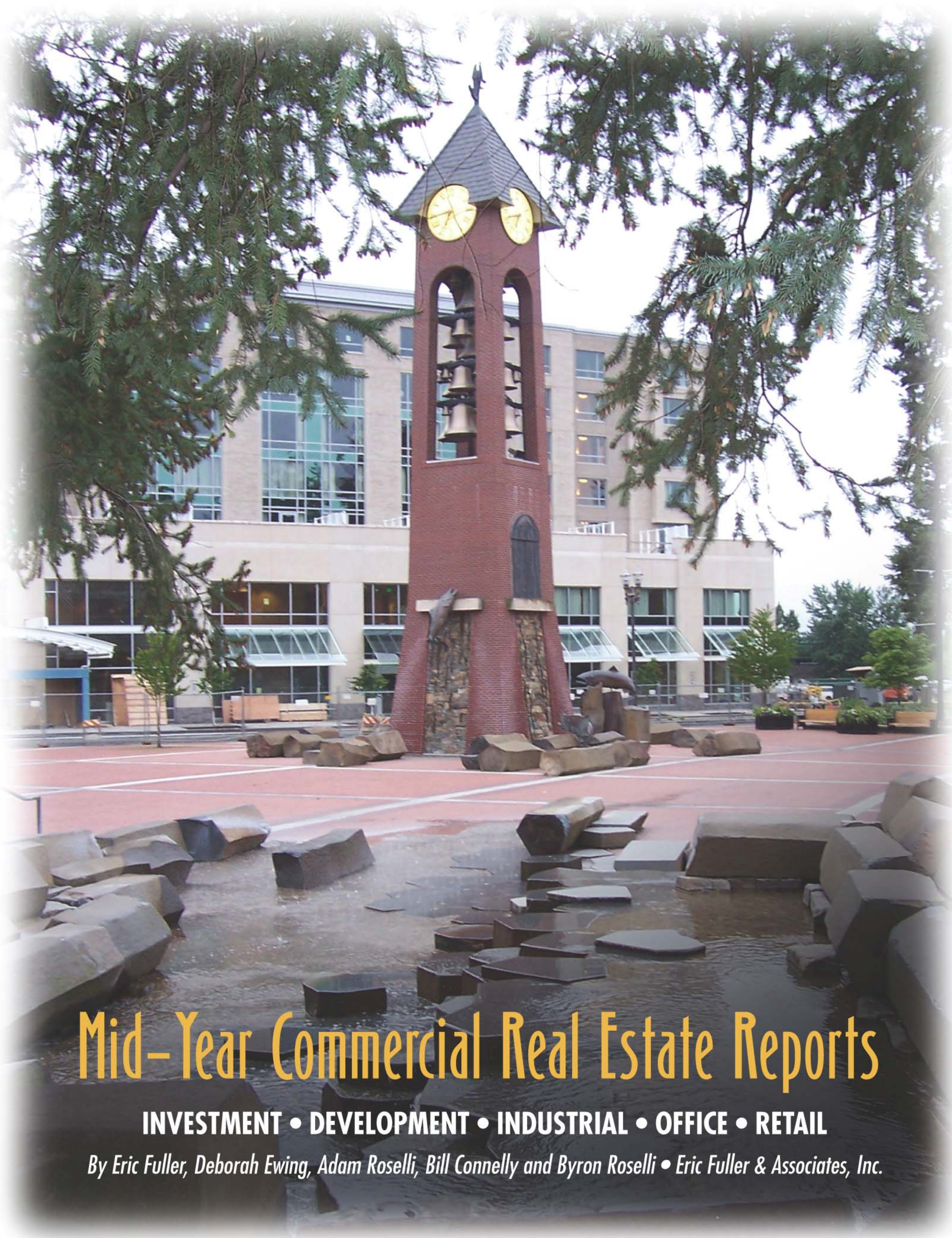

Mid-Year Commercial Real Estate Reports

INVESTMENT • DEVELOPMENT • INDUSTRIAL • OFFICE • RETAIL

By Eric Fuller, Deborah Ewing, Adam Roselli, Bill Connelly and Byron Roselli • Eric Fuller & Associates, Inc.

2005

Mid-Year Commercial Real Estate Reports

Investment and Development Industrial, Office & Retail

Eric Fuller, CCIM, Land Development
Deborah Ewing, Retail
William Connelly, CCIM, Industrial
Byron Roselli, Office

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Deborah D. Ewing
Vice President

Deborah Ewing joined Eric Fuller & Associates, Inc. in January of 1998. Debi is responsible full time for the marketing of retail properties for sale or lease in Southwest Washington.

Prior to joining Eric Fuller & Associates, Inc., Deborah began her career in property management and development. In 1985 she joined Norris, Beggs & Simpson as a retail leasing specialist. While at Norris, Beggs & Simpson, she received the designations as “Rookie of the Year” and Associate Vice President. She has been responsible over the past 20 years, for leasing major retail centers and significant land sales to developers and national retail clients.

