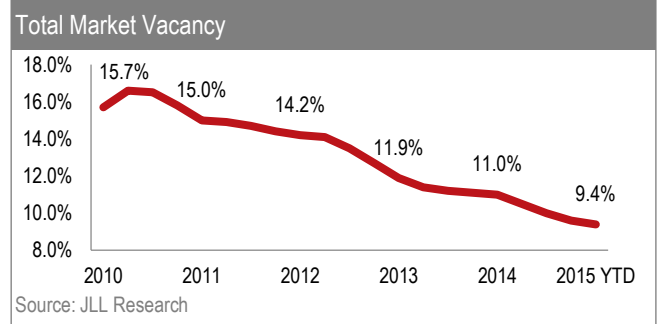




2015 will be significant year for Portland

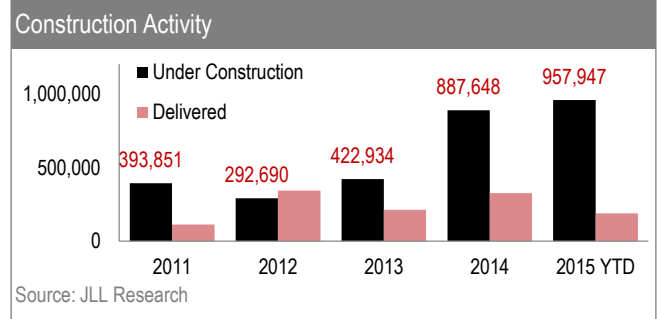
Vacancy falls and will drop further throughout the year

Total market vacancy has fallen to 9.4 percent, down 160 basis points year-over-year, making Portland the second tightest office market in the country after Salt Lake City. Other tight markets like New York and San Francisco have seen significant deliveries bump up vacancy, but Portland has seen limited vacant space deliver to the market, with most projects coming onto the market partially or fully-leased. Although there are a number of smaller developments in the pipeline set to deliver in 2015, it is not expected that vacancy will be significantly hindered until the delivery of Park Avenue West, 1320 Broadway, and Pearl West in early 2016, though they are collectively over 50.0 percent pre-leased.



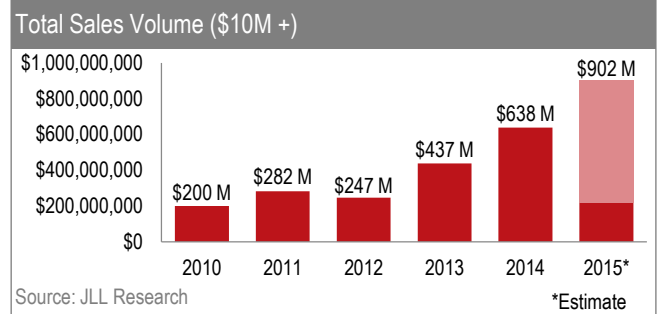
Construction activity brisk; Close-in Eastside emerging

Construction activity has picked up significantly over the past two years in response to declining vacancy and increased demand in urban submarkets. The Close-in Eastside is emerging as a more significant submarket, with the submarket housing four of the ten projects expected to deliver in 2015. The submarket has seen a significant increase in activity over the past few years with average rents up 39.8 percent year-over-year, mainly due to high-in-demand new and renovated product hitting the market. Renovations of well-located but currently under-utilized buildings are becoming increasingly important – six of ten projects expected to deliver in 2015 are renovations.



Institutional interest in Portland increasing

Interest in the Portland market from institutional investors is accelerating. Total investment volume for properties over \$10 million is expected to be robust in 2015, with total sales exceeding \$900 million. Bidding for property in Portland is becoming increasingly competitive with the pool of institutional buyers deepening and an increasing number of assets trading in off-market transactions. The sale of the Overton Pearl in January set a new high-watermark price per square foot, trading at over \$490 per square foot at a cap rate of 4.7 percent.



9.4%
Total vacancy

203,148
Q1 2015 net absorption (s.f.)

9.5%
12-month rent growth

957,947
Total under construction (s.f.)
40.1%
Total preleased

Market Overview

Economy

Portland's economic conditions are strong and improving. Unemployment in the region has fallen to 6.0 percent, a level not seen since mid-2008 and office-occupying employment has reached a new high in over seven years. Professional & Business Services and Trade, Transportation & Utilities continue to lead the region's employment gains, indications of Portland's advanced, trade-driven economy, which ranked 2nd in the nation for advanced industries' share of total output.

