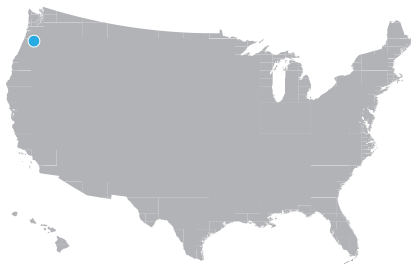




PORTLAND THE KNOWLEDGE REPORT



Rental Rates on the Uptick—Speculative Construction Finally Around the Corner

OVERVIEW

Portland's economy is on the rise as the unemployment rate continues to decrease and housing prices increase. At 7.1 percent, Portland's unemployment rate is 20 basis points lower than the national average of 7.3 percent and 50 basis points below the state average of 7.6 percent. Between construction and manufacturing alone, 900 jobs were added to the Portland market in April, directly impacting the industrial market. As jobs are added and business steadily improves, companies are looking for growth opportunities. More and more tenants in the market are outgrowing their spaces and looking for larger facilities.

As a result of growth in the economy, residential development is on the rise. Everything from lumber yards to refrigerator manufacturers are impacted by this growth. Confidence is ticking up amongst lenders, developers, and tenants. As optimism grows, more speculative construction appears to be on the horizon. This growth will be an upward trend through the balance of 2013 and into 2014.

These signs of life within the economy have led to positive results in the Portland industrial market. Significant to note is the increase in rental rates. The quarter ended with an average blended triple net asking rental rate of 46.2 cents per square foot, a 1.1 percent increase from last quarter and a 8.7 percent increase from one year ago.

LEASING & ABSORPTION

Despite the positive economic trends, the industrial market took a pause by breaking its eleventh consecutive quarter streak of positive absorption by posting 522,075 square feet of negative absorption. The last time Portland's industrial market recorded negative absorption was second quarter 2010, three years ago. A vast majority of this negative absorption can be tied to the North/Northeast submarket, which recorded negative 598,776 square feet. Much of this is simply due to market timing and will be corrected next quarter. Examples include DHL's 109,000 square foot renewal at Airport Way that was

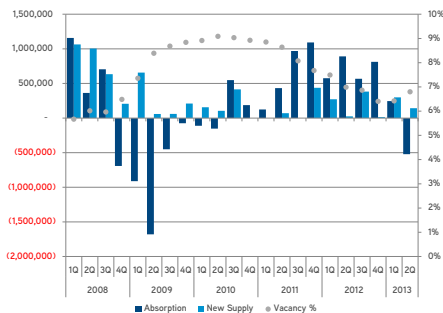
MARKET INDICATORS*

	2Q12	2Q13
VACANCY	↓	↓
NET ABSORPTION	↑	↓
CONSTRUCTION	↑	↓
RENTAL RATE	↔	↑

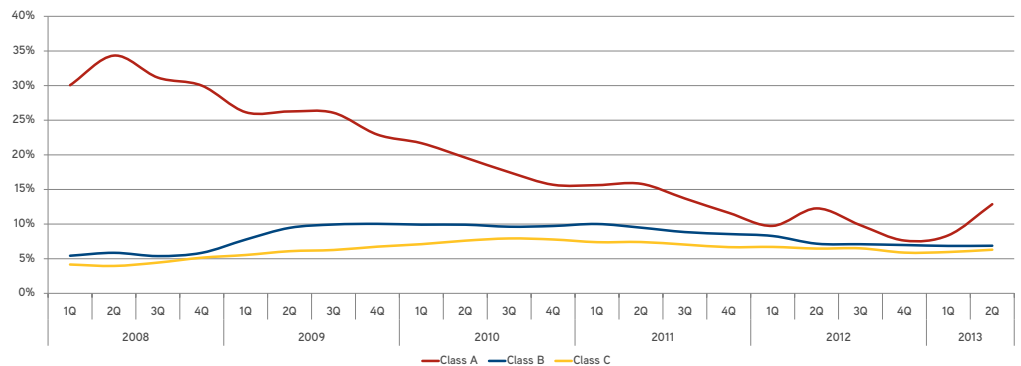
*Market Indicators show trend of previous four quarters.