Deborah attended Portland State University and is a member of the International Council of Shopping Centers, Vancouver Chamber of Commerce and has served as present and past Board of Director of Columbia River Development Association, Downtown Vancouver Redevelopment Authority, and Public Facilities District, SWIFT, YWCA, Campfire Girls, Evergreen School District Advisory Board, Shared Leadership Board, Boundary Review Committee, National Association of Realtors and Executive Board Director with the Commercial Association of Realtors, Portland/Vancouver.

<u>Past and/or Present Client List</u>

Albertsons
Alexandria Development
Applebee’s Restaurant
Arco
Blockbuster Video
Chevron
Chipotle
Evergreen Public Schools
Fort Vancouver Regional Library
Fred Meyer
Gramor Development
Hi-School Pharmacy
Holland Corp.
Hollywood Video
Jack-in-the-Box
Kindercare
Lacamas Credit Union
McDonalds
NAPA Auto Parts
Nextel
PacTrust
Shari’s Restaurant
Sherwin-Williams
Taco Bell
Talbitzer Homes
Taylor Made Homes
Texaco

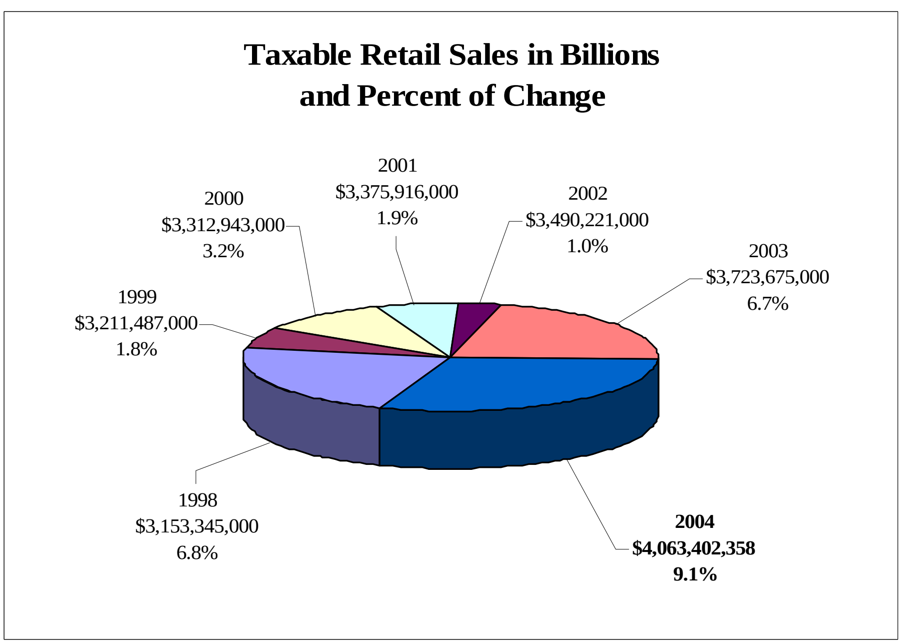
MID YEAR COMMERCIAL REAL ESTATE RETAIL REPORT

Deborah Ewing
Vice President
Eric Fuller & Associates, Inc.

Throughout most major U.S. markets, including Clark County, retail properties continue to experience lower vacancy levels and higher rental income. Retail properties as investments remain the favorite amongst its siblings, industrial and office. Population growth and retail demand are directly linked to each other so it should be no surprise that Clark County experienced strong increases in retail sales over the previous year by 9.1% percent, exceeding $4 billion annually. This is a significant increase, just below double digits; with the average increase over the proceeding five years at less than 3%.

The retail sales increase is fueled by population increases (Clark County's population growth averaged 2.8% over the proceeding 5 years), convenience in shopping close to home and added variety in shopping options. Retail construction within our community continues to change the landscape of retail centers. Demand for retail development continues at key nodes, including Salmon Creek, Andresen and 88th Street, Orchards area and the SE 192nd Avenue corridor.

The most significant retail expansion underway in Vancouver is Columbia Crossing which is part of the Columbia Tech Center master plan, located between SE 164th Avenue and SE 192nd Avenue in Fisher's Landing. This 45 acre retail expansion is a hybrid combining elements of a power center (big box) and an open air center (specialty retailers). Home Depot is currently open with Wal-Mart Supercenter and Kohl's Department Store under construction. A snapshot of other retailers joining these anchors includes Bed Bath & Beyond, Cost Less World Market, Pier 1 Imports and Best Buy. Best Buy joining Columbia Crossing represents the first national home electronic retailer to locate in Clark County. Their presence will spur interest in Clark County from other electronic retailers. Columbia Crossing is well positioned within east Clark County to recapture sales tax leakage to Portland. However, the proposed Cascade Station, to be developed on Airport Way in northeast Portland, with anchor tenants including Ikea and Costco, will provide easy access to retail competition in Portland. Lifestyle centers are now the most common format of new retail development defined as non-anchored, open air specialty centers with fashion, home, restaurants and entertainment. The proposed "Landing" at Evergreen Airport will be Clark County's first open air center similar to Bridgeport and the Shops at Tanasbourne in Portland. The second most active developments are free-standing stores, third–power centers (big box), fourth–neighborhood centers, fifth–community centers (grocery anchored) and lastly, enclosed regional malls. The leader in Vancouver representing the power center segment of development is Wal-Mart. Wal-Mart currently operates two stores, with three Supercenters planned for '06 and may open up to eight "Wal-Mart



