

Columbian Economic Market Forecast 2006

March 14, 2006

RETAIL

Clark County's positive growth in new jobs and continued population increases have supported a banner year in 2005 for new retail construction and 2006 will continue the trend of significant retail construction activities. The most significant retail activity in Clark County has been Columbia Crossing located at Mill Plain between 162nd and 192nd Avenues, which is being developed by PacTrust. Columbia Crossing is part of the 408.0 acre master plan Columbia Tech Center, which is home to the new Nautilus World Headquarters building. The scope of Columbia Crossing represents the most significant retail projects since Vancouver Mall was built between 1978 – 1980. The tenant mix includes over 800,000 new square feet of retail space, which has been build, is currently under construction or forecasted for construction in 2006. The tenant mix will include Wal-Mart and Home Depot, and also new retailers to Clark County such as Kohl's, Cost Plus and Best Buy. Columbia Crossing is strategically positioned to serve the Fisher's Landing market, which is Clark County's largest master plan housing development and highest income demographic and appeals to retailers who want to be positioned to service the higher-end consumer demand in this market.

In addition to Columbia Crossing, retail development in Clark County will include Phase II of Hazel Dell Towne Center, consisting of junior anchors Bed Bath & Beyond, Best Buy and TJ Maxx (totaling 160,000 SF) servicing the I-5 corridor in north Clark County. Also, two developments that will begin construction in 2006 are Grand Central developed by Killian Pacific (totaling 165,000 SF) and The Landing developed by Opus Northwest (totaling 630,000 SF), which neither development has announced an anchor project. Eastgate Plaza on NE Fourth Plain and Ward Road will also be under construction in 2006 developing a Super Wal-Mart as an anchor to (600,000 SF) to service the Orchard's/Sifton markets of Clark County.

Although the 2005 forecast was for vacancy rates to increase based upon substantial new retail construction, vacancy rates for anchored retail centers was less than 4% at year-end 2005. This extremely low vacancy rate is further proof that there are many retail services and companies looking to provide their services to Clark County. The forecast for 2006 will be for vacancy rates to trend to over 6%, which is still very comfortable and the vacancy will allow more options for retail shops to locate in various submarkets of Clark County. As vacancy rates remained low, the rental rates in 2005 for new construction exceeded \$26.00 per square foot with some shop space tenants paying over \$30.00 per square foot for premium locations within specific development projects. The rental rates for 2006 will remain at \$26.00 - \$32.00 per square foot for shop space in anchored retail centers.

COMMERCIAL LAND

Commercial land prices for retail development have continued to escalate during 2005 and the price increases will continue in 2006. In some cases, it is not about the cost of commercial land, but about whether there is any commercial land in a given geographic area that is suitable for retail development to support the consumer demand. The limited supply of commercial land will be addressed in the Clark County GMA vacant land analysis which will review all the cities in

Clark County for an adequate supply of vacant land. Without an increase in the supply of vacant commercial lands the prices will start to restrict new development.

Prices for commercial and retail land ready for development will exceed \$15.00 per square foot for 5.0 – 20.0 acre parcels. Smaller parcels for pad users such as banks and restaurants will exceed \$25.00 per square foot, and in some cases, exceed \$30.00 per square foot for locations that are perceived as premium.

INVESTMENT

Investor demand to purchase finished retail projects is at an all-time high with buyers competing with each other to purchase the limited supply of retail centers that are available in Clark County. Due to the increasing rents in existing centers, the value of retail shopping centers has increased and owners are considering selling their projects to lock-in their extraordinary gains this past year with a sale of their projects. Clark County has an extreme shortage of all type of investment properties for sale and prices of existing properties will continue to increase during the year 2006.