Market Conditions

Fundamentals in the Portland market remain on a positive trajectory, with all indicators pointing to a strong, maturing market poised for continued growth. Vacancy in the market has fallen to 9.4 percent, a new 10-year low, down from 11.0 percent a year prior, making Portland the second tightest market in the nation behind only Salt Lake City. Rent growth in the market has accelerated, up 9.5 percent year-over-year, ranking Portland 3rd in the nation, behind only San Francisco and Oakland. Vacancy in the Central City remains well below the market, at 7.6 percent, decreasing 160 basis points year-over-year.

Development activity, largely clustered in the Central City, is increasing with over 950,000 square feet of office product currently under construction or significant renovation, up substantially from the end of 2013, at which time just over 400,000 square feet were under construction. Just under 300,000 square feet of space currently under construction is expected to deliver in 2015, which would bump deliveries higher than levels seen in over five years. 2016 is expected to be an even greater year for deliveries, with over 650,000 square feet of product currently under construction expected to deliver, and a strong amount of proposed development expected to break ground in the upcoming quarters. Renovations of older, well-located buildings, mixed-use, and Close-in Eastside construction are three themes that are gaining ground, with projects like the Oregonian, Block 8L, Regal Lloyd Mall, and Block 75 set to diversify the types of product in the market.

Outlook

Portland's market is thriving and will continue to strengthen throughout 2015. As activity has heated up significantly in the Central City, expect the suburban markets to become increasingly important in the upcoming quarters.

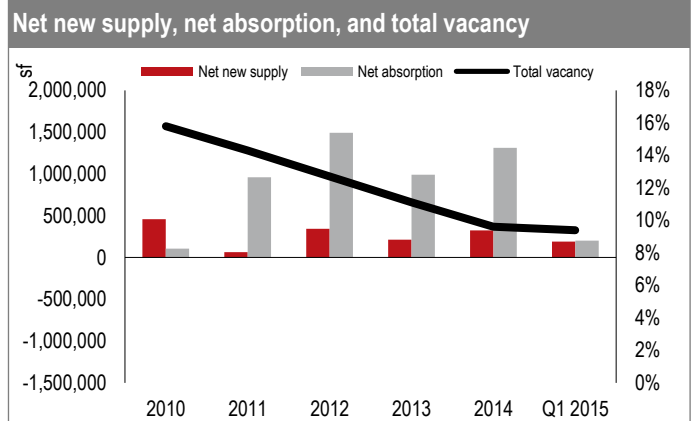
Submarket leverage					
Submarket	2015	2016	2017	2018	2019
Portland Central City	Landlord-favorable	Landlord-favorable	Tenant-favorable	Tenant-favorable	Tenant-favorable
Suburban	Landlord-favorable	Landlord-favorable	Landlord-favorable	Balanced	Balanced

■ Landlord-favorable conditions
 ■ Balanced conditions
 ■ Tenant-favorable conditions

Source: JLL Research

Statistics – current market conditions		
Supply	Supply	58,416,580 sf
	Total vacancy rate	9.4%
	Under construction (% preleased)	954,947 sf (40.1%)
Demand	YTD net absorption	203,148 sf
Pricing	12-month overall rent % change	9.5%
	Class A overall asking rent	\$26.14 sf

Source: JLL Research



Source: JLL Research

Leverage Perspectives

Tenant Perspective

Larger tenants looking for urban space are continuing to face limited options and need longer lead times to plan strategically for their spaces. A growing number of larger tenants are considering under-construction or proposed spaces due to lack of supply. Smaller urban tenants still have a number of options available to them, though low vacancy continues to apply pressure. Suburban tenants are experiencing tightening conditions, particularly in the Sunset Corridor, where vacancy has fallen below 7.5 percent. Though suburban tenants still have a number of options available to them, they will face more difficult conditions in the upcoming quarters.

Landlord Perspective

In the Central City, landlords are benefiting greatly from low vacancy and sustained interest for urban space. Competition, however, is heating up between landlords with control of Trophy and Class A buildings, with numerous landlords considering updating lobbies and other common areas in order to attract the best tenants. In the suburbs, landlords are slowly gaining leverage as availabilities dwindle, particularly in the Westside suburban markets.