Source: State of Washington, Department of Revenue

Neighborhood Markets." A Wal-Mart Neighborhood Market (grocery only) is one of Wal-Mart's separate store concepts providing more convenience to shoppers. Several retailers realize they cannot operate as "business as usual," and are offering a menu of shopping options to increase revenues and boost profits. Albertsons "Super Saver" stores (not in our market yet) is a "mini Costco" offering 18,000 different items compared to 50,000 items in a typical supermarket. An average Costco offers between 3,500 and 4,000 items. Grocery stores struggle to maintain market share, as nitch specialty food vendors have flourished including Whole Foods, Trader Joes, Wild Oats and New Seasons. Shoppers of these specialty stores are looking for healthy, organic specialty items and oftentimes, convenience of prepared foods and location. Separation within the food market is defined as either big discount or specialty. According to an AC Neilson Survey, a typical shopper makes 70 trips per year (1.3 trips per week) to a traditional grocery store (Safeway/Albertsons), 22 to a supercenter (Wal-Mart), 15 to a drug store, 13 to a dollar store and 11 to a warehouse club (Costco).

With 15 trips per year to a drug store, it should be no surprise that Costco, Wal-Mart, Albertsons, etc. offer pharmacy departments. Walgreens purchase of Hi-School Pharmacy in Clark County created overnight market share with Hi-School Pharmacy having been a leader in our market. Walgreens plans to open three new free-standing stores in Clark County this next year and 7,000 new stores countrywide by 2010.

We are beginning to experience redevelopment of shopping centers at key intersections, which include Fourth Plain Center (NE Fourth Plain Rd. & NE Andresen Rd) and Vancouver Place (NE Fourth Plain Blvd. and NE 117th Avenue). Fourth Plain Center has undergone a major facelift with Walgreens relocating to their own free-standing building. The former Albertsons building at Vancouver Place has been renovated with a new look and was leased to Jo-Ann Superstore and Petco. Regency Centers purchased the former Home Base and bank buildings. The new anchor and junior anchor tenants for these redeveloped centers will be announced by year end.

Empty anchor spaces in retail developments have created opportunities for the fastest growing segment in retail, which are the dollar type stores. The closures of two Hi-School Pharmacy stores were leased by Dollar Tree in Hazel Dell and Big Lots in Fishers Landing. A regional dollar store has leased 10,000 square feet at Padden Parkway Marketplace in Sifton. With all this activity from retail tenants, retail vacancies have dropped to 3%, with rental rates for new construction ramping up to $22.00 - $26.50 per square foot, per year for non-anchor tenants. This extremely low vacancy rate will continue to support new retail development.

2005 was a good year, however not necessarily a banner year in new retail construction in Vancouver. 2006 will undoubtedly represent a new milestone in retail construction ever with over 1.5 million square feet planned for construction. New projects will include Wal-Mart Supercenter at Eastgate Plaza, Salmon Creek and Columbia Crossing, expansion of Hazel Dell Towne Center, Centerpointe, Vancouver Place (former Home Base Building), Riverstone at SE 192nd Avenue, and The Landing at Mill Plain and SE 136th Avenue, WinCo at NE 18th Street and Andresen Road and several in-fill strip centers.

My Forecast for the upcoming year:

- Retail sales to increase by 7%
- Continued interest from Big Box and Specialty Retailers.
- Retail rates in anchored centers to increase to $26.00 - $32.00 per square foot.
- Vacancy in all retail centers to decrease below 3%.
- New construction increasing from last year.

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William M. Connelly, CCIM
Vice President

Bill Connelly joined Eric Fuller & Associates in January of 1998. Bill is responsible full time for the marketing of industrial properties for sale or lease in Southwest Washington.

Prior to joining Eric Fuller & Associates, Bill began his career at Norris, Beggs & Simpson as an industrial sales and leasing specialist in June of 1987. He has been responsible for leasing major industrial projects such as the Quad 205 Business Park, Central Business Park and the North Park Industrial Center. Before joining Norris, Beggs & Simpson, he was a marketing representative and account executive for Northwest Telecommunications and American Business Machines. Mr. Connelly graduated from Georgetown University in 1976 with a Bachelor of Science Degree in Business Administration/Economics. He maintains a real estate license in Oregon and Washington. He is a member of the National Association of Realtors, the Portland Board of Realtors, and Clark County Board of Realtors, the National Association of Industrial and Office Parks (NAIOP), past Chairman of Columbia River Economic Development Council, Boy Scouts of America, and is a Certified Commercial Investment Manager (CCIM).

