Portland’s office market continues to be one of the strongest in the county. With robust sales, growing rental rates, and plenty of inventory hitting the market, investors have a positive outlook on the coming quarters.

Rental rates are on the rise at an average of $26.93 per square foot per year across the market. This is well below the national average of $32.74, making Portland an attractive place for new businesses. The overall vacancy rate of 7.4% is much lower than the national average of 9.8%. These positive trends are making Portland a trendy office market.

The leasing market remains strong. Despite deliveries to the market, a trend of vacancy compression persists and development is continuing. There are also several build-to-suit projects, adding inventory without adding vacancy to the market. Overall, it seems to be a sustainable growth trajectory.

As we continue to move through 2019, investors feel confident in the stability and continued growth of the market.

Riley Henderson
Commercial Real Estate Broker
NAI Elliott

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Vacancy Rates (%)

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The Portland office market continues to be strong across submarkets. Vacancy is up slightly at 7.4%, but is well below the national average of 9.8%. Moreover, rental rates are on the rise, creating a favorable situation for investors.

Construction is limited in most submarkets. The one area seeing major office expansion is the Sunset Corridor, where over a million square feet are currently under construction. Most other areas are not undergoing much construction, but are keeping steady vacancy rates and higher rental rates.

The market is shifting slightly, but the outlook is still strong for the coming quarters.

Smaller office users are continuing to value creative office space and co-working spaces, especially as their companies continue to expand and contract with the shifting economy.

Jamie Nelson
Commercial Real Estate Broker
NAI Elliott
Portland Office Market Report
Major Sales
1ST QUARTER 2019

TOP SALES

<table>
<thead>
<tr>
<th>NAME</th>
<th>TOTAL SF.</th>
<th>PRICE</th>
<th>PRICE/SF</th>
<th>CAP RATE</th>
<th>DATE SOLD</th>
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</thead>
<tbody>
<tr>
<td>Moda Tower</td>
<td>398,412</td>
<td>$178,000,000</td>
<td>$447</td>
<td>5.2%</td>
<td>9/28/2018</td>
</tr>
<tr>
<td>Tanner Point</td>
<td>202,853</td>
<td>$76,625,000</td>
<td>$378</td>
<td>-</td>
<td>10/18/2018</td>
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<tr>
<td>The Galleria</td>
<td>182,181</td>
<td>$64,100,000</td>
<td>$352</td>
<td>-</td>
<td>12/05/2018</td>
</tr>
<tr>
<td>Towne Storage</td>
<td>100,022</td>
<td>$62,750,000</td>
<td>$627</td>
<td>-</td>
<td>4/23/2018</td>
</tr>
<tr>
<td>38 Davis</td>
<td>124,006</td>
<td>$54,250,000</td>
<td>$437</td>
<td>-</td>
<td>1/30/2018</td>
</tr>
<tr>
<td>Historic Bank Block</td>
<td>207,895</td>
<td>$53,925,000</td>
<td>$259</td>
<td>-</td>
<td>2/15/2018</td>
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<tr>
<td>220 NW 2nd Ave</td>
<td>238,751</td>
<td>$52,100,000</td>
<td>$218</td>
<td>-</td>
<td>1/17/2018</td>
</tr>
<tr>
<td>CNF</td>
<td>150,000</td>
<td>$34,000,000</td>
<td>$227</td>
<td>-</td>
<td>6/29/2018</td>
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</tbody>
</table>

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Oregon’s economy continues to be strong, despite a slight slowdown in growth. The labor market has tightened slightly and population growth is slowing as well. Despite the facts of a shifting labor market, this is not necessarily cause for alarm. Wages are continuing to increase 3-4% on average annually and more Oregonians are working. For the first time since the 1980s, Oregon’s median household income is competitive with the U.S. average.

Overall, many trends in Oregon’s economy are mirroring national averages. As we see a national slowdown, this trend is also apparent on a local level.

Oregon’s economy continues to hit the sweet spot. Job growth has tapered more than expected over the past year, but remains strong enough to hold the unemployment rate near historic lows. Local wage growth outpaces national figures due to the strong labor market.

State of Oregon, Oregon Economic Revenue and Forecast

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Stability and optimism reign. Low vacancy, high values, and low interest rates all contribute to the current good times in commercial real estate that seem to many to be the new normal. Memory of 2009 is long past for those who experienced it and ancient history for those in the business less than ten years. But interest only loans and higher leverage that many owners are tapping to meet the new challenges facing commercial real estate – “amenity arms race” for office, ecommerce for retail, the “Amazon effect” for industrial – may come to haunt them when capital intensive changes become the norm and no longer command premium rent rates or the inevitable downturn arrives. Boom times are great but planning for some rainy days should not be discarded.

Lou Elliott
Principal, Chief Executive Officer
NAI Elliott

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