Source: JLL Research

Transactions & Development Activity

Completed lease transactions – Q1 2015

Tenant	Building/Address	Submarket	SF	Type
MODA Health	601 SW 2 nd Ave	CBD	175,542	Renewal
Planar Systems	1195 NW Compton Dr	Sunset Corridor	72,242	Renewal
Unitus Credit Union	1300 SW 6 th Ave	CBD	46,875	Renewal
Morrison Child & Family Services	1111 SW 10 th Ave	CBD	28,537	Renewal
DiscoverOrg	805 Broadway St	CBD/West Vancouver	27,043	Expansion in market
Aetna Life Insurance	222 SW Columbia St	CBD	22,252	Renewal
Zapproved	1414 NW Northrup	CBD	19,258	Relocation within market
Regus	1455 NW Irving	CBD	18,997	Expansion in market
GBD Architects	1120 NW Couch St	CBD	16,489	Expansion in building
Morgan Stanley Smith Barney	4800 Meadows Rd	Kruse Way	14,428	Expansion in building
Sather Byerly & Holloway	111 SW 5 th Ave	CBD	13,704	Renewal
Venture Business Centers	8901 SE Foster Rd	Clackamas/Milwaukie	13,451	Relocation within market
Smith Optics	200 NE Martin Luther King Jr Blvd	Lloyd District	12,889	New to market
Boise White Paper	13115 NE 4 th St	Cascade Park/Camas	12,383	Renewal
Guild Mortgage	4500-4550 Kruse Way	Kruse Way	12,263	Relocation within market

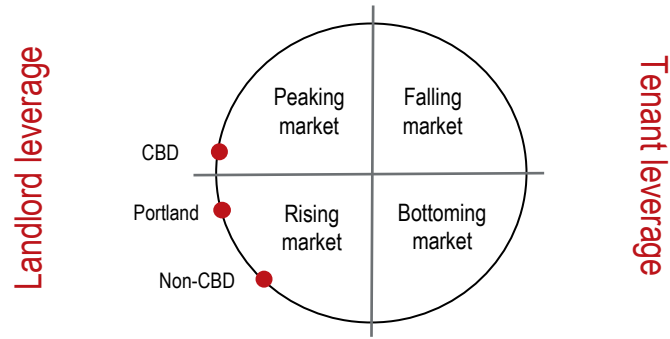
Completed sale transactions – Q1 2015

Building/Address	Submarket	Buyer / Seller	SF	Price	\$ psf
KOIN Center	CBD	ScanlanKemperBard, Prudential / APIC	355,705	\$88,000,000	\$247.40
Overton Pearl	CBD	Empire Square Group / WDC Properties	61,953	\$30,890,000	\$498.60
Mason Ehrman Building	CBD	Downtown Properties / Kalberer	90,000	\$14,500,000	\$161.11
One Pacific Square	CBD	Menlo Equities / Ashforth Pacific, GE Capital	240,338	\$48,500,000	\$202.00
2100 River Parkway	CBD	BDC Advisors / CalSTRS, Clarion	96,266	\$35,350,000	\$367.21

Construction pipeline – Q1 2015

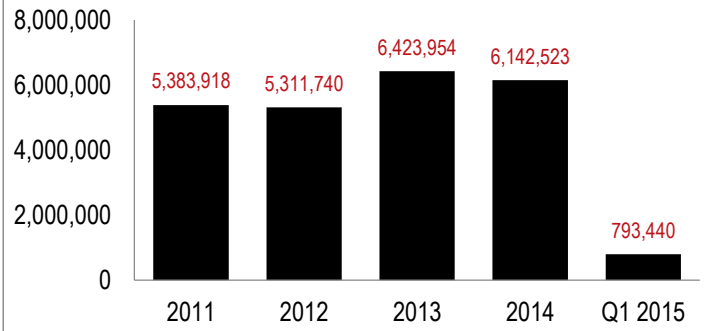
Building/Address	Submarket	Status	Delivery	SF	Major Tenant
The 100 at Park Square	CBD	Completed	Q1 2015	97,643	Ecova (29,262 sf)
2 & Taylor	CBD	Completed	Q1 2015	79,473	Jama Software (34,629 sf)
Barrett Business Building	Cascade Park/Camas	Completed	Q1 2015	12,000	
Park Avenue West	CBD	Under Construction	Q1 2016	221,380	Stoel Rives (131,905 sf)
The Oregonian	CBD	Under Renovation	Q1 2016	165,000	
Pearl West	CBD	Under Construction	Q1 2016	151,233	Wacom (53,010 sf)
Block 8L	CBD	Under Construction	Q1 2016	64,568	Ankrom Moisan (46,465 sf)
One North – East	Close-in Eastside	Under Construction	Q2 2015	43,418	Instrument Software (30,000 sf)
Regal Lloyd Mall 8	Lloyd District	Under Renovation	Q4 2015	40,000	
One North – West	Close-in Eastside	Under Construction	Q4 2015	35,671	
Block 75	Close-in Eastside	Under Construction	Q2 2016	35,000	
Bank of the West	CBD	Under Renovation	Q2 2015	34,749	

