Independent market review

Portland

November 2021

Prepared for: DBS Trustee Limited
(in its capacity as trustee of Manulife US Real Estate Investment Trust)
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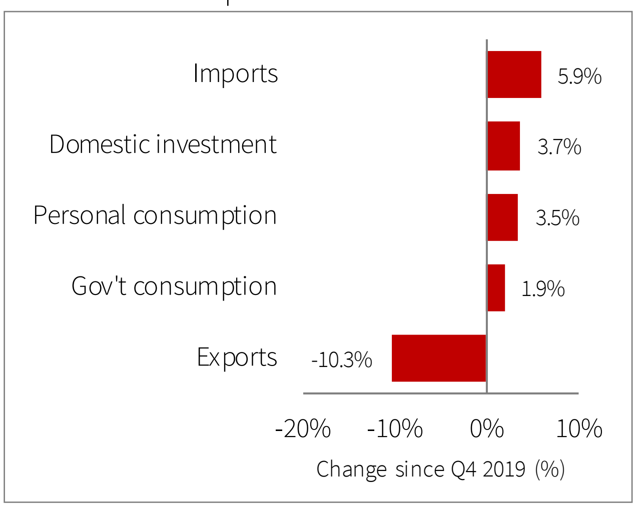
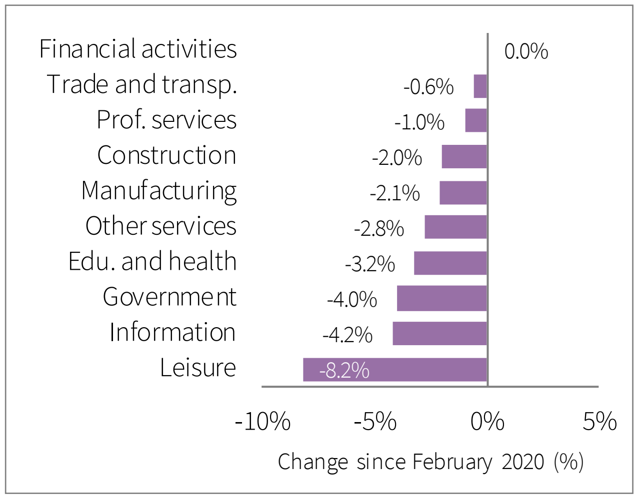
The U.S. economy continues to make progress in its recovery from the effects of the COVID-19 pandemic. While employment inches ever closer to a full rebound, GDP surpassed its pre-pandemic peak in Q3 2021, making the U.S. one of the first developed countries to pass this milestone. Consumer spending remains high, while both short- and long-term prospects are bolstered by newly passed government stimulus surrounding infrastructure. At the same time, inflation as a result of global supply chain disruption and acute labor shortages poses a meaningful impediment to even greater gains, although these are likely transitory in nature, even if they are taking longer than initially expected to be resolved.

GDP stood at $23.2 trillion in Q3 2021 and in real terms is now 1.4% above the previous high recorded in Q4 2019. Fueling this has been a consistent increase in personal consumption expenditures, which is 3.5% above year-end 2019 levels; while GDP is up $262.9 billion in real terms, consumption rose by $470.3 billion since Q4 2019. Private domestic investment and imports also rose.



At the same time, net exports continue to feel the effects of supply chain disruptions, having fallen by 10.3% over the past seven quarters and widening the trade gap to $1.3 trillion. Imports, on the other hand, are incrementally improving, up $200.3 billion over the same time period.

Job creation is also trending the right direction despite Delta variant-induced headwinds. 18.1 million of the 22.4 million jobs lost from February to April 2020 have been recovered, with employment now down just 2.8% from its 152.5-million-job high. This has helped the unemployment rate fall to 4.6%, 110 basis points above its previous low of 3.5%.



At the industry level, office-using as well as transportation and trade are outperforming the broader labor market, having been less affected by shutdowns in in-person activities, whereas leisure is farther from recovery at 8.2% below February 2020 levels. The unlocking of international travel in November combined with continually increasing vaccination rates will help to spur further gains in leisure and hospitality.

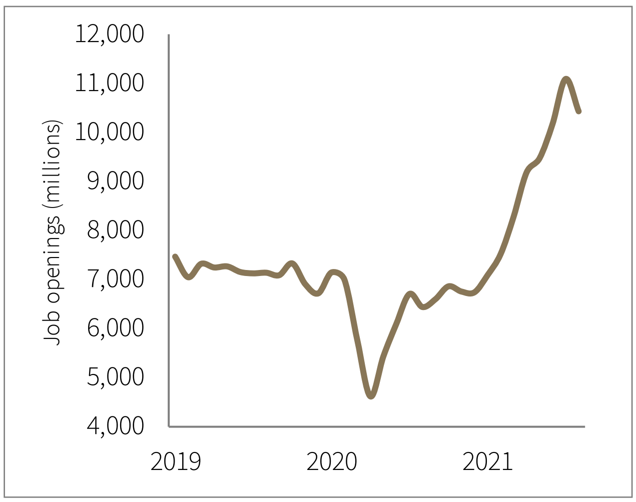
Divergence also exists geographically. Unemployment in numerous Sun Belt markets such as Atlanta, Austin, Charlotte, Nashville, Phoenix, Raleigh and Tampa is now below the 4% mark and, in the case of Atlanta and Phoenix, is below the previous low recorded in early 2020. Meanwhile, gateway cities are still dealing with the effects of

Source: JLL Research

National economic overview

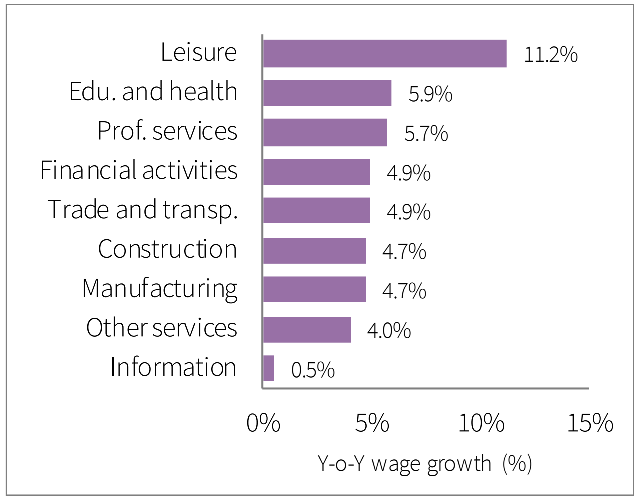
exposure to arts, leisure and tourism, all of which are taking longer to recover. As a result, unemployment is still above 5.5% in Los Angeles, New York and Chicago.