OFFICE SPACE

The Class “A” office market in Clark County represents over 2.4 million square feet of currently developed office space. 2005 was an active year for new office construction adding approximately 290,000 square feet of new Class “A” office buildings to the market. These new office buildings include The Rockwell Building, Salmon Creek, Vancouver Square, Vancouver Mall Professional Campus and The Timbers, all located near Vancouver Mall; First Place Plaza, Fisher Building, Park Tower V and Southview Professional Center, all located in greater Fisher’s Landing area of the City of Vancouver. The surprising news in 2005 was the office space absorbed was over 300,000 square feet, which directly reduced the vacancy rate for Class “A” office space from 17.7% to 14.4%. This positive office absorption represents the 8th consecutive quarter that Clark County has experienced net absorption of Class “A” office space.

Significant office lease transactions for 2005 included iRiver at Tidewater Cove Waterfront Office Buildings (15,440 SF), Bailey Pinney at Columbia Tech Center (6,798 SF) and Bay Bank at Vancouver Center (5,890 SF). There are no new Class “A” office buildings scheduled for completion in 2006, subsequently the vacancy rate of Class “A” office space at the end of 2006 will be less than 10%. Office building developments announced that will be delivered after the year 2006 includes The Columbian building and Vancouver Center Tower II, both located in downtown Vancouver. Class “A” office rents will gradually increase to \$26.50 per square foot with virtually no landlord concessions of free rent or additional tenant improvement allowances.

INDUSTRIAL

The multi-tenant industrial market for Clark County in 2005 did not experience the forecasted growth that was predicted in 2004. The vacancy rate at the end of 2005 jumped up to over 9% compared to the forecast of 5% last year as more industrial space was returned to the market. The largest industrial space available in Clark County is located at Columbia Business Center with over 100,000 square feet of warehouse space available to lease. The industrial market vacancy rates for 2006 is forecasted to be closer to the 5% vacancy rate previously forecasted due to the positive growth of existing companies in Clark County and the forecasted job growth

for Clark County. Asking rents for multi-tenant industrial space has increased significantly in 2005 and will continue to increase in 2006 to over \$0.50 per square foot, per month for warehouse space compared to \$0.35 per square foot per month. Existing tenants and new tenants will not only be confronted with higher rental rates, but also confronted with a lack of alternatives to house their expanding businesses.

Industrial land prices for ready-to-build sites are approaching \$6.00 per square foot, with larger industrial land sites of 10.0 acres or more ranging between \$4.50 – \$5.00 per square foot for 2006. There is no new construction anticipated for multi-tenant industrial buildings in Clark County for the year 2006 impart because the required rent to support the total development costs will need to be increased to over \$0.60 per square foot to justify any new construction.

2006 FORECAST IN SUMMARY

2005 was a very active year for Clark County's commercial real estate markets and 2006 will continue to see a rapid expansion of retail square footage added to the market. The question of how much new retail development will Clark County support can be answered by analyzing the retail sales leakage from Clark County to the Portland/Metropolitan area. Clark County continues to export one-third of its retail consumption dollars to the Portland/Metropolitan area. Clark County's current retail demand could equal several million new square feet of retail projects. The Class "A" office market will also experience positive net absorption as rental rates are increasing and vacancy rates are decreasing. The industrial market needs a significant rental rate increase to justify new construction for multi-tenant industrial space in Clark County. Owners of all types of commercial real estate should consider locking-in historically high prices for their income producing property compared to the future interest rate fluctuation that will place downward pressure on all existing values of commercial real estate. The adoption of Clark County's Growth Management Act is extremely important to provide all cities in the county significant vacant land to support the future growth demand of both jobs and consumer spending in Clark County.

What will Clark County commercial real estate market be in 2026?

1. Population increasing by 153,000 people totaling 545,000 people.
2. Households increasing by 35,000 new households.
3. Retail square feet increasing by 7 million square feet (60%) totaling to over 18 million square feet.
4. Class "A" office buildings increasing by 4 million square feet (150%) to over 5 million square feet.
5. Multi-tenant industrial buildings increasing by 7.5 million square feet (100%) to over 15 million square feet.