 5,082 | 4,900 | 7,182 | \$20.57 |
| Hayden Isl/Swan Isl | 1,192,159 | 1.2% | 1.2% | 1.2% | 0 | 2,963 | 0 | 2,883 | \$13.00 |
| Hazel Dell/Salmon Creek | 723,116 | 3.9% | 3.9% | 8.7% | (1,060) | 3,280 | 7,000 | 23,075 | \$25.86 |
| Johns Landing | 1,861,041 | 5.5% | 5.5% | 4.3% | (62) | 9,052 | 5,325 | 24,173 | \$25.65 |
| Kruse Way | 2,754,319 | 11.0% | 11.4% | 16.7% | 52,776 | (19,781) | 53,845 | 197,289 | \$30.09 |
| Lake Oswego/West Linn | 668,538 | 4.4% | 4.4% | 5.0% | 3,808 | 19,186 | 1,775 | 12,002 | \$26.07 |
| Lloyd District | 4,760,977 | 4.2% | 4.3% | 4.9% | 23,491 | (735) | 46,221 | 217,003 | \$28.42 |
| Mall 205 | 612,651 | 2.2% | 2.2% | 2.5% | (5,041) | (1,951) | 501 | 7,290 | \$15.30 |
| NE Close-In | 1,140,727 | 1.3% | 1.3% | 3.2% | 21,864 | 35,372 | 21,325 | 48,150 | \$23.81 |
| North Beaverton | 2,867,879 | 4.2% | 4.8% | 4.7% | (12,435) | 13,457 | 23,454 | 40,045 | \$24.78 |
| Orchards | 523,439 | 14.5% | 14.5% | 17.3% | 2,797 | 6,013 | 0 | 3,385 | \$17.81 |
| Oregon City | 633,499 | 5.0% | 5.0% | 5.5% | (624) | (6,013) | 7,421 | 18,935 | \$16.69 |
| Rivergate | 48,123 | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | - |
| SE Close-In | 2,593,655 | 4.2% | 4.6% | 10.5% | 22,292 | (5,514) | 39,528 | 102,505 | \$27.17 |
| Sherwood | 131,702 | 15.7% | 15.7% | 15.7% | 0 | 0 | 0 | 0 | \$23.20 |
| St. Johns/Central Vancouver | 1,355,250 | 5.7% | 6.1% | 17.4% | 79,991 | 58,277 | 2,153 | 2,153 | \$15.86 |
| Sunset Corridor/Hillsboro | 12,007,086 | 4.4% | 4.7% | 5.6% | (10,931) | 57,233 | 43,889 | 154,418 | \$21.37 |
| SW Close-In | 418,028 | 6.1% | 8.0% | 10.9% | (24,361) | (26,973) | 726 | 29,312 | \$19.41 |
| Sylvan/Hillsdale | 604,948 | 11.6% | 11.6% | 13.6% | 2,350 | (3,543) | 16,519 | 43,653 | \$20.79 |
| Tigard | 2,823,568 | 11.1% | 12.4% | 12.8% | 27,490 | (22,280) | 67,559 | 166,967 | \$22.00 |
| Tualatin | 1,101,626 | 16.7% | 17.9% | 20.0% | 8,381 | (12,519) | 2,579 | 18,973 | \$23.77 |
| Vancouver Mall | 798,517 | 5.2% | 5.4% | 5.4% | (2,050) | (7,296) | 0 | 12,769 | \$16.95 |
| Wilsonville | 1,108,389 | 1.5% | 1.5% | 7.8% | (2,469) | 24,673 | 6,261 | 18,790 | \$26.86 |
| Suburban Total | 57,737,489 | 6.3% | 6.6% | 9.1% | 403,610 | 422,632 | 369,127 | 1,549,839 | \$22.54 |
| Class A | 29,584,751 | 7.5% | 7.8% | 11.6% | 251,982 | 242,516 | 286,259 | 1,121,568 | \$29.32 |
| Class B | 43,115,265 | 7.7% | 8.0% | 10.9% | 194,729 | 338,899 | 395,091 | 1,413,189 | \$23.49 |
| Class C | 13,905,167 | 4.5% | 4.7% | 6.8% | 32,019 | 37,753 | 130,950 | 394,491 | \$19.31 |
| Total | 86,615,915 | 7.1% | 7.4% | 10.5% | 478,730 | 619,168 | 862,300 | 2,979,248 | \$25.06 |