In recent months, labor shortages and inflation have become predominant headwinds complicating further improvements to the economy. In the case of labor shortages, this is likely a structural change given a shift in composition of the labor force, while inflation is broadly transitory on the back of supply chain disruptions, in particular for chips and energy, which has placed significant pressure on segments of the Consumer Price Index such as used car sales.



Job openings data has been among the most dramatic in recent quarters. Since the beginning of 2021, total openings have spiked by 47%, while hiring has grown by only 15.7% so far this year. Compounding this is a 29.2% jump in quits, spurred on by a feedback loop of greater worker confidence in the job market.

This gap in unfilled positions – estimated at 4.1 million – is exerting significant pressure on employers to boost wages and provide higher levels of non-wage or non-salary compensation. Initially boosted by temporary schemes such as Pandemic Unemployment Assistance (PUA) and subsequently due to staffing shortages and an above-average rate of retirement from older workers, wages have grown by 8.6% over the course of the pandemic. Year-over-year increases in wages are high across sectors, but particularly in non-office-using industries such as leisure, which is up an unprecedented 11.2% over the year.



Despite some of these concerns, the broader economic picture remains robust by historic norms, with predicted GDP growth by year-end likely in the 5-7% range and additional runway for output, productivity and employment gains. Consumer sentiment remains high even in the face of inflation, just as venture capital and other financial investments are reaching new highs.

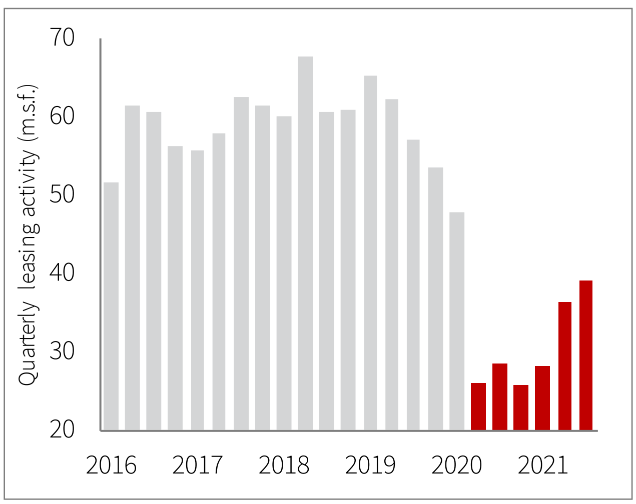
Moving into 2022, a stabilization of the global supply chain's backlogs, resumption of international travel and the beginnings of the $1.2 trillion Infrastructure Investment and Jobs Act being felt will catalyze additional economic growth and ease residual investor and consumer concerns about inflation. The roll-out of under-12 vaccinations will provide a supplementary buffer against another COVID-19 wave, enabling corporates to push for office re-entry and investment at scale.

Source: JLL Research

National office overview

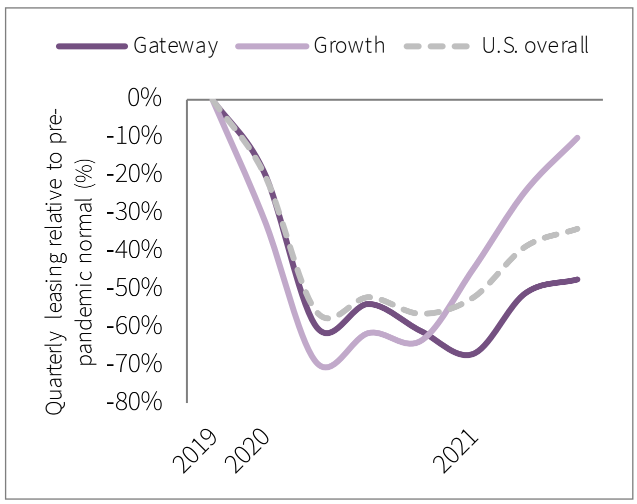
Throughout the first half of 2021, employees and employers alike expected Labor Day in early September to mark a major shift in working conditions, with numerous large and high-profile companies – particularly in but not limited to tech – announcing that most of their remote workforce would be returning to the office in either a full-time or hybrid arrangement.

By mid-summer, however, the arrival of the Delta variant led to a pause in the office market's recovery as mounting cases and stalling vaccination rates created cause for concern among corporates, leading numerous major tenants to extend their timeframes for occupancy either to later in 2021 or out to 2022. At the same time, an intense labor shortage and the prolonged duration of work-from-home policies well beyond initial expectations have forced employers to adjust their workplace planning to provide additional flexibility, creating a much longer period of trial-and-error before the market settles.



The office market showed signs of promise and the beginnings of tenants firming their longer-term utilization plans. Gross leasing volumes rose incrementally by a further 7.8% during the third quarter, approaching 40 million square feet for the first time since the onset of COVID-19. As a result, total transactions are up 1.7% compared to this time in 2020, but are still 43.8% below 2019 levels.

This recovery in leasing is not geographically equal. Lower-cost secondary markets in the Sun Belt and the West dominated during the third quarter, seeing tractions jump by 18.7% relative to the 7.5% rise in gateway geographies as a result of looser business regulations as well as individual and corporate movement towards affordability. In turn, growth markets are only 10.1% away from pre-pandemic "normal" leasing velocity, whereas gateway markets are still 47.4% below 2019. This flow has been an overarching theme of the office market and national demographic shifts over the past decade.



Segmented by industry, tech continues to be the dominant driver of leasing activity. Over the course of 2021, 22.9% of all leasing has come from tech users and has not been limited to "Big Tech" companies, but also from mid- and smaller-sized users. In comparison, the second-largest sector, finance, represented 15.4% of year-to-date volumes. Law firms, defense, health, life sciences and government also contributed to at least 4% of leasing each; notably, the largest deal of 2021 came from AmLaw 100 firm Kirkland & Ellis at Salesforce