Bill has obtained a diversified and thorough knowledge over the past 18 years of the complexities involved in industrial leasing and sales transactions and has been recognized as “Power Broker” by the CoStar Group. Bill has represented a multitude of clients, a sample of which includes the following:

Past and/or Present Client List

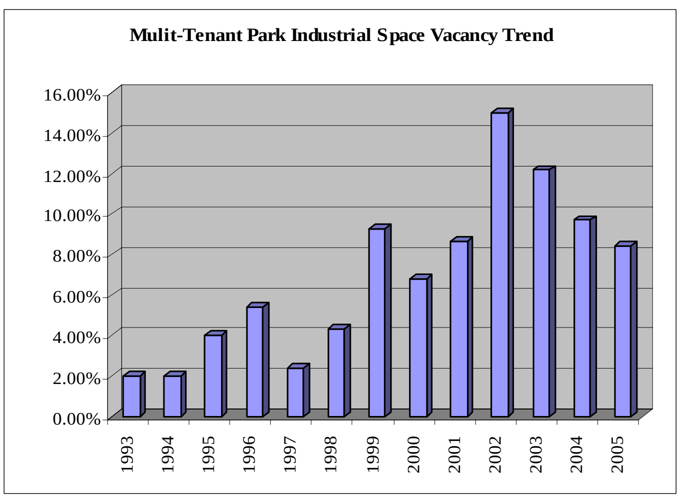
Bonneville Power Administration
Composites One
Concannon Paper
Educational Service District #112
Frito lay, Inc.
Gaither Family, LLC
General Electric
Hewlett-Packard
Hinton Development
Keller Supply
McMorgan & Company
McStevens Company
Nautilus Group
n Light Photonics
North Coast Electric, Inc.
NW Natural
Panther Systems
Prairie Electric
Radial-Larsen, Inc.
Schnitzer Investment Corp.
Shitu-Etsu (SEH) America, Inc.
Stein Distributing
Sunlight Supply
Vancouver School District

MID YEAR COMMERCIAL REAL ESTATE INDUSTRIAL REPORT

William Connelly, CCIM
Vice President
Eric Fuller & Associates, Inc.

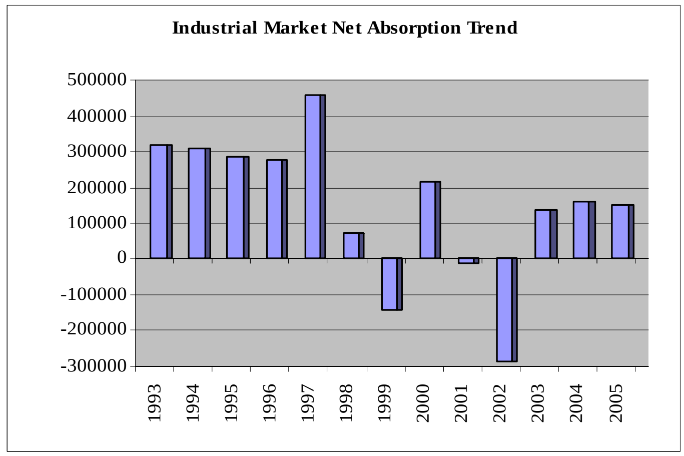
Landlords are back on top on lease negotiations! The long draught appears to be ending for the owners of industrial properties. After four years of particularly high vacancies and rental concessions, landlords are reducing free rent or rental rate concessions.

As I stated last year, 2004 was a recovery year for industrial leasing and 2005 continues to improve as industrial users consider their expansion requirements. At the end of 2004, our vacancy rate was 9.71% with approximately 160,000 square feet of net absorption. As of July 2005, we are standing at 8.41% vacancy with a year-to-date net absorption of 152,430 square feet. The Portland industrial market stood at 13.0% vacant at the end of the first quarter 2005.



Source: Eric Fuller & Associates, Inc.

With current leasing activity increasing and minimal new construction over the past several years, tenant demand is satisfied out of existing inventory and has reduced the vacancy rate for industrial buildings. It is critically important for tenants to recognize this fundamental change in the marketplace, with fewer options to choose from at higher rates, tenants will have to make decisions faster on lease space that may not be perfect for all their needs. Clark County has been in "it will be cheaper tomorrow" frame of mind and it is very difficult to change gears. The current market will require tenants to start planning their industrial warehouse requirements earlier.



Source: Eric Fuller & Associates, Inc.

The Clark County industrial market has never been 100% leased, which is almost impossible to achieve. Anything under 5% vacancy normally would signal new construction to take place to meet the demand. Over the decade of the '90's, new construction matched demand with our overall industrial multi-tenant marketplace doubling in size to over 7.5 million square feet.

The reason that new construction has not exceeded current demand is that rental rates have not increased to support the cost of new construction and the ever escalating cost of the permitting process. The costs of concrete and steel have increased significantly as our local builders continue to compete nationally for these raw materials. Another significant increasing cost of construction is "site plan approval" or the permitting process, which increases the overall costs in any new project and now, can represent 12% to 15% of the total project costs.