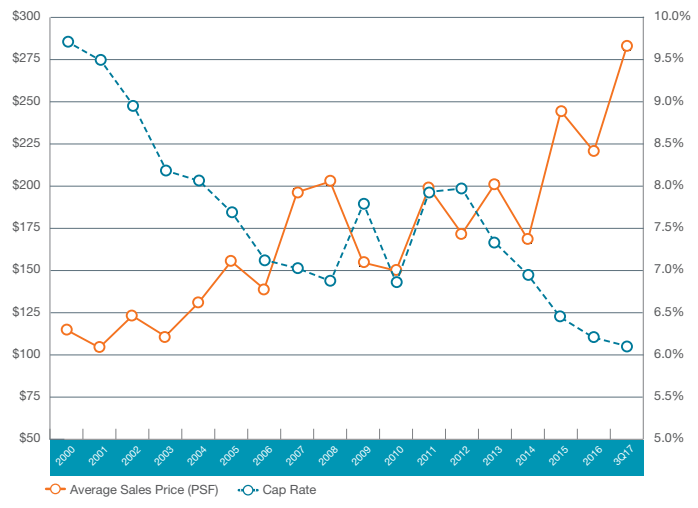
VACANCY VS ASKING LEASE RATE



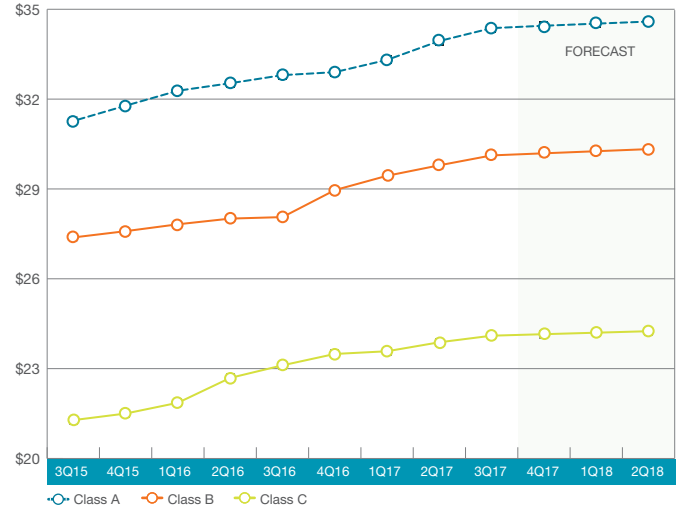
VACANCY VS AVAILABILITY



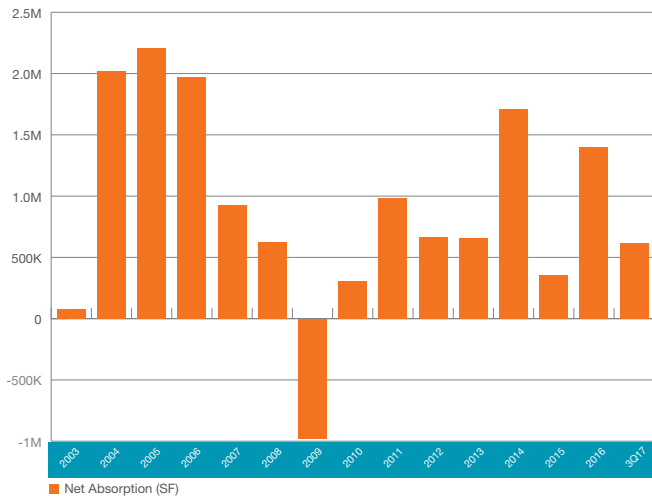
AVERAGE SALES PRICE & CAPITALIZATION RATES



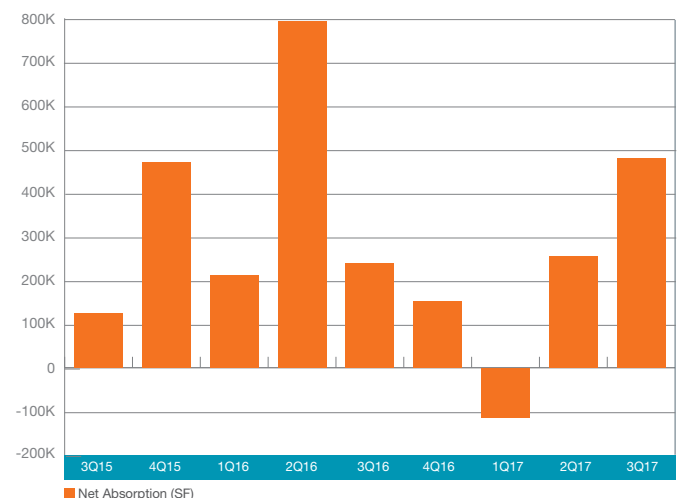
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Market Breakdown