Source: JLL Research

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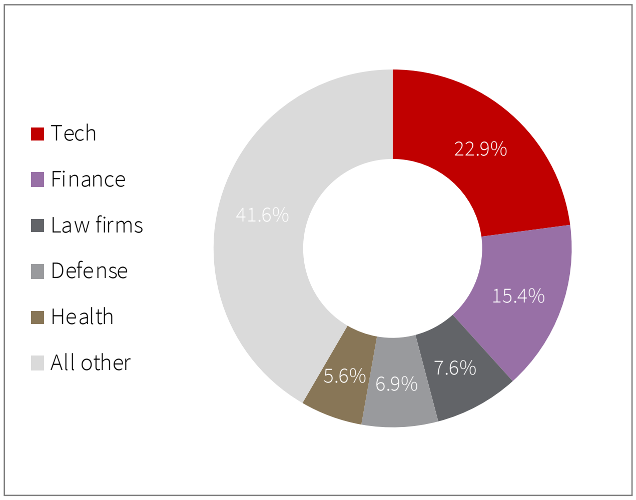
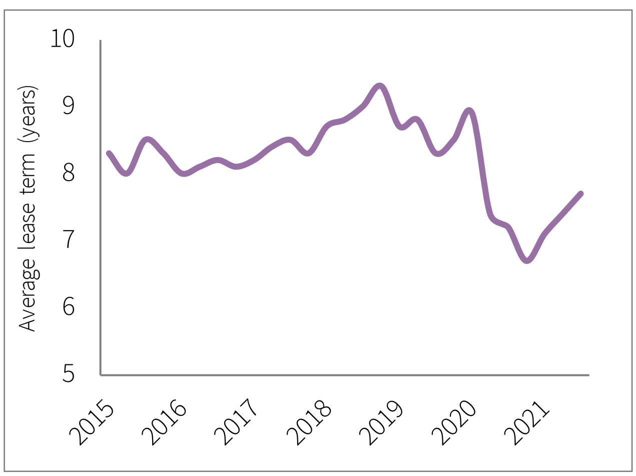
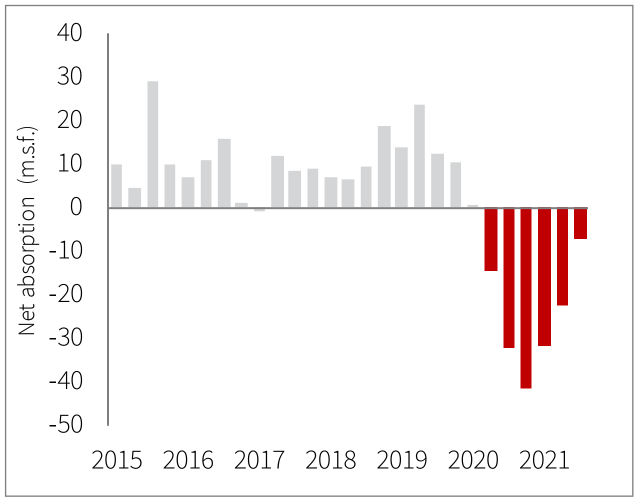
Tower in Chicago for 662,400 square feet. Two other companies – Anduril and Amazon – also took on at least 600,000 square feet of space in 2021.



Importantly, tenants are becoming more comfortable with longer-term leasing, albeit still below normal term lengths. After dropping to just 6.7 years by the end of 2020, the typical term length rose by 14.9% to 7.7 years in Q3 2021. Driving this change was 43% of leasing coming in the form of deals longer than 10 years, the first time since the onset of the pandemic that more than 40% of activity fell into this category.



Despite incremental improvements, the office market is still in correction mode. Net absorption was once again negative in the third quarter at -7.3 million square feet, but occupancy losses slowed for the third consecutive quarter. The market is likely to stabilize by the end of 2021 or early 2022, providing additional momentum for the recovery to begin in earnest.



At the regional level, most markets are still seeing year-to-date decreases in occupancy, although a few have re-entered positive territory. Atlanta, Austin, Miami, Salt Lake City, Silicon Valley and West Palm Beach all recorded net growth in Q3 2021, continuing a trend of faster rebounds in Sun Belt and western geographies. On the other hand, New York, San Francisco, Washington, DC and Los Angeles saw a combined 3.2 million square feet of outflows in the third quarter. The finalization of large-scale transactions and sustained demand from big tech users for space in core markets, however, will see this trend shift in the coming quarters.

As is the case with numerous economic and office indicators, absorption is not occurring in a unified fashion. Flight to quality, already a prominent theme even before the pandemic, is intensifying to

Source: JLL Research

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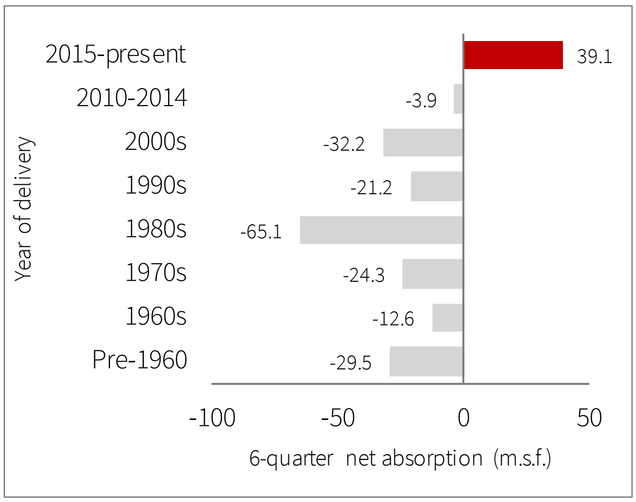
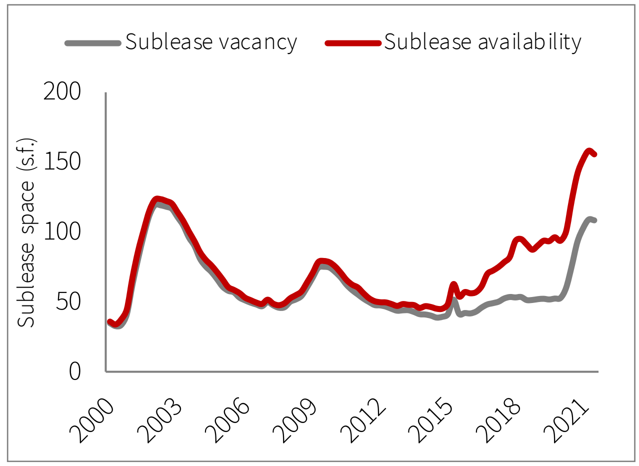
unprecedented levels. Over the past six quarters, the U.S. office market has seen negative net absorption of 149.5 million square feet, but this obscures 39.1 million square feet of net expansion in office buildings delivered since 2015. Tenant and employee preferences for buildings with amble flexibility for workspace arrangements, top-tier levels of amenitization and extensive in-building wellness features, further exacerbated by a robust supply pipeline, will create even greater divergence in asset performance based on age moving forward.



