

Portland, Oregon

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

Overview

Portland's market remains in the tenant's favor, though demand for space has picked up. Portland's office market ended Q2 with an overall vacancy rate of 8.8%, with robust renewals and relocations. The industrial market ended Q2 with an overall vacancy rate of 8.1%.

Market Trends

- CBD vacancy will continue to drop considerably over the next six months, reducing alternatives as stimulus construction drives agencies into the market while federal buildings are upgraded.
- Tenants should manage expectations regarding free rent and tenant improvements. Some landlords have limited cash or require refinancing, so learn if terms are subject to lender approval before proceeding far in negotiations.
- Increasing sublease availabilities continue to provide excellent cost-effective, short-term opportunities for tenants, though tenants must inspect the credit quality of the sublandlord to avoid taking on excessive risk in a default.
- Lease restructuring continues to be an option for companies needing to right-size or reduce costs, with not more than two years of existing lease term remaining.
- Suburban class A vacancies will continue to rise as tenants reduce space or move to less expensive space. Downtown class A rents should hold firm as landlords test possible leverage created from the flurry of recent government lease activity.

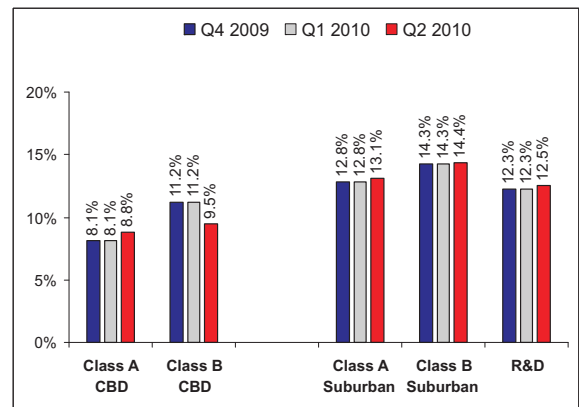
Tenant's Perspective

The market continues to reset as demand lags to historic levels and a moderate level of commercial foreclosures continue. Well-positioned owners should strike aggressive deals, keeping rates low. For Q3, we expect fewer space options and market firming downtown with more aggressive tenant side lease negotiations available in the suburbs. Our recommendation for CBD and suburban office tenants remains to pursue 15-25% reduction in average rent from 2007 market highs and secure long-term, flexible lease terms to lock-in savings available during this economic cycle. Our recommendation for industrial tenants is similar if your space type and size is average. However, if your industrial space size is large, configuration unique, or location inflexible, then we expect to see the pendulum swing sharply to the landlord's favor catching tenants unaware. Tenants should be decisive as good deals may not be delivered on if a landlord's situation changes. It may be prudent to negotiate all the way to leases at two suitable properties to preserve leverage and mitigate risk.

Major Transactions

| Tenant/Buyer | Size | Type | Lease/Sale |
|--------------------------------------|---------|------------|------------|
| Oregon Institute of Tech. | 131,793 | Office | Lease |
| Columbia Sportswear | 24,478 | Office | Lease |
| State Farm | 23,712 | Office | Lease |
| Northwest Energy Efficiency Alliance | 20,003 | Office | Lease |
| Knowledge Learning Corp | 15,775 | Office | Lease |
| Digimark | 46,083 | Flex | Lease |
| Furniture Connexion | 130,000 | Industrial | Lease |
| Stanton Furniture | 92,960 | Industrial | Lease |
| Acumed | 54,095 | Industrial | Purchase |
| Storables Inc | 45,890 | Industrial | Lease |

Vacancy Rate



Average Rental Rates

| CBD | Q4 2009 | Q1 2010 | Q2 2010 |
|----------------|---------|---------|---------|
| Class A Office | \$25.80 | \$25.80 | \$24.38 |
| Class B Office | \$21.95 | \$21.95 | \$20.15 |

| Suburban | Q4 2009 | Q1 2010 | Q2 2010 |
|----------------|---------|---------|---------|
| Class A Office | \$23.01 | \$23.01 | \$23.24 |
| Class B Office | \$18.20 | \$18.20 | \$17.63 |
| R&D | \$10.25 | \$10.25 | \$10.25 |

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