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

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

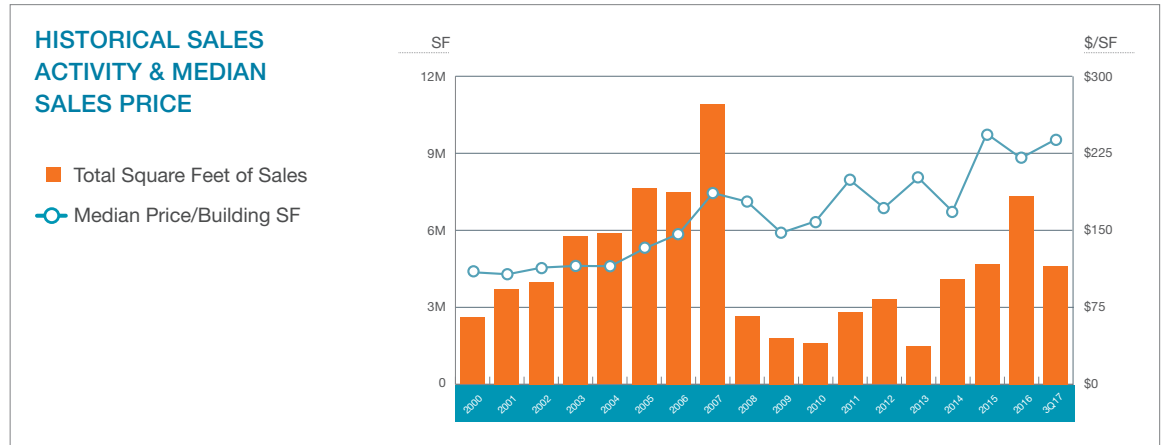
Reno
775.301.1300

Phoenix
602.513.5200

Contact

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| | Q3 2017 | Q2 2017 | Q3 2016 | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate | 7.4% | 7.7% | 7.8% | -5.1% |
| Availability Rate | 10.5% | 10.4% | 10.3% | 1.9% |
| Asking Lease Rate | \$25.06 | \$24.77 | \$24.01 | 4.4% |
| Leased SF | 862,300 | 1,060,730 | 1,231,070 | -30.0% |
| Sold SF | 1,162,447 | 803,448 | 812,801 | 43.0% |
| Net Absorption | 478,730 | 254,580 | 253,134 | N/A |



and apparel maker currently employs approximately 1,200 workers in Portland, which hosts its North American headquarters. In the CBD area, the customer identity and management platform provider Janrain signed on for 18,579 square feet at 1233 NW 12th Avenue. Also in Portland CBD, the transportation planning and engineering firm Kittelson & Associates took 16,537 square feet in the Pacific Center building with the intention of doubling its Portland footprint. Kittelson & Associates will leave the seventh floor of The Selling Building (610 SW Alder Street) in November.

The price per square foot record for Portland office real estate was broken this quarter in the sale of the new Pearl West office building from BDC Advisors to LaSalle Investment Management. The Chicago-based buyer paid \$87.5 million for the 155,465 square foot asset, which comes out to \$563/sf. Pearl West is a steel and glass structure built in 2016; it was 89% occupied at sale, and the leading tenant was the tablet-maker Wacom Technology Corporation, which occupies 53,000 square feet on the top three floors. The Pearl West sale reflects the power of the technology sector to rapidly boost real estate values in neighborhoods with the building stock that creative users seek. In the quarter's largest CBD investment sale, Deutsche Asset Management acquired the former Meier & Frank warehouse at 1417-1477 NW Everett Street from Gerding Edlen for \$64.85 million or \$487/sf. The 133,260 square foot

building houses the North American headquarters of the Danish wind-power manufacturer Vestas, which has nearly 10 years remaining on its lease. A plug-and-play opportunity for 34,845 square feet in the building was listed for \$37 at quarter's end. Overall, sale activity this quarter summed to 54 transactions and 862,447 square feet while the average price per square foot soared to \$356.

Three office buildings totaling 74,815 square feet were completed this quarter, offering nominal supply relief to a tight market. Guerrilla Development's Fair-Haired Dumbbell project at 11 NE MLK Jr. Blvd in the Lloyd District was the largest delivery, adding 46,511 square feet of inventory. The top four floors of the creative building, which total 32,850 square feet, were available for lease for \$31 NNN. Construction is ongoing on 21 other office projects that will add approximately 3.4 million square feet of space to the market upon delivery, but the Nike North Expansion in Beaverton accounts for 1.2 million square feet of that space. Portland's largest future downtown availabilities are in the 177,800 square foot Broadway Tower and the 202,168 square foot 9North building, both of which will come on line next year with asking rents between \$31-\$37 NNN. The Field Office complex in Guilds Lake is the largest speculative development project outside of the CBD, with 330,000 square feet available upon delivery in early 2018.

Data Source: CoStar