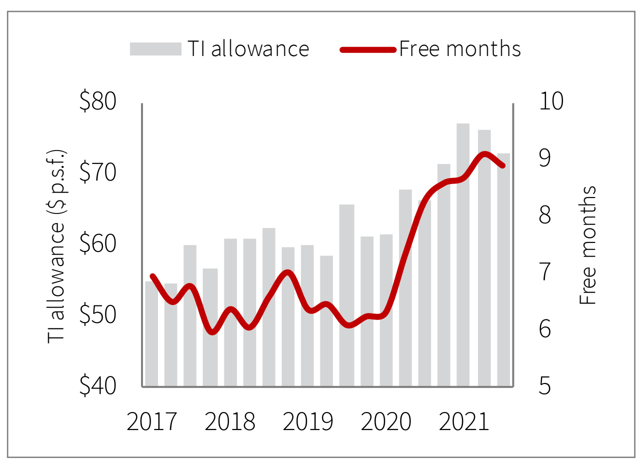
As a result of these rapid shifts in conditions, office vacancy nationally now stands at a new high of 19.4%. Largely contributing to this was a 64.3-million-square-foot surge in sublease availability from Q1 2020 to Q2 2021, when it peaked at 157.9 million square feet, or roughly 3.6% of inventory, a figure higher than the previous record set during the dot-com bubble two decades ago.

In Q3 2021, sublease reached an inflection point and contracted modestly by 1.6% as large-scale give-backs cooled and withdrawals of sublease blocks accelerated. Importantly, this is happening in the majority of markets, primary, secondary and tertiary alike. Although greatest in Sun Belt cities with higher levels of in-migration such as Nashville (-16.5), Miami



(-14.3%), Austin (-10.6%) and Atlanta (-3.7%), this contraction was also observed in Seattle (-10.7%), Boston (-4.8%), New York (-4.3%) and Los Angeles (-1.0%). Sublease is traditionally one of the best forward-looking barometers for tenant demand for office space.

From a pricing perspective, this is among the most tenant-favorable environments ever recorded. The extremely fast shift in occupancy combined with high levels of uncertainty regarding vaccine development and re-entry protocols in 2020 led to a 34% increase in concession packages. In top-tier product, these average $72 per square foot with 8.9 months free on a notional 10-year term.



Source: JLL Research

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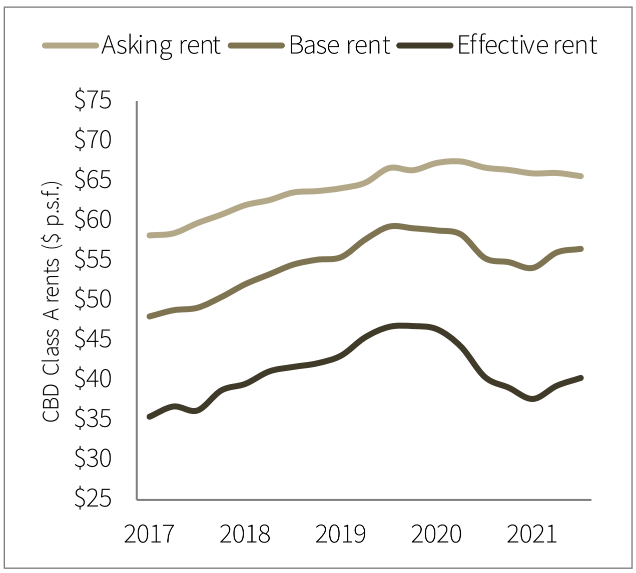
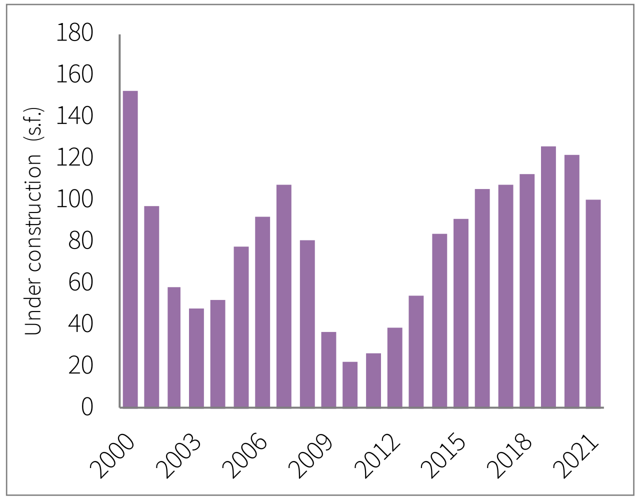
In turn, effective rents have experienced extreme volatility compared to historical norms. From Q1 2020 to Q1 2021, effective rents declined by 18.7% despite asking rents barely nudging at -2.2%. Since that trough, they have risen by 6.9%, but are still 13.8% below pre-pandemic peaks.

Similar to absorption, effective rent recovery will be widely divergent based on asset quality, location and industry clustering. New construction, thoughtfully repurposed second-generation product and life science, creative and other niche spaces will see an accelerated rebound in pricing, while commodity vintage without necessary capital investment will face a much longer recovery.



Finally, the development pipeline remains robust, albeit steadily cooling off. There is currently just over 100 million square feet of office space under construction nationally, falling from a peak of 126.1 million square feet in 2019. This comes after one of the largest development cycles on record, which fundamentally reshaped expectations for new construction in terms of quality, location and build-outs. While this will provide much-needed product to counter aging in many core geographies, it will also prolong a period of elevated vacancy that will likely need some level of out-of-office conversion to help with correction.



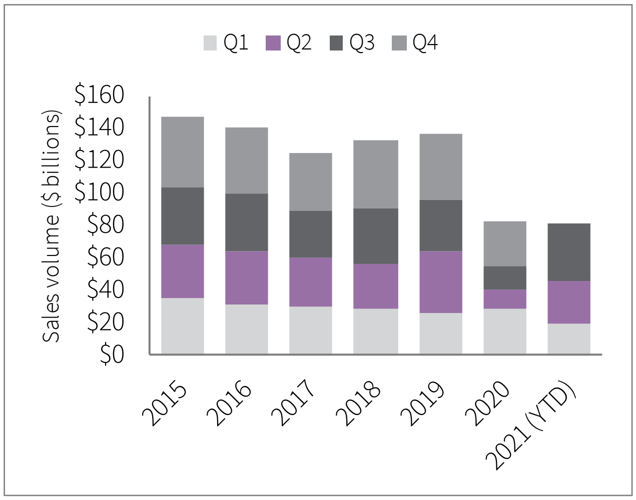
Construction is also concentrated geographically, mainly in gateway geographies and high-growth Sun Belt and western markets. Primary markets alone contain 49.3% of all product underway, while Atlanta, Austin, Dallas, Charlotte, Denver, Miami, Nashville, Phoenix and Raleigh are home to a further 21.8% of the pipeline. Outside of these metros, construction is relatively scant and mostly in the form of mid-sized build-to-suit or boutique spec development.