The current market rental rates do not allow developers to build multi-tenant warehouse space and be economically rewarded. The result has been virtually no new construction this past year. As demand kicks in and rental rates increase, the development community will develop more rental space for lease. Since it takes almost two years from design to occupancy for multi-tenant warehouse projects, we will remain in an extremely low vacancy rate environment for the next few years. Rental rates not only have to increase, but increase significantly before any new rental space will be brought online. Rates for warehouse need to increase to $0.45 ($5.40 annually) per square foot from the current $0.37 ($4.44 annually) per square foot to justify new construction. Clark County will continue to see new industrial construction for users/owners of industrial properties as long as interest rates remain at historic lows.

Industrial sales continue to capture the most attention with over 300,000 square feet being purchased by business owners. These sales are a mixture of existing facilities and new build-to-suit construction. As in the past, business owners are taking advantage of a low interest rate environment and are converting rental payments into mortgage payments. I see continued demand from both locally owned and operated companies, and Portland companies relocating to Southwest Washington purchasing industrial properties this next year. An example of the innovation it takes to be competitive and responsive to the marketplace is the Union Ridge Industrial Condominium Project. This multi-building industrial park being developed by Hinton Development offers 6,000 square feet to 7,000 square feet industrial bay sizes for sale. By spreading fixed permitting and construction costs over multiple buildings, Hinton Development can deliver small owner occupied space very economically to the marketplace. The first of three 52,000 square foot concrete tilt-up buildings is under construction and already over 50% pre-sold. As with the larger build-to-suit clients of Hinton Development, smaller Clark County companies can now own their real estate at a superior I-5 location. This past year, large, publicly traded and high tech firms were still on the side lines regarding their industrial expansion requirements.

A most encouraging sign is the unemployment rate continues to decline. Clark County's unemployment rate is 6.0% with 1,500 jobs being created by local employers since January 2005. That is down from last years 6.7%. Clark County has added 4,500 jobs from a year ago with an annual job growth rate of 3.7%. Clark County still exports over 60,000 employees daily to Portland.

This next year, Clark County will continue to benefit from Portland companies relocating to Clark County, primarily to be owners of real estate. Investors will continue to purchase in southwest Washington and arrange their portfolios with investment properties concentrated in non-income tax states like Washington. Industrial users are the most sensitive to cost, including rental rates and if costs get too high, companies will relocate to a low cost community. As a community, it is extremely important to provide adequate inventory of vacant industrial land and buildings to house these jobs and support locally owned companies in Clark County.

My Forecast for the next 12 months:

- ⟺ Minimal new construction
  Developers will start site planning process
- ↗ Lease rates increasing to
  $0.38/SF to $0.45/SF
- ↗ Land prices increasing to
  $5.00/SF to $7.00/SF
- ↗ Net absorptions over 300,000 SF
- ↙ Vacancy rates decreasing to under 5%

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Byron T. Roselli
Vice President

Byron Roselli joined Eric Fuller & Associates in April of 1999. He is responsible full-time for the marketing of office properties for sale or lease in Southwest Washington.

Byron began his career in commercial real estate in 1995, representing clients in office, retail and industrial transactions. He has been responsible for leasing major office projects, including Four Towncenter Office Development, Investment Plaza, Oak Place Professional Center, One Towncenter and Tidewater Cove Waterfront Office Building. Prior to his career in commercial real estate, Byron was founder of a manufacturers' representative firm specializing in wholesale distribution of automotive parts. Byron is a member of the National Association of Realtors, the Commercial Association of Realtors and the Certified Commercial Investment Manager Institute (CCIM).

Byron has obtained a diversified and thorough knowledge over the past 10 years of the complexities involved in office leasing and sales transactions. He has represented a multitude of clients, a sample of which includes transactions involving the following buildings and corporations:

<u>Past and/or Present Client List</u>

First Independent Bank
Boise Cascade
Bratrud Middleton Insurance
Chevron Oil Company
Clark County Association of Realtors
Columbia Resources Company
Columbia Shores Office Building
Columbia Tech Center
Congressman Brian Baird
Cowlitz Bancorp
Eastridge Business Park
EES Consulting
First Pacific Mortgage
Four Towncenter
Home Depot
Investment Plaza
iRiver America
iQ Credit Union
Keller Williams Preferred Partners
Kinko's
Oak Place Professional Center
Office Max
Park Tower at Mill Plain One
Rocketshop
Southwest Washington Medical Center
Tidewater Cove Waterfront Office Building
Washington State

MID YEAR COMMERCIAL REAL ESTATE OFFICE REPORT

Byron Roselli
Vice President
Eric Fuller & Associates, Inc.

In our 7th year of presenting the Mid Year Commercial Real Estate Report I took the opportunity to look back at years past to illustrate the very positive nature of our economic growth since my first report in 1999. Most noticeable to everyone who has been in the area since that first report would be the redevelopment of the Central Business District (CBD), or "Downtown". The new Hotel and Convention Center has been developed across the street from one of the largest and most vibrant public squares in the Pacific Northwest, Esther Short Park. If you focus your view around the CBD, you will notice approximately $285M in new investment that wasn't there in 1999. Approximately 411,000 square feet of new office and mixed use buildings including more than 600 new housing units has grown from redeveloped property around the park and elsewhere within the CBD. The vision of our city government and particularly Mayor Pollard and those who risked the investment should be applauded at every opportunity.

