

# Portland, Oregon

Tenant's Guide ■ North American Markets ■ Fourth Quarter 2009

## Overview

The Portland real estate market remains in the tenant's favor, though is hindered by instability. Portland's office market ended the fourth quarter of 2009 with an overall vacancy rate of 11.3%, still the highest in six years, with the seventh consecutive quarterly increase in vacancy. Portland's industrial market finished 2009 with an overall vacancy rate of 8.2%.

## Market Trends

- Free rent and increased tenant improvement allowances and move allowances will continue to increase as landlords compete for financially secure tenants. It's important to know whether your terms are subject to "lender approval" before getting too far into negotiations.
- Increasing sublease availabilities provide an excellent cost effective short-term solution for tenants, though credit quality of the sublandlord is critical.
- Lease restructuring will benefit companies needing to right-size or reduce costs, even with three years or more of existing term.
- Many landlords are inundated with restructure requests and cannot deal with them.
- Class A vacancies will rise as tenants reduce needed space and move to less expensive space to reduce costs. Class A rents will fall (particularly for short-term leases) as landlords work to retain tenants.

## Tenant's Perspective

The market is "resetting" as demand lags and commercial loan restructures continue. We expect that new owners of foreclosed properties will drive market rents lower. For the foreseeable future, we expect market softening and "tenant favorable" lease negotiations.

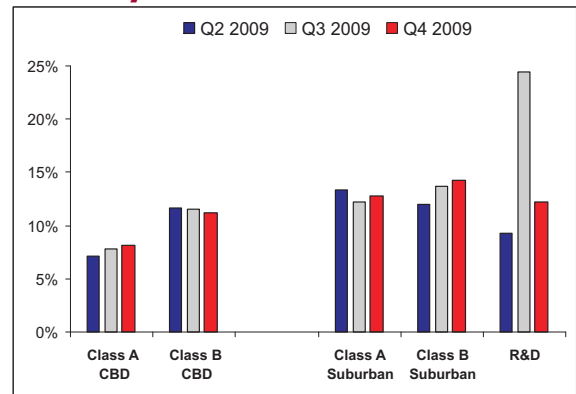
Our recommendation for suburban tenants with expirations within the next 24 months is to pursue 15-25% rent reductions from 2007 market highs and secure long-term, flexible lease terms to lock in savings available during the current economic cycle. The CBD market vacancy will drop considerably in the next 12 months precluding many alternatives that exist now as "stimulus construction" which caused government tenants to absorb vacant space while their buildings are remodeled. In the CBD, we caution against pursuing a short-term extension and then waiting for the right opportunity.

Strike fast as good deals may not be deliverable if a landlord's circumstances change. It may be prudent to negotiate two leases at equally suitable properties to preserve leverage and mitigate risk and market instability.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Bi-Amp	70,000	Office/R&D	Lease
Transcore	44,390	Office	Lease
GSA (Citizenship & Immigration)	36,912	Office	Lease
M&T Real Estate	22,122	Office	Lease
Portland Dermatology Clinic	19,482	Office	Lease
McCormick & Schmick HQ's	19,250	Office	Lease
MOR Furniture for Less	156,000	Industrial	Lease
Owens Corning	123,120	Industrial	Lease
Medline	109,000	Industrial	Lease
R. R. Donnelley & Sons Co.	72,200	Industrial	Lease
Pinemeadow Golf	55,000	Industrial	Lease

## Vacancy Rate



## Average Rental Rates

	Q2 2009	Q3 2009	Q4 2009
<b>CBD</b>			
Class A Office	\$25.39	\$24.35	\$25.80
Class B Office	\$20.91	\$20.67	\$21.95
<b>Suburban</b>			
Class A Office	\$24.93	\$23.58	\$23.01
Class B Office	\$18.00	\$18.12	\$18.20
R&D	\$10.47	\$10.08	\$10.25

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