Heading into 2022, the office market will enter its next phase as a slew of high-profile companies begin physical re-occupancy. Federal and company-specific vaccine mandates will help to boost employee comfort with returning to in-person work, albeit with significant changes such as hybrid arrangement, greater emphasis on collaborative spaces and higher levels of flexibility. Just as the pandemic has shown companies that many functions can be done well from remote locations, so too has it underlined the importance of the office as a place for fostering innovation, productivity and corporate culture.

Source: JLL Research

National sales overview

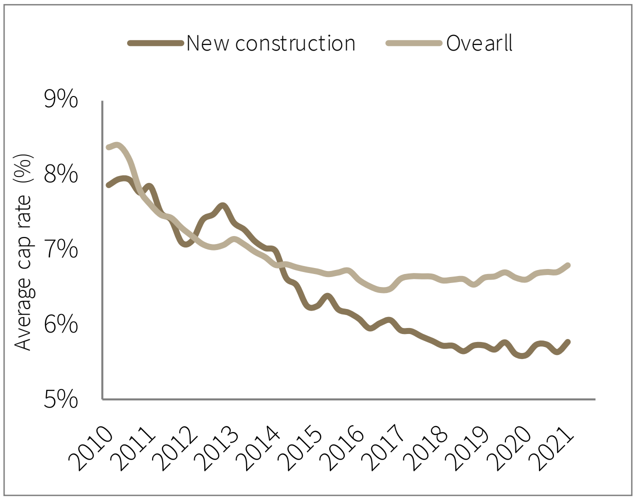
Like the leasing market, the office investment sales environment is showing consistent, albeit incremental, improvements in fundamentals over the course of 2021. Year-to-date, office sales have totaled $81.8 billion, nearly surpassing all activity in 2020 and up 48.7% year-over-year. This is still 14.4% below year-to-date 2019 levels, a much smaller gap than leasing volume. Comparatively, multi-family and industrial sales are 25.1% and 14.7% above YTD 2019 activity, indicating that office may be a better opportunistic play and potential overheating of non-office asset classes.



At the market level, the life sciences boom has pushed Boston far into the lead with $10.6 billion in sales over the past 12 months. In comparison, the three following markets – San Francisco, Seattle and New York – all recorded between $4.4 and $4.8 billion in sales over the same time period.

Like leasing, however, the Sun Belt and West are much closer to normal annualized volumes. While gateways on aggregate are 39.8% off from 2017-2019 average volumes, Miami is 12.6% above pre-pandemic sales activity, while Raleigh, Nashville, San Diego, Denver and Austin are less than 30% below normal. This shift in sentiment is placing consistent pressure on cap rates, which have fallen from 6.7% at the beginning of 2020 to 6.4% in Q3 2021. Still higher than the 5.9% average for gateways, investor appetite is likely to remain robust.

Just like tenants, investors are also flocking to new construction. The cap rate spread between the overall market and new product continued to widen over the course of the pandemic to 100 basis points (5.8% vs 6.8%). As pricing adjusts at the top end of the market, there will be increased interest in repositioned assets and value-add plays.



Other emergent trends in the investment landscape include a significant increase in value-add buyer pools, which have jumped by 13.8% in terms of bids received per transaction in 2021 compared to 2020. Additionally, buyers are placing greater emphasis on WALT for long-term stability and ensuring highly creditworthy tenant rosters. Fully occupied assets traditionally comprised 33-40% of annual sales, but are now roughly 42%-59% of quarterly deals in the post-COVID-onset era.

Moving forward, office sales will benefit from a reset in expectations, an injection of assets available for sale as developments deliver and more favorable pricing than non-office asset classes that prevailed during the pandemic.

Source: JLL Research

Market introduction (economy and demographics)

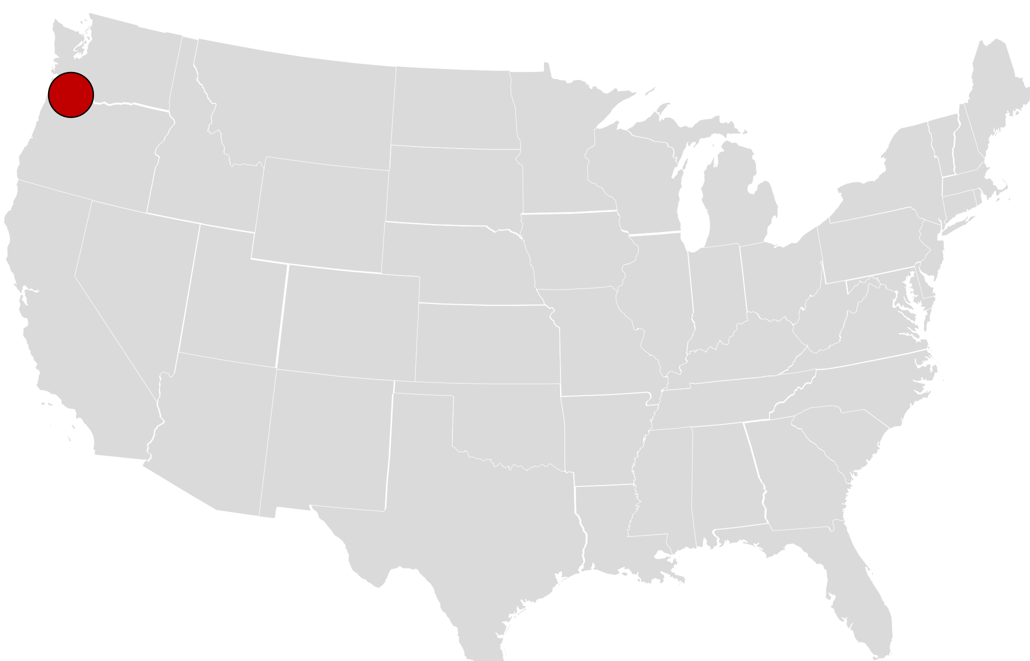
Home to 2.5 million people as of 2020, Portland is the 25th-largest metropolitan area in the United States. Over the past decade, the region's population has grown by a healthy 12.9%, well above the national average, buoyed by its status as a creative and media hub, affordability compared to much of the West Coast, alternative cultural scene and access to nature.

Portland's appeal as a haven for small and unique independent businesses has given way to a rising rate of in-migration from more expensive geographies, in turn leading to corporate expansion from many high-profile tech and creative companies seeking to access its talent pool and follow the flow of younger employees looking for a higher quality of life.