In our community at large, we are experiencing the addition of the new $200M Legacy Hospital and Medical Office Building in the Salmon Creek area and the $150M major expansion of our existing Southwest Washington Medical Center. New companies, both home grown and those that have relocated from other areas are responsible for providing family wage jobs that are vital to our community. On average, four jobs are created for every 1,000 square feet of occupied office space. Jobs created within our community support our community and eliminate the commute across the river. My report is a snapshot from the past seven years and includes current events and my forecast for the next 12 months.

Central Business District (CBD):

Boise Cascade has announced it will sell its 32 acre Vancouver waterfront property this year and Killian Pacific has purchased the Copps Dealership property on Evergreen and "C" Streets. These significant transactions present terrific opportunities to continue the Downtown redevelopment. Scott Campbell is expected to break ground on the new home of the Columbian Newspaper adjacent to the Hilton Hotel and Convention Center. Vancouvercenter and Bay Bank, a wholly owned subsidiary of Cowlitz Bancorp have agreed to terms for a commercial bank branch totaling 5,890 SF on the 1st floor of the North Office Tower Building at Vancouvercenter. Four new Class "A" Office Buildings totaling approximately 411,000 square feet have been added to my survey since 1999, which now includes 12 buildings totaling approximately 987,821 square feet with approximately 18% vacancy. Lease rates range from $18.50 - $24.50 per square foot on an annual full service basis.

East Vancouver:

Mill Plain One is constructing the final building to the Master Plan development. The 41,563 square foot Park Tower V is scheduled for completion in October and brings the total Class "A" office space within the development to approximately 307,000 square feet. The Nautilus Group has leased the 482,000 square foot Columbia Tech Center building at the corner of Mill Plain Boulevard and SE 164th Avenue. The realignment of Mill Plain Boulevard through Columbia Tech Center now presents the opportunity to align additional office, retail and industrial buildings to the arterial which now connects to SE 192 Avenue and on to the soon to be completed interchange at SR-14. Seven new Class "A" Buildings totaling approximately 369,094 square feet have been added to my survey since 1999, which now includes 14 Buildings totaling approximately 712,782 square feet with an approximate 5% vacancy. Lease rates range from $20.00 - $24.00 per square foot on an annual full service basis.

Vancouver Mall Area:

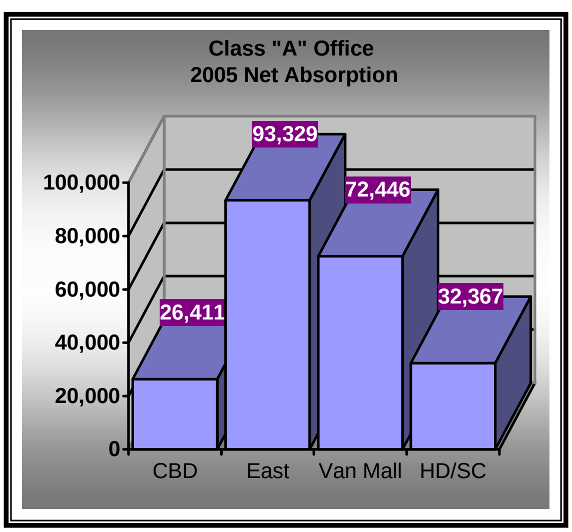
The Vancouver Mall area has seen the recent development of areas to the north and east of the mall. The conversion of the former Van Mall Cinemas into approximately 34,000 square feet of office space is underway while to the south of the project two 15,000 square foot buildings in the Van Mall Campus development have been constructed at the east entrance to the shopping center. At the north end of the mall the 28,400 square foot Vancouver Square Building has recently been completed. Vacancy rates in the area are expected to increase with the Bonneville Power announcement that it will vacate approximately 65,000 square feet of office space. Four new Class "A" Office Buildings totaling approximately 285,616 square feet have been added to my survey since 1999, which now includes 9 buildings totaling approximately 575,725 square feet with an approximate 22% vacancy. Lease rates range from $18.50 - $24.00 per square foot on an annual full service basis.

Hazel Dell / Salmon Creek:

The most recent growth in the Hazel Dell / Salmon Creek area began with the NE 99th Street Interchange on I-5 and culminated with the announcements of the expansion of the Washington State University Vancouver Campus, Legacy Hospital campus and Hazel Dell Town Center mixed use development. Ed Pietz, the developer of Mill Plain One has announced plans to develop 3 Class "A" buildings on NE 20th Avenue in a development named "20th Avenue Park." The proposed development is planned to total approximately 200,000 square feet and will begin construction this year. Nine new Class "A" Office Buildings totaling approximately 385,234 square feet have been added to my survey since 1999. These buildings are also the only Class "A" buildings within the area and they show an approximate 31% vacancy. Lease rates range from $20.00 - $24.50 per square foot on an annual full service basis.

