

ANNUAL MARKET UPDATE COMMERCIAL REAL ESTATE

DECEMBER 2008

INDUSTRIAL MARKET REPORT BY WILLIAM M. CONNELLY, CCIM

What a difference a year makes. As we ended 2006 and entered 2007, the Clark County industrial market was healthy; low vacancies, rising rents, and the development community exercising discipline regarding new construction.

Last year, I mentioned the only risk to our industrial market was if the US economy fell into a recession. We are in a recession now. How long and how deep the recession will go is being debated endlessly on the nightly news. The big indicator of our economic health is our unemployment rate. At the end of the 3rd quarter 2008, Clark County's unemployment rate leaped to 6.7%. In 2001, Clark County's unemployment rate climbed over 10%. The Clark County industrial market bottomed out in 2003. If history is a guide, 2009 and 2010 look to be very disappointing years.

“ The big indicator of our economic health is our unemployment rate. ”

The vacancy in Clark County multi-tenant parks at the end of the 3rd quarter 2008 is 11.4%. Vacancies in the Portland market dropped to 6.7% at the end of the 3rd quarter 2008. Year-to-date net absorption of multi-tenant industrial space in Clark County for 2008 was in the red with negative 421,808 square feet. See Pg. 2, Figure 1, “Industrial Market Net Absorption Trend”.

The bright side to increasing vacancies is that ample space exists for companies that need to expand and landlords are competing for every lease transaction. It is a tenant's market. Quoted rental rates will remain the same or drop slightly, however, landlord

concessions such as free rent and above-standard tenant improvement packages will reduce the “effective” rent tenants will pay for their space. The other pressure on commercial real estate values will be capitalization (CAP) rate expansion.

“ Seller financing will return to the Clark County market. ”

As interest rates climb higher and underwriting loan requirements stiffen, CAP rates will increase. An example of rising interest rates is the SBA increase their rate from 6.57% in October 2008 to 7.74% in November 2008. We are seeing commercial banks interest rates in the range of 6.25% to 7.25%. A by-product of this tightening lending environment is seller financing will return to the Clark County market.

One would assume that construction expenses would follow the overall decline in the marketplace, but that has not yet materialized. Concrete, aggregate and asphalt continue to increase in price. Municipalities have increased permitting fees and entitlement standards, such as on-site storm water retention facilities. There will be very little new construction in 2009. As the Clark County industrial real estate market chews away at the space available for lease, our vacancy rates will drop and rents and values will stabilize. See Pg. 2, Figure 2, “Multi-Tenant Industrial Park Vacancy Trend”.

It is absolutely imperative that we as a community do not forget that we live in a wonderful part of the world. Washington State will continue to be a net beneficiary of the Asian trade market, our schools are funded, and not having a state income tax will continue to give businesses the recruitment edge they need in a very competitive commercial real estate market.

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FEATURED CLIENTS:

- ESD #112
- Frito Lay, Inc.
- Gaither Family, LLC
- General Electric
- Hewlett-Packard
- Hinton Development
- McMorgan & Company
- NW Natural
- Panther Systems
- Schnitzer Northwest
- Stein Distributing
- Sunlight Supply

**WILLIAM M. CONNELLY, CCIM
VICE PRESIDENT**

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

Prior to joining Eric Fuller & Associates, Inc., Bill began his career at Norris, Beggs & Simpson as an industrial sales and leasing specialist in June of 1987. Before joining Norris, Beggs & Simpson, he was a marketing representative and account executive for Northwest Telecommunications and American Business Machines.

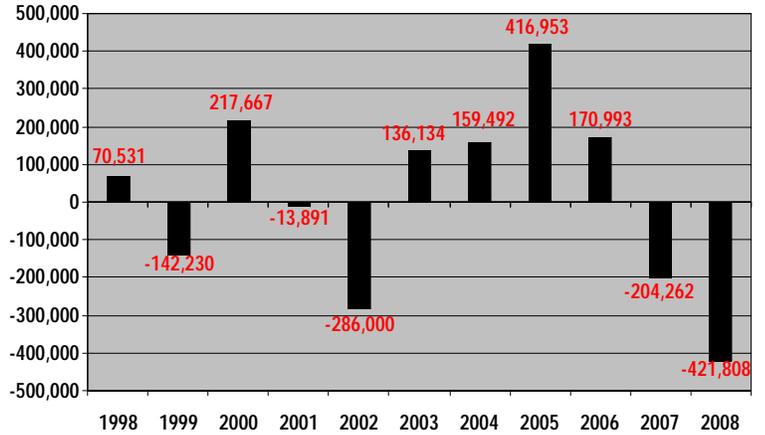
Bill graduated from Georgetown University in 1976 with a Bachelor of Science degree in Business Administration/Economics. He maintains a real estate license in Oregon and Washington and is a member of the National Association of Realtors, the Portland Board of Realtors, and Clark County Board of Realtors, the National Association of Industrial and Office Parks (NAIOP), past Chairman of Columbia River Economic Development Council (CREDC), Boy Scouts of America, and holds the designation of Certified Commercial Investment Member (CCIM).

Bill has obtained a diversified and thorough knowledge over the past 21 years of the complexities involved in industrial leasing and sales transactions and has been recognized as "Power Broker" by the CoStar Group.

For more information, contact:

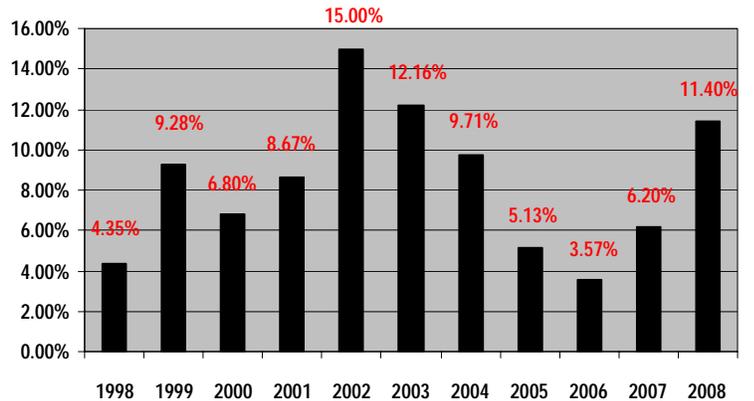


**FIGURE 1.
INDUSTRIAL MARKET NET ABSORPTION TREND**



Source: Eric Fuller & Associates, Inc.

**FIGURE 2.
MULTI-TENANT INDUSTRIAL PARK VACANCY TREND**



Source: Eric Fuller & Associates, Inc.

**FIGURE 3.
MY FORECAST FOR THE NEXT 12 MONTHS**

- New construction for 2009 will be minimal
- Lease rates decreasing to \$0.40/SF to \$0.45/SF, plus Triple Net
- Land prices static at \$5.00/SF to \$7.00/SF
- Negative net absorption over 100,000 SF
- Vacancy rates increase to 15.0%