Demographically, Portland is more educated than the U.S. as a whole, with 40.3% of residents older than 25 having a bachelor's degree compared to the national average of 33.1%. This is even more noticeable when looking at STEM graduates, as nearly half of all Portland graduates have a degree in science or engineering fields.

Portland is also disproportionately productive. The metro area's output is estimated at $174.9 billion, placing it on par with Charlotte and above more populous geographies such as Tampa. Since 2010, gross metropolitan product has risen by 38.1%, 77% above the national average of 21.5%, indicating an even faster increase in productivity due to the region's concentration of high-value occupations and tenants.

Over the coming years, Portland will continue to benefit from its educated, high-income and diversified workforce, combined with more favorable costs of living and doing business.



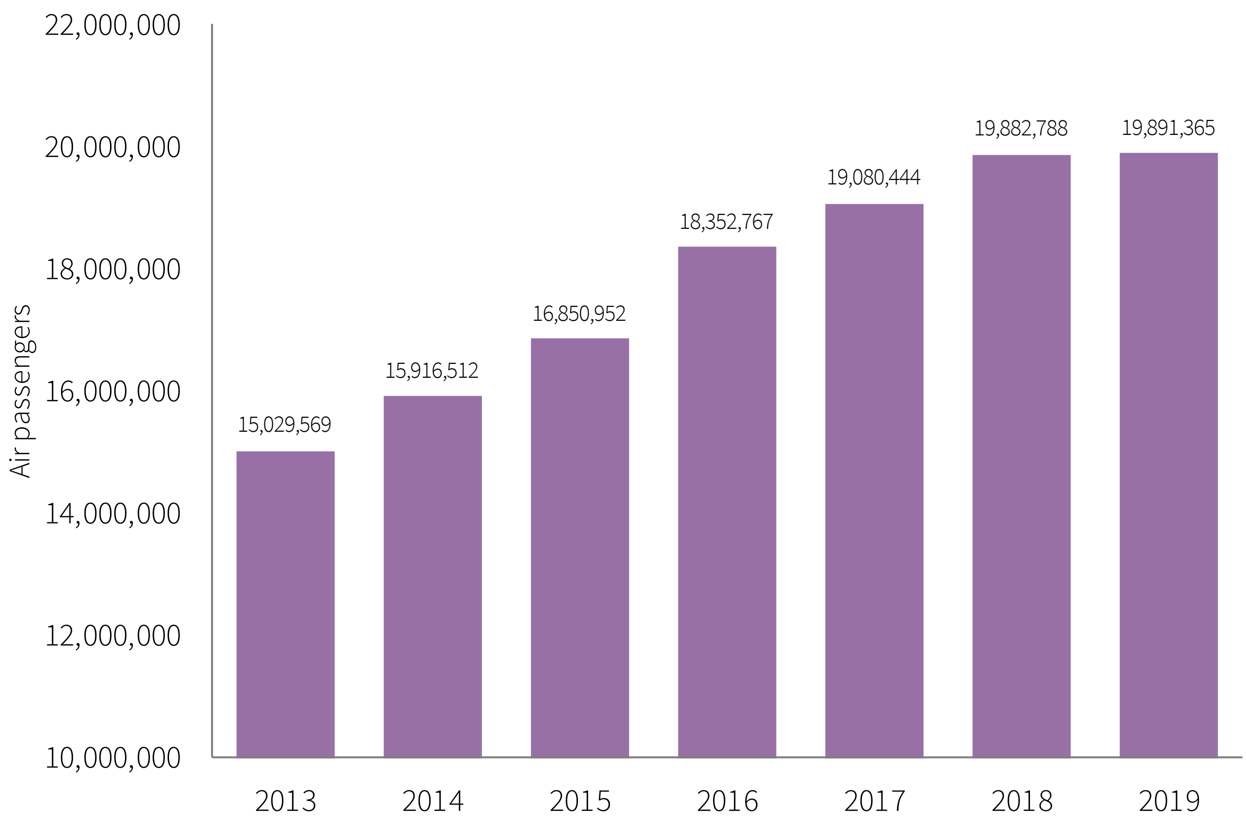
Source: JLL Research

Access and connectivity

Portland's emergence as a business and leisure destination is reflected in growing demand for travel to the region. Since 2013, passenger traffic at Portland International Airport (PDX) has risen by 32.3%, nearly reaching 20 million annual passengers before the onset of COVID-19.

Access to Portland is further enhanced by PDX's status as a hub for Alaska Airlines, providing extensive regional and transcontinental domestic connections. Additionally, Delta is growing its West Coast presence through strategic increases in flights to and from both Portland and Seattle. In Portland, Delta has taken advantage of growing demand for trans-Pacific air travel, establishing direct flights to Tokyo and Seoul in addition to its existing service to Amsterdam. As a result, Portland has outsized connectivity to Asia relative to much of the western United States, particularly for a secondary market.

To accommodate an estimated 35 million annual passengers by 2045, more than $2 billion is being invested in upgrading and expanding PDX. This includes the recently completed Concourse E expansion as well as the nearly finished expansion of Concourse B, bringing with them 12 new gates. The main terminal will also be overhauled with an emphasis on sustainable design and a reduction in the airport's carbon footprint.