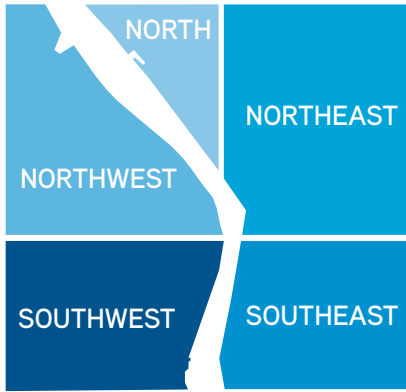
UPDATE

New Supply, Absorption and Vacancy Rates



INDUSTRIAL VACANCIES BY CLASS





With large Class A supply down and demand on the rise, the market is poised for speculative construction.

signed on July 1 and the Bridgestone-Firestone lease at Rivergate Corporate Center 2, which will reduce absorption by an additional 300,000 square feet.

The largest lease signed this quarter was Georgia-Pacific's 402,450 square foot renewal at the Rivergate Corporate Center 2 in the Rivergate submarket, downsizing from their 600,000 square foot space. The excess 204,550 square feet was newly leased by Bridgestone-Firestone. The next three largest leases in the quarter include Perceptive Pixel's lease of 165,814 square feet at 26755 SW 95th Avenue in Wilsonville, United States Postal Service's 132,284 square foot renewal at the Alderwood Corporate Center II in the Airport Way submarket, and Purina Animal Nutrition's lease at Kelley Point Distribution Center in the Rivergate submarket, leasing up 100,000 square feet.

Concessions, including free rent and tenant improvement allowances, are gradually decreasing across the board in the Portland industrial market as leasing options become limited. These decreases are most prevalent amongst the larger Class A industrial spaces where supply is even more limited.

VACANCY

The second quarter closed with a 6.8 percent vacancy rate. While up from the 6.4 percent recorded last quarter, it is still down two basis points from the 7.0 percent recorded second quarter 2012. Currently, there is 11.8 million square feet vacant market wide. The largest vacancies are in the North/Northeast and Westside submarkets, accounting for 75 percent of the total vacant space. For the previous 12 quarters, vacancy rates have been decreasing, even if ever so slightly, whereas this quarter rates made a 40-basis-point jump due to the large vacancies found in the Rivergate and Beaverton/Hillsboro submarkets. The Rivergate submarket recorded the highest vacancy rate of ten percent. Again, much of this is due to the market timing of the large aforementioned leases and will be recorded next quarter.

Since last quarter, Class A industrial property has made a huge spike. Increasing a total of 450 basis points quarter-over-quarter, it jumped from 8.4 percent to 12.9 percent. Class C also increased in vacancy, making a 30 basis point leap from 6 percent to 6.3 percent. Class B vacancy rates remained flat quarter-over-quarter, remaining at 6.9 percent.

RENTS

Second quarter 2013 ended with an average asking rental rate of 46.2 cents per square foot, a 9 percent leap from the 42.5 cents per square foot recorded one year ago. The year prior, we had only seen a 1.6 percent increase in rental rates from 41.8 cents per square foot to 42.5 cents per square foot. Quarter-over-quarter this is an increase of 0.5 cents per square foot.

Of the three classes, the largest increase came from Class C product, with a 1.3 cent increase from 44.1 cents per square foot to 45.4 cents per square foot. When the economy is in recession, Class A rents move slowly down, while Class C rents are forced down much more quickly. As Class A rents become more affordable, tenants from older buildings migrate toward these more appealing spaces which offer better quality and increased amenities with little or no increase in rent. As the economy picks up again, Class C rents are quickly driven back up to market standard. Hence, the largest increase in rents came from Class C product, signaling that we are in an expansion phase.

The highest rental rates are found near the Central City where supply of industrial space is scarce. The CBD/Lloyd submarket recorded a rental rate of 69 cents per square foot, 23.8 cents higher than the Portland industrial market as a whole.

[continued on Page 4]

UPDATE: SIGNIFICANT LEASES & SALES

LEASE ACTIVITY

PROJECT	SUBMARKET	TENANT	SIZE SF	DATE	TRANSACTION TYPE
Rivergate Corporate Center 2	Rivergate	Georgia-Pacific	402,450	04/30/2013	Renewal
26755 SW 95th Ave.	Wilsonville	Perceptive Pixel	165,814	06/25/2013	New Deal
Alderwood Corporate Center II	Airport Way	United States Postal Service	132,284	05/13/2013	Renewal
Kelley Point Distribution Center	Rivergate	Purina Animal Nutrition	100,000	05/30/2013	New Deal

