

## **Columbian Economic Market Forecast 2006**

### **December 22, 2006**

With all the mixed economic news, including the stock market pushing record highs, higher long term interest rates, increase in the prime interest rate, and the positive job growth within Clark County, let's look at all sectors of the commercial real estate market and see how they performed for the year 2006.

#### 1. Investments Sales

Clark County set a historic high record of investor real estate sales in 2006. Over \$327 million of investment sales closed in 2006 compared to \$193 million in 2005. That's a 70% increase in dollar volume. The Columbia Business Center and Eastgate Business Park transactions accounted for over 64% of the total sales volume. Columbia Business Center and Eastgate Business Park are the first and fourth largest privately owned business parks in size in the Portland Metropolitan area. 2007 looks like a good year for investment real estate sales, however, it will not be a record year compared to 2006.

#### 2. Retail

Retail was, again, very active with new projects and continued expansion of new and existing tenants in Clark County. Columbia Crossing, which is located in the Columbia Tech Center, developed and leased over 240,000 square feet in 2006, including tenants like Best Buy, Kohl's, Cost Plus World Market and Pier 1 Imports. Columbia Tech Center will, most likely, see in 2007 additional retail activity on 192<sup>nd</sup> Avenue in a planned expansion of over 250,000 square feet. This planned expansion will consist of at least one more "big box" tenant and several junior tenants, and small pad users, again, which located in the fastest growing market in Clark County. The long awaited Wal-Mart and Home Depot center at NE Fourth Plain and Ward Road (Eastgate Plaza) will be under construction and open for business in 2007. National and local tenants designed for Eastgate Plaza will total over 450,000 square feet on 47.0 acres serving the Orchard's/Sifton marketplace. Killian Pacific has announced the development at Grand Blvd. (Grand Central) anchored by the relocation of a Fred Meyer store and a development at NE 117<sup>th</sup> and 119<sup>th</sup> Avenue (Cedars Golf Course), which will be under construction of over 250,000 square feet on 19 acres of new neighborhood retail services. Opus Development will start construction in 2007 of The Landing project (Mill Plain and 136<sup>th</sup> Avenue) with tenant announcements of over 300,000 square feet on 60 acres in 2007. Hazel Dell Towne Center will construct the final phase, including Best Buy, Bed Bath & Beyond and Kohl's Department Store, totaling over 450,000 square feet on 42.0 acres. Therefore, 2007, again, will add over 1,000,000 square feet of new retail construction to support the pent-up consumer demand in Clark County. Let's not forget that conservative estimates project that Clark County still has sales tax leakage to Portland of over \$350 million a year in retail goods and services. In 2007, the IKEA and Costco furniture stores will be developed at Portland International Airport will continue the pressure on sales leakage to the Portland market.

Clark County's vacancy rates for anchored shopping centers will increase to over 6% in 2007 based upon all the new construction. New construction rental rates for shop tenants will be

\$32.00 to \$35.00 per square foot for prime locations and \$28.50 to \$32.00 per square foot for in-line shop space.

Now the exceptions to all the good news in commercial real estate include the generally flat year in the industrial market and the year of sublease space available in Class "A" office market.

### 3. Industrial

The Clark County industrial multi-tenant market had virtually zero new construction during 2006. This is the second year in a row where the development community has not constructed new buildings primarily because of the continuing increase in all construction costs, which are not supported by any increase in the annual rental rates. Although multi-tenant industrial vacancy rates still hover at 5% or less, the new construction costs prevented new development. The good news is that the asking rates for newer multi-tenant industrial property have increased to \$0.45 per square foot on the industrial building shell. Most developers believe the asking rent has to be \$0.55 to \$0.60 per square foot to generate new development. We estimate that in 2007, approximately 200,000 square feet of new industrial multi-tenant product will be developed and, most likely, immediately absorbed by existing tenants in Clark County who have desperately looked for expansion space over the past several years. Developers will be tracking the rental rates for multi-tenant industrial space and potentially add more square footage to the market based upon future years projections for rental rates.

### 4. Class "A" Office

The Class "A" office market was effected negatively by the announcement that BPA was exiting Clark County and vacating over 80,000 square feet Class "A" office space at the Vancouver Mall. The BPA notice coupled with several other tenants downsizing in the Class "A" market increased the vacancy rate to over 18%, compared to 13% in 2005. The Vancouver Mall sub-area vacancy rate increased to 33% with over 162,000 square feet of vacant space available for leasing. 2007 and 2008 will, again, be tenant driven markets with the abundance of vacant square feet available. The rental rates for Class "A" office remain at \$24.50 per square foot with tenant concessions, including free rents. The only new Class "A" office building in 2007 will be the Columbian Building located downtown, which will be available for occupancy by the fourth quarter of 2007.