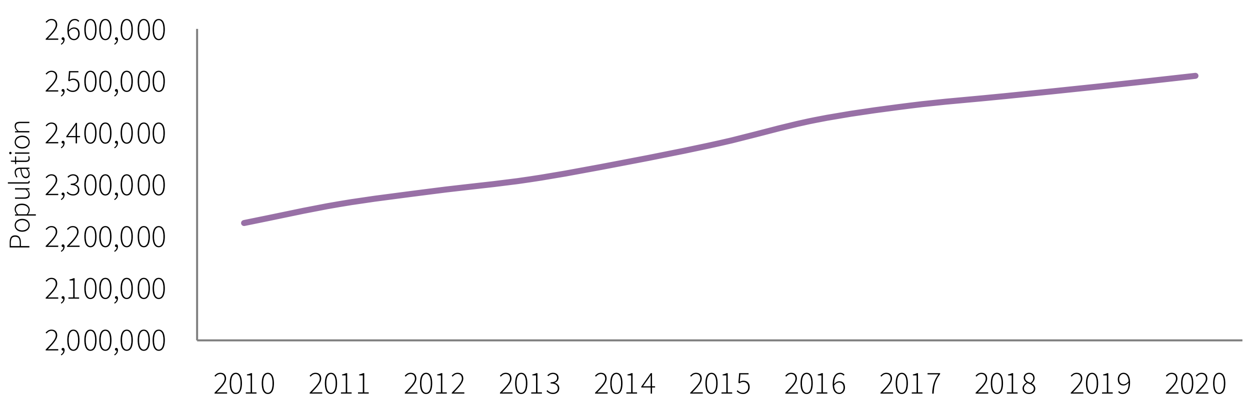
Source: JLL Research, FAA

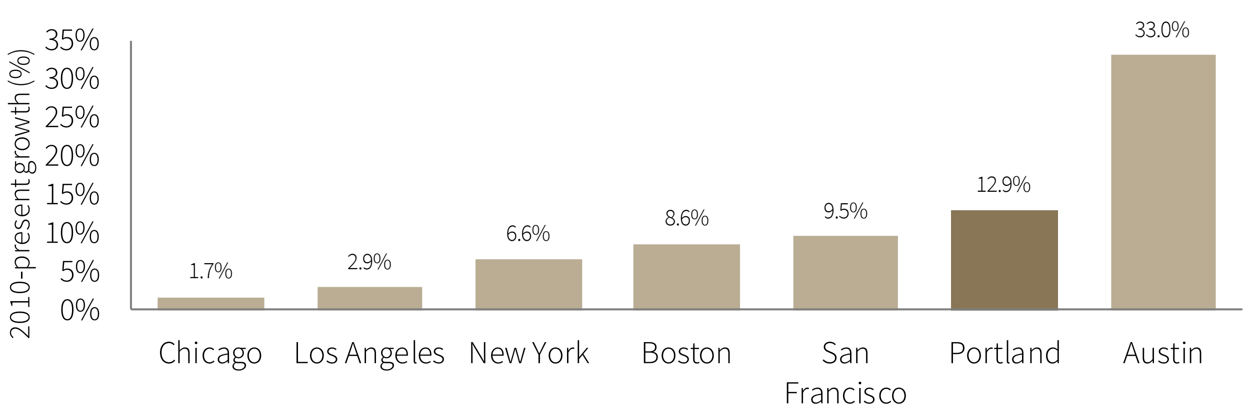
Population growth and demographics

Over the past decade, 286,850 more people have called Portland home, pushing its population up a strong 12.9% to more than 2.5 million people. With a similar population to Orlando, Charlotte, Austin and Las Vegas, Portland is a key secondary market and one of the fastest-growing areas on the West Coast. Among its peer geographies, it ranks in the middle in terms of decennial population growth, below Austin, Orlando, Nashville and Charlotte but above Columbus, Miami, Sacramento and Pittsburgh.

Net migration is a driving force for this increase. Priced out of San Francisco, Seattle, Los Angeles and other larger markets, many Americans have decided to move to Portland in search of affordable housing or quality of life improvements. Net domestic migration totaled 121,473 people from 2010 to 2020, comprising 42.3% of all population growth. This was complemented by 47,983 net new immigrants, with the remainder coming from natural increase. These figures contrast sharply with major markets, almost all of which have experienced negative net domestic migration and more variable immigration levels.

Portland is expected to continue to see sustained population growth on the back of wider-ranging national migration trends, but will need significant investments in its already extensive transit network and higher-density housing to accommodate its growing population.





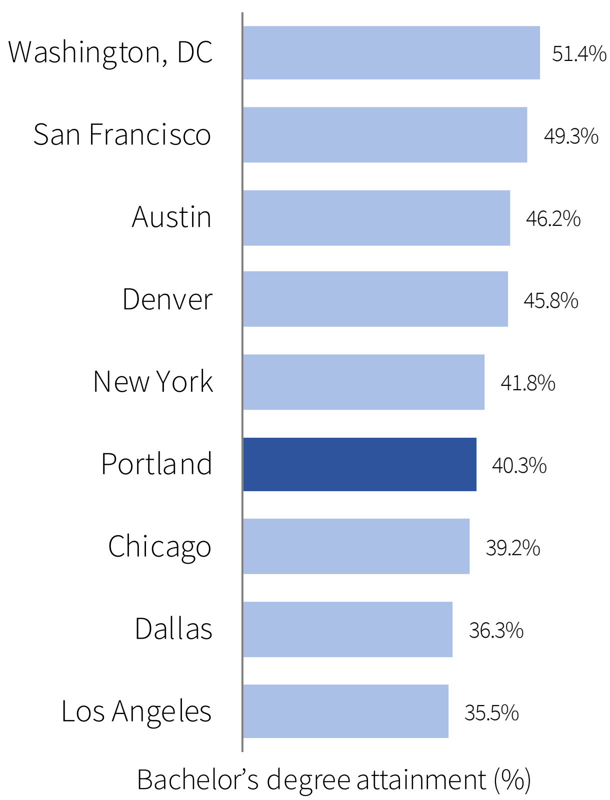
Source: JLL Research, U.S. Census Bureau

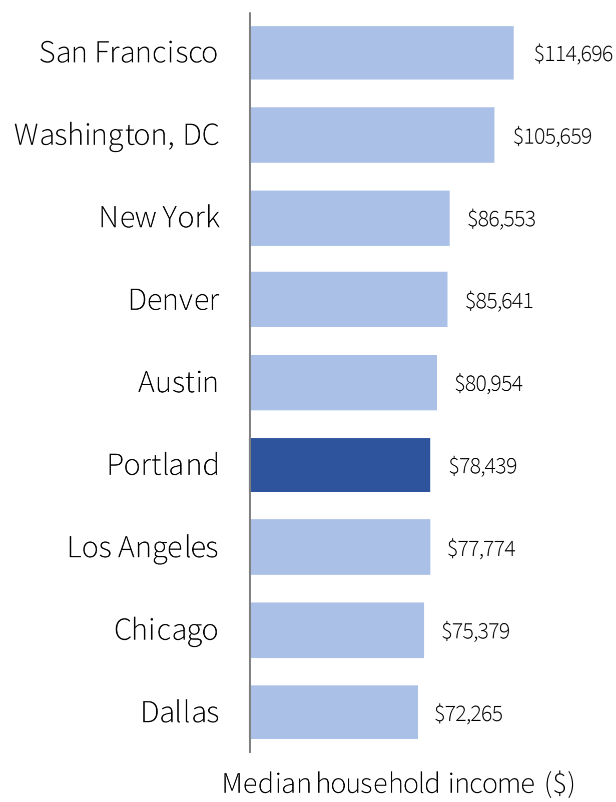
Education and income

Portland is home to an educated and well-compensated population. 40.3% of residents over the age of 25 have a bachelor's degree or higher, significantly above the national average and on par with gateway markets including New York and Chicago. Portland also leads the country in science and engineering talent, as 47.6% of degree-holders studied for a STEM-classified major.