SALES ACTIVITY

PROJECT	CITY	SALES DATE	SALES PRICE	PRICE/SF	TRANSACTION TYPE
Nike Distribution Center	Wilsonville	05/15/2013	\$23,600,000	\$46.43	Owner/User
LogisticCourt	Portland	05/08/2013	\$21,000,000	\$83.42	Investment
I-5 Logistics Center	Wilsonville	04/15/2013	\$17,850,000	\$59.83	Owner/User
1405-1421 NW 14th Ave.	Portland	04/25/2013	\$3,250,000	\$77.38	Owner/User

Existing Properties		Direct Vacancy		Sublease Vacancy		Total Vacancy			Net Absorption SF		New Supply SF		U/C SF	Avg. Rent
Market Sector	Inventory*	SF	%	SF	%	SF	Q2-13	Q2-12	Current Quarter	YTD	Current Quarter	YTD		
CENTRAL														
CBD/Lloyd	3,457,924	176,803	5.1%	1,500	0.0%	178,303	5.2%	6.2%	8,603	33,209	-	-	-	\$0.69
NE/SE Close-In	8,547,939	191,387	2.2%	-	0.0%	191,387	2.2%	2.6%	(6,336)	55,413	-	-	-	\$0.48
SW Close-In	468,535	24,200	5.2%	-	0.0%	24,200	5.2%	5.2%	-	-	-	-	-	\$0.47
Total	12,474,398	392,390	3.1%	1,500	0.0%	393,890	3.2%	3.7%	2,267	88,622	-	-	-	\$0.53
WESTSIDE														
NW/Guilds Lake	13,296,646	963,616	7.2%	4,600	0.0%	968,216	7.3%	6.7%	(752)	(116,729)	109,985	109,985	-	\$0.42
Beaverton/Hillsboro	18,652,380	1,557,186	8.3%	9,600	0.1%	1,566,786	8.4%	11.1%	35,384	160,651	32,023	86,023	21,265	\$0.44
I-5 South	25,171,024	1,861,824	7.4%	24,780	0.1%	1,886,604	7.5%	7.5%	(1,772)	(220,566)	-	120,082	30,973	\$0.00
Total	57,120,050	4,382,626	7.7%	38,980	0.1%	4,421,606	7.7%	8.5%	32,860	(176,644)	142,008	316,090	52,238	\$0.47
NORTH/NORTHEAST														
Rivergate/Hayden & Swan Island	24,382,020	2,444,153	10.0%	-	0.0%	2,444,153	10.0%	7.3%	(552,417)	(469,929)	-	-	-	\$0.43
Airport Gateway	14,748,758	628,806	4.3%	56,515	0.4%	685,321	4.6%	4.8%	37,887	40,767	-	-	-	\$0.44
East Columbia/NE Outlying	21,139,669	1,292,167	6.1%	63,775	0.3%	1,355,942	6.4%	9.3%	(84,246)	178,588	-	-	-	\$0.48
Total	60,270,447	4,365,126	7.2%	120,290	0.2%	4,485,416	7.4%	7.4%	(598,776)	(250,574)	-	-	-	\$0.45
SOUTHEAST														
Gresham/Mall 205/Outlying	2,810,202	184,998	6.6%	-	0.0%	184,998	6.6%	8.5%	61,770	61,655	-	-	-	\$0.32
Clackamas/Milwaukie/Oregon City	22,022,933	1,388,762	6.3%	15,700	0.1%	1,404,462	6.4%	4.8%	(25,778)	55,887	-	125,000	-	\$0.46
Total	24,833,135	1,573,760	6.3%	15,700	0.1%	1,589,460	6.4%	5.2%	35,992	117,542	-	125,000	-	\$0.44
CLARK COUNTY														
West & Central Vancouver	11,575,354	560,179	4.8%	-	0.0%	560,179	4.8%	3.6%	(33,116)	(119,246)	-	-	-	\$0.45
Van. Mall/Cascade Park/Orchards	3,983,519	256,850	6.4%	-	0.0%	256,850	6.4%	8.8%	37,098	58,477	-	-	21,600	\$0.49
Camas/Washougal/Outlying	3,429,141	116,660	3.4%	-	0.0%	116,660	3.4%	8.6%	1,600	5,200	-	-	-	\$0.30
Total	18,988,014	933,689	4.9%	-	0.0%	933,689	4.9%	5.6%	5,582	(55,569)	-	-	21,600	\$0.45
GRAND TOTAL	173,874,593	11,647,591	6.7%	176,470	0.1%	11,824,061	6.8%	7.0%	(522,075)	(276,623)	142,008	441,090	73,838	\$0.46
QUARTERLY COMPARISON AND TOTALS														
2013 2Q	173,874,593	11,647,591	6.7%	176,470	0.1%	11,824,061	6.8%	7.0%	(522,075)	(276,623)	142,008	441,090	73,838	\$0.46
2013 1Q	173,732,585	10,907,401	6.3%	252,577	0.1%	11,159,978	6.4%	NA	245,452	1,626,360	299,082	694,422	215,846	\$0.46
2012 4Q	173,433,503	10,864,341	6.3%	242,007	0.1%	11,106,348	6.4%	NA	812,708	1,380,908	13,365	395,340	461,640	\$0.44
2012 3Q	173,420,138	11,596,678	6.7%	309,013	0.2%	11,905,691	6.9%	NA	568,200	568,200	381,975	381,975	390,032	\$0.43
2012 2Q	173,038,163	11,689,740	6.8%	402,176	0.2%	12,091,916	7.0%	NA	891,568	2,848,482	25,000	691,920	662,022	\$0.42