Current conditions – market and submarket



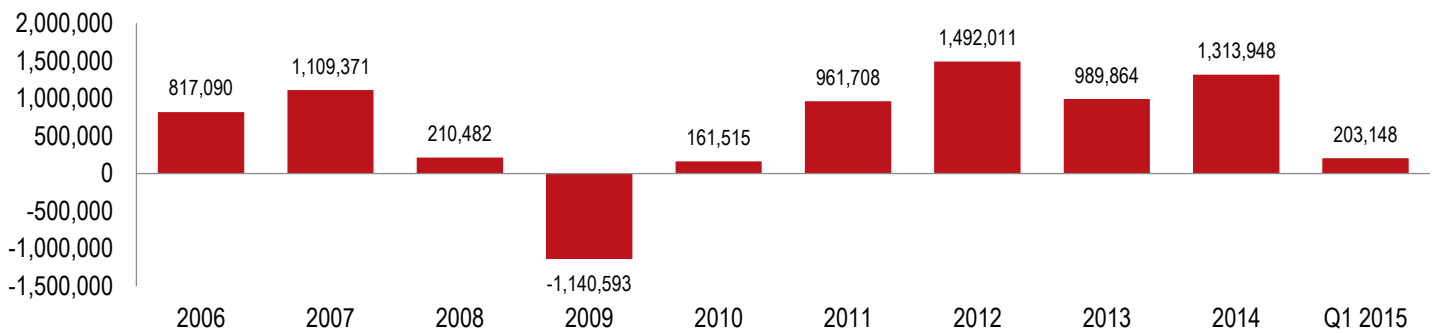
Source: JLL Research

Historical leasing activity



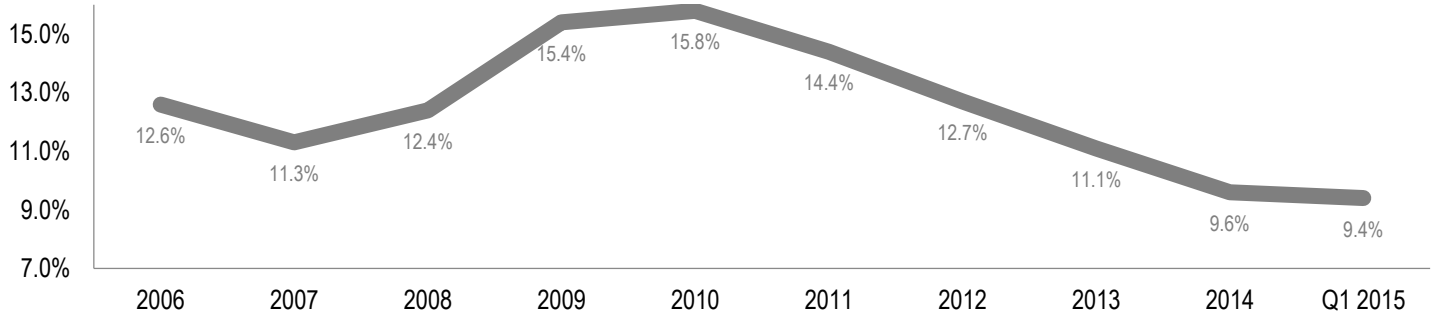
Source: JLL Research

Total net absorption (s.f.)



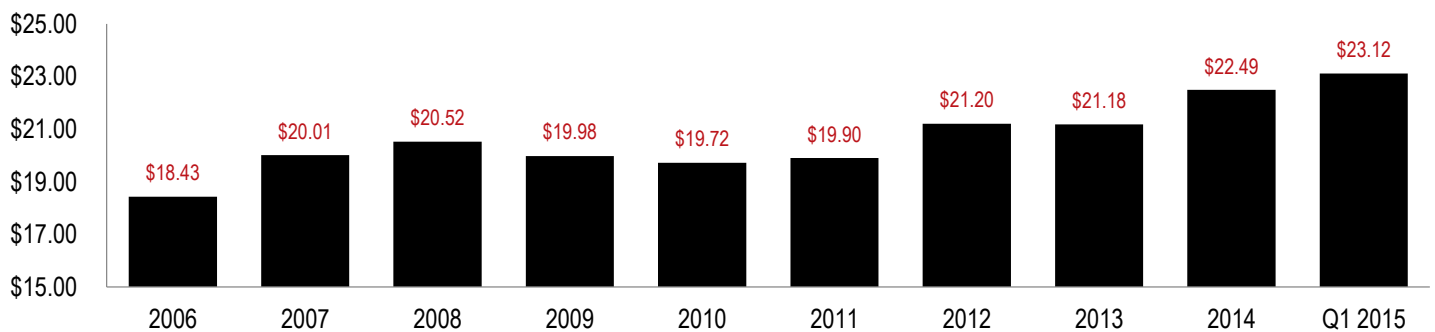
Source: JLL Research

Total vacancy rate



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research