Meanwhile, Portland's household income is also above-average at nearly $78,500. Above Los Angeles and Chicago and on par with peers such as Denver and Austin, it is nevertheless significantly lower than in tech hubs such as the Bay Area. Corporates looking at expansion are encouraged by lower labor costs in Portland, providing the market with a competitive advantage for expansion from high-growth companies.

The accelerating flow of individuals and companies into Portland from higher-cost markets is leading to an even faster increase in pay as expectations from workers change and cost of living due to rising housing costs grows. Since 2010, the region's median household income is up 47.8% compared to a 31.3% jump for the country as a whole. Even with intensifying labor costs, however, Portland salaries are still far lower than in larger markets and slightly lower than some peers, which will soften the burden on employers.





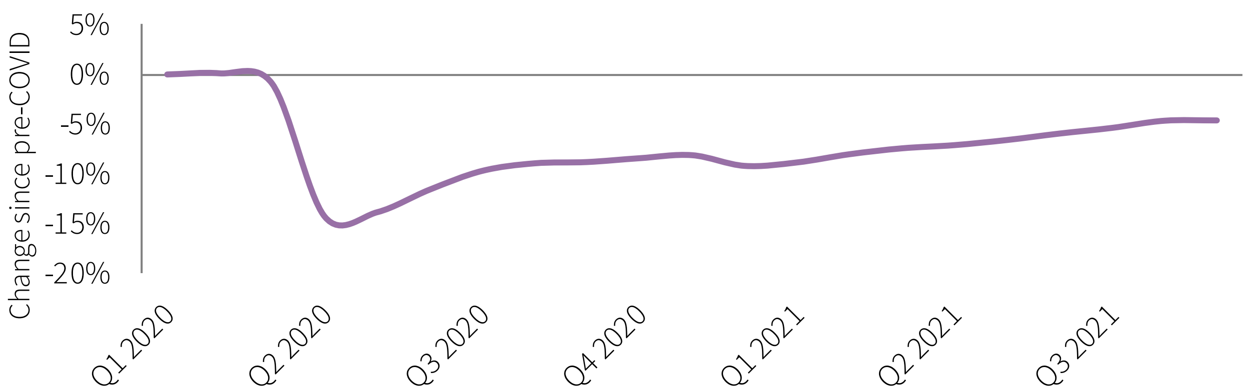
Source: JLL Research

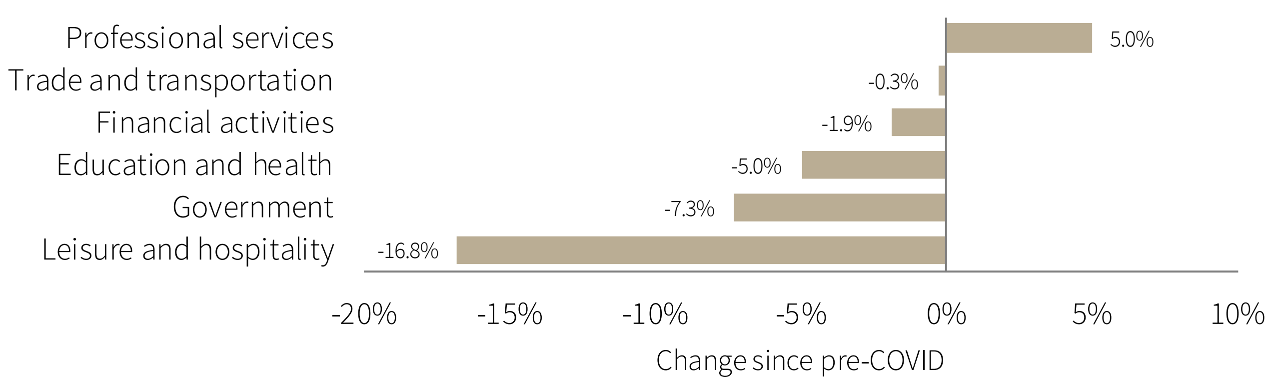
Employment growth

Portland's exposure to many hard-hit industries by the pandemic, both in terms of the economy as well as the office market specifically, has resulted in a sharper downturn and slower recovery than the U.S. as a whole, albeit at a faster rate than gateway geographies. After falling by 13.6% in the first two months of COVID-19, employment now stands 4.6% below normal levels.

At the industry level, recovery has been divergent. Professional services, the core driver of office demand, is 5% above pre-pandemic levels, a sign of Portland's strengths in skilled services and the result of individual migration from higher-cost markets and the emergence of more remote work roles in tech companies. This consistent improvement in professional services will keep office leasing buoyant even as companies shift to hybrid and more efficient workplace strategies. On the other hand, the decline in domestic and international tourism along with tighter health restrictions are keeping leisure and hospitality nearly 17% away from a full recovery.

Moving forward, Portland will benefit from the flight to affordability given discounted housing and business costs compared to Northern California and Seattle. At the same time, labor shortages will compound hiring challenges from both a talent and cost perspective.





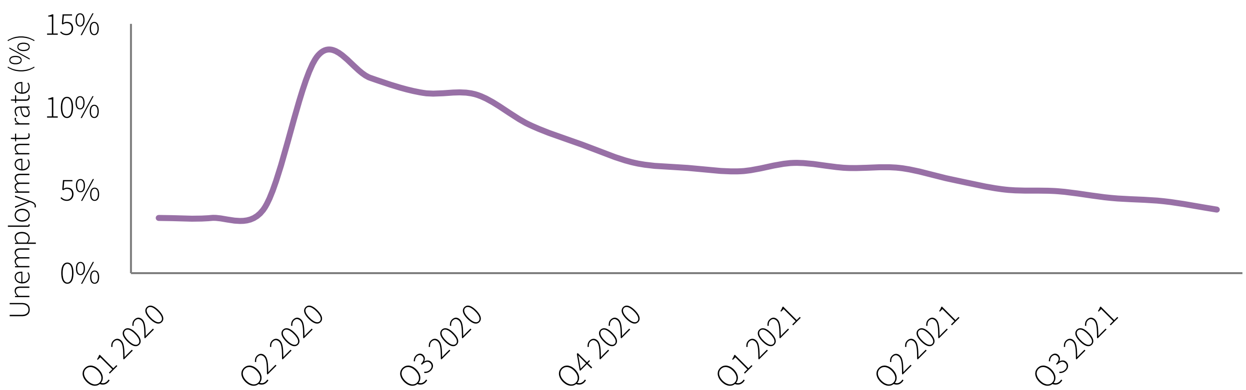
Source: JLL Research, Bureau of Labor Statistics