Significant office lease transactions in the past year include:

1. The Nautilus Group – 482,500 SF at Columbia Tech Center in the East Vancouver area.
2. Coldwell Banker Barbara Sue Seal Properties – 20,800 SF at Vancouver Square in the Vancouver Mall area.
3. Keller Williams Preferred Partners – 15,448 SF at Pacific Tower in the CBD.
4. iRiver America – 15,361 SF at the Tidewater Cove Waterfront Office Building in the CBD area.
5. Landerholm Law Firm – 11,264 SF at the Bank of America Financial Center in the CBD area.



Summary:

This next year could be full of uncertainties with oil prices exceeding $60 per barrel, interest rates increasing and inflation looming on the horizon. The war and terrorism, taking its toll psychologically and monetarily will continue to dominate our headlines. Clark County will continue to be a great place to live, work and play. Our quality of life, educated work force and relatively stable tax base will continue to draw companies to north of the river. In all, since my first report in 1999, approximately 1,481,860 square feet in 24 Class "A" buildings has been added to my survey. This growth has more than doubled the amount of Class "A" office space in Clark County and represents more than 4,856 jobs.

My forecast for the next year:

The market for all Class "A" office buildings remains active. Currently at 16% vacant, the vacancy rate will begin to drop due to a lack of new office construction and positive net absorption of existing office space. Medical office use will be very active in the Salmon Creek and Central Vancouver areas.

New Development (241,000 square feet)

Vacancy Rates (Trending Down – 12%)

Lease Rates (New Construction) ($21.00-$24.50)

Lease Rates (Existing Space) ($18.50-$24.50)

Net Absorption

If you have any questions regarding your office space requirements or availability, please contact me.

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Eric Fuller, CCIM
President

Mr. Fuller opened Eric Fuller & Associates, Inc. in January 1997, with the purpose of offering clients quality commercial real estate services within the Vancouver/Portland Metropolitan marketplace. Prior to establishing his own firm, Eric Fuller was one of the principals who founded the Vancouver office of Norris, Beggs & Simpson, a northwest commercial real estate firm. Eric has been a leading commercial real estate professional in Clark County for over 20 years and has had an active role in many of Clark County's major real estate transactions.

Eric earned the designation as one of the Top Five Brokers at Norris, Beggs & Simpson in 1992, 1993, 1994, and 1995. Eric was Vice President and managing partner of the Vancouver office of Norris, Beggs & Simpson throughout his 12 years with the firm. Since his career in commercial real estate, Eric has been responsible for the sale of hundreds of acres of land, leasing office and warehouse space and the sale of investment property in Clark County.

Mr. Fuller's professional affiliations include Realtors Associates of Oregon and Washington, Columbia River Economic Development Council, Vancouver Chamber of Commerce, Responsible Growth Forum, Commercial Association of Realtors – Portland/Vancouver, Vancouver Area Development Authority, Vancouver Historic Reserve and International Council of Shopping Centers (ICSC). Eric and is a licensed Certified Commercial Investment Manager (CCIM).

Eric has represented some of the largest companies and public agencies in Clark County including:

Albertson's
Alexandria Investments
Clark County
City of Vancouver
Columbia Colstor
C-TRAN
ESD #112
First Independent Bank
Fred Meyer
Killian Pacific
Legacy Hospital

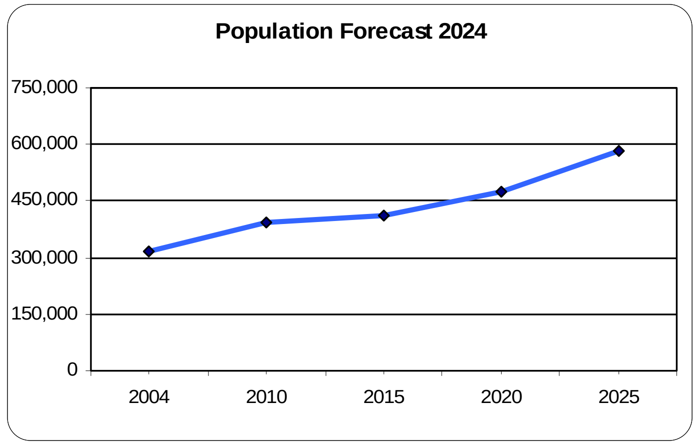
NERCO
Newland NW
NW Natural
Pomajevich Properties
Resolution Trust
Safeway
Sharp Microelectronics
SW Washington Medical Center
Vancouver Fire District
Washington Mutual Bank
William Maitland

MID YEAR COMMERCIAL REAL ESTATE INVESTMENT & DEVELOMENT REPORT

Eric Fuller, CCIM
President/Broker
Eric Fuller & Associates, Inc.

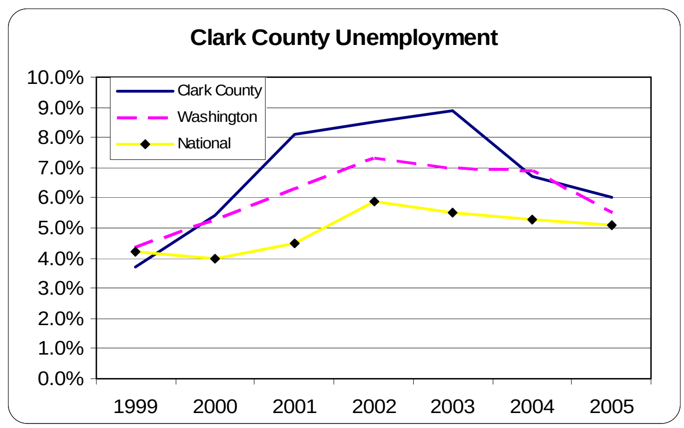
This time of the year we ask ourselves, what has happened in the last year regarding commercial real estate trends? Clark County has again experienced a very active year in all commercial real estate types. The pent-up demand in retail is proven to be very solid and deep for new and expanding retailers adding additional or new stores in Clark County to serve this demand. With the growth of new residents and the economic indicators of additional job growth, lower unemployment and continued population growth have been positive and the future looks bright as all of these indicators trend upwards. Positive job growth will provide the foundation once again for office and industrial development of warehouse and distribution buildings to service this positive trend. Commercial office buildings are now approaching a normalized vacancy rate where new construction of commercial offices will be warranted in the near future. With the opening of Legacy Hospital this summer and the expansion of SW Washington Medical campus, we can count on new and expanding medical services being provided to Clark County. The attractive low, long-term interest rates have provided the capital required for the expansion and acquisition of all types of commercial real estate.

The above positive economic trends have been recently supported by Clark County Commissioners in revisiting the annual growth rate assumptions used in creating the vacant buildable lands during the GMA update process. The GMA Plan will forecast the demand for vacant buildable lands for the next 20 years through 2024. The Commissioners have adopted a more realistic population growth of 2% per year, which translates to 583,400 people living in Clark County by 2024.



Source: Clark County GIS

Also, the Commissioners have targeted 110,007 new jobs in the Clark County area during this same 20 year period.



Source: State of Washington, Labor Market & Economics

The Clark County job growth goal is one job for each 1.7 new residents locating in Clark County. Although this is an improvement over previous job growth goals, Clark County still needs to look at one job for each new resident coming to Clark County. This additional job demand will only be met with strategically located employment zoned property located throughout Clark County. The new job growth will again reduce Clark County's unemployment to historic levels of below 5% during this next business cycle.

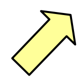
Commercial Lands

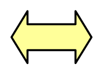
Clark County is an attractive place for new retailers to consider expansion or location of new facilities, however, Clark County is extremely limited in vacant commercial parcels of 10.0 acres or larger that are strategically located to serve retail demand. Last year, national retailers including Wal-Mart and Home Depot have purchased over 58.0 acres of commercial land. In addition, shopping center developers have purchased 25.0 acres of vacant commercial land. National tenants set new high prices per square foot of land exceeding $10.00 per square foot in Clark County. The Clark County GIS records indicate there is only one 20.0 acre parcel of vacant commercial land available in all of Clark County and that parcel is not ideally located for future retail development. In addition, the GIS records indicate there are only three sites between 10.0 to 19.0 acres. Clark County still has a retail leakage of over 30% of our retail sales to the Portland Metropolitan area and Clark County is not open for business to house additional national retail business and/or existing business expanding their services for the projected population growth in Clark County. Clark County Commissioners need to review the adequacy and location of large commercial parcels to attract future retail development or the trend of retail leakage will continue indefinitely. An exception to the critical shortage of vacant commercial land is the rezone of the airport property (Evergreen Airport) to commercial, for a 90.0 acre high-end, mixed use development which will include retail, office, hotel and residential development. This development called “The Landing” will most likely be permitted during the next 12 months and under construction sometime in 2007. During the past 12 months, no new grocery store sites were purchased or developed in Clark County. Grocery store sites are generally considered community neighborhood sites and range from 8.0 to 12.0 acres in size.

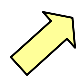
Investment Sales

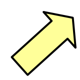
During the last 12 months, over $95 million of investment sales of all types of commercial real estate were closed in Clark County. The largest sale was the 162nd Place Retail Shopping Center for over $22 million. The demand for all types of income producing property is very strong, and the demand will continue and be exacerbated with the active tenants-in-common ownership which will infuse billions of dollars of new money over the next several years. Tenants-in-common is a form of multiple owners of investment property. The cap rates for commercial income producing properties have been compressed creating substantially more market value for most properties. Many owners are now sitting on low-leverage investments and their actual current return on equity has decreased. Unlocking their paper equity through a sale can result in significant improvement to owners’ return of equity. Owners should consider this as the perfect time to sell their property and lock in the paper gain of their current equity before cap rates and interest rates reverse and start trending upwards.

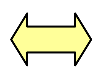
My Forecast for the next 12 months:

 Commercial land prices increasing

 Commercial land sales

 Investment property values increasing

 Population will increase faster than Clark County’s forecast

 Interstate Bridge Crossing

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