* Total inventory is the total square footage of gross rentable area (GRA) or rental building area (RBA) in a specific market. Colliers only includes building with a minimum size threshold of 10,000 square feet (RBA) or more, and excludes government-owned buildings (Ex: Federal Buildings, City Hall, Courthouses) and certain medical facilities that are located on and owned and operated by hospitals, education institutions, among others (Ex: OHSU/Providence). In special cases, large owner-use facilities are also excluded as they may heavily distort market statistics (Ex: Intel). Generally, private market owner/user facilities are included in the inventory. For specific buildings and inventory criteria, please consult Colliers International.

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CONSTRUCTION

There are currently four Class B industrial warehouses under construction spread across Vancouver, Hillsboro and Tualatin, totaling 73,838 square feet.

A 490,000 square foot facility in the Airport Way submarket is slated to break ground during the month of July with a projected delivery date of mid-2014. This is the first significant speculative construction to break ground since 2007. Speculative construction is projected to be on the horizon as confidence continues to increase and the economy picks up.

With large Class A supply down and demand on the rise, the market is poised for speculative construction. With that, Portland lacks availability of attractive usable land, and much of what is available is owned by the Port of Portland, creating a real challenge for Portland metro developers and users.

The Portland industrial market delivered three new properties this quarter, totaling 158,466 square feet. They were all build-to-suit single tenant facilities located in Forest Grove, the NE Close-In Submarket and Guilds Lake.

SALES ACTIVITY

Sales activity in the Portland industrial market is on the rise, primarily driven by user sales but with investors also taking additional interest in the Portland market. This quarter 28 properties sold for over \$500,000—an increase of 9 properties from the 19 that sold for over \$500,000 last quarter. The largest industrial sale of the quarter was the 508,277 square foot Nike Distribution Center in Wilsonville to U.S. Core Partners for \$23.6 million, or \$46.43 per square foot. Another significant transaction was the \$21 million sale of LogisticCourt at Portal Way in the East Columbia Corridor. Granite REIT, LLC purchased the 264,984 square foot building from Dermody Properties for an adjusted price of \$83.42 per square foot, or an approximate 6.79 percent capitalization rate; the seller retained a 5 percent interest in the property. Additionally, Colliers represented the seller in the sale of the 298,361 square foot I-5 Logistics Center at 9805 SW Boeckman Road located in the Wilsonville submarket, selling for \$17.85 million or \$59.83 per square foot to Southern Wine and Spirits. Planet Granite purchased the city block at 1405 NW 14th Avenue for \$3.25 million where Colliers International had brokers representing both the seller and the buyer.

With lower interest rates, and the threat of federal tightening, many of the most recent transactions are motivating businesses using SBA financing to take advantage of lower 3, 5, 7, and 10 year fixed interest rates. The window of opportunity to acquire a shrinking number of user properties is narrowing, while vacancy rates continue to decrease and rental rates spike upward. This has pushed user sales to new highs, some of which may have trouble appraising until more of these types of transactions are recorded.

OUTLOOK

As we continue to come out of the recessionary lull, the industrial market will continue to make headway. There is a transformation taking place from a tenant's market to a landlord's market. We predict speculative construction and rents will continue to rise as concessions continue to tighten. The fundamentals are in place to sustain the trend of positive growth throughout the end of 2013 and beyond. ■

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