

Mike Salsgiver

From: Drake, Don <ddrake@melvinmark.com>
Sent: Tuesday, July 29, 2014 10:36 AM
To: Mike Salsgiver; 'Cameron R. Foroud'; Jim McKune; Steve Malany; Larry Gescher (larryg@hpcivil.com); Jeff Perala; Brian Gray; Judy Robinson; Emily Schrum
Cc: Kari Schoonover
Subject: RE: AGC Center Meeting Materials Portland Office Market 2nd Q 2014
Attachments: AdvisoryReportCOSTAR 2ndQ Market.PDF

Mike et al thought I would share CoStar's 2nd Quarter Market Report for those that are interested. Highlights are as follows:

General market vacancy continues to slowly decline with continued absorption. General overall market is down to 8.6%. Wilsonville in Class A is 10% Class B 9% and Class C 7%. Rates for Class B in Wilsonville are running between \$17 and \$19 per square foot. We are seeing the vacancy decrease concentrically from downtown. Kruse Way and the 217 Corridor are beginning to back fill toward more stabilized occupancy. Rates are starting firm up and concessions lessening over what they were in the last couple of years. Some new construction although most of it is associated with the Park West Building downtown.

Office Building Sales fell in 1st Q 2014 to 7 transactions from 18 transactions in 4th Q 2013. Caps rates for office in 2014 so far have been higher averaging 9% vs 7.5% in 2013. To me this says the better quality buildings have sold and the current cap rate reflects available inventory that hasn't been fully stabilized. Meaning higher vacancies, deferred maintenance or capital improvements required and assessed as part of the acquisitions.

Sale activity has jumped a bit the beginning of this 3rd quarter most of this however has been in apartments where the investment market is overheated and some retail. There seems to be a flood of investor money at the moment driven mostly by 1031 Exchanges by people from out of state where like in California they are selling properties at all time highs. Good product stabilized is very difficult to find in the current market and demand seems to be exceeding supply.

Other than renewals we've not seen much new leasing for the building. Most of the activity has been for the smaller suites with several new shorter term leases replacing tenants who left so occupancy for the last couple of years has hovered in the 75-77% range. Continued moderate cosmetic improvements to the building will help its marketability as the market continues to strengthen.

I have been soft peddling the building since the 1st of the year looking for prospects that would be able to replace your tenancy. Have sent out information to several prospective inquiries and until recently not seen much interest. Last week bumped into Nathan Sazaki who represented Structured last year. He has another prospect he has put this in front of to see if there is interest. He is also going to revisit with Structured. The new prospect would be an owner occupant but to match up the timing thought they would want you to lease back for a couple of years.

The other prospect is coming from a broker in Salem. She is working with the Federated Grand Ronde Tribe. They have a building on Barbur at Hamilton that isn't working and is where they are currently located. They are an all cash type of buyer and you might consider their building in exchange for yours, its I think about 19,000 sf. and I will need to get additional information on it if this starts to unfold. Am in the process of scheduling a showing with them this Friday or early next week.

My opinion regarding value isn't much different than the memo I sent Mike last December after the commitment to reskin the building. Stabilized occupancy at current cap rates would be in the \$3.9m to \$4.2m range. A buyer however will likely deduct from that for items found in a due diligence relating to leasing cost and TI's, deferred maintenance or

need for capital replacements, general building modernization up grades and so on. That said objectives can vary from buyer to buyer so the ultimate value to a buyer can be subjective in the end. If all the remaining items pointed out in the AES report were accounted for, from the stabilized value you could see a deduct of up to \$1.0m. Or you spend that on the building over time as the market continues to strengthen and recapture that cost in value later after the market has recovered. Either way I think you end up about net the same place. I think a buyer today would take much the same approach as Structured did last year. They would look at the stabilized value determine what was a priority needing to be done now and what could be deferred and done over time and deduct the priority items from the stabilized value. The final value can't really be answered except for engaging in the market place and seeing where it takes you or just commit to gradually working through the AES upgrades to the building and holding. The market is slowly improving I think based on the concentric momentum occurring currently outwardly from downtown to the suburbs will show us more leasing activity in the next year as vacancies continue to drop and prospects look for cheaper space and no parking cost outside of the downtown area.

Look forward to your questions and comments.

Regards Don



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From: Mike Salsgiver [mailto:mikes@agc-oregon.org]

Sent: Monday, July 28, 2014 6:24 PM

To: 'davida@andersen-const.com'; 'Cameron R. Foroud'; Jim McKune; Steve Malany; Larry Gescher (larryg@hpcivil.com); Jeff Perala; Brian Gray; Judy Robinson; Emily Schrum; Drake, Don

Cc: Kari Schoonover

Subject: AGC Center Meeting Materials

Importance: High

Good evening:

This is a friendly reminder that the AGC Center Committee will be meeting tomorrow afternoon from 2:00p-3:30pm at AGC Center in Wilsonville.

Meeting materials for tomorrow's meeting are attached. They can also be found at the Chapter's AGC Leadership website at:

URL: <http://www.agcboardofdirectors.com/jul-29-2014-meeting.html>

Password: AGCLeader2014

If you are unable to attend the meeting in person, you may call in at:

Phone: 1-800-325-1307
Passcode: 408098#

Please call me or **Kari Schoonover** (503-685-8318; karis@agc-oregon.org) if you need anything further. Look forward to seeing you tomorrow afternoon.

Warm regards,



MIKE SALSGIVER

Executive Director



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If you would like to be removed from our email list, please contact **Kari Schoonover** (karis@agc-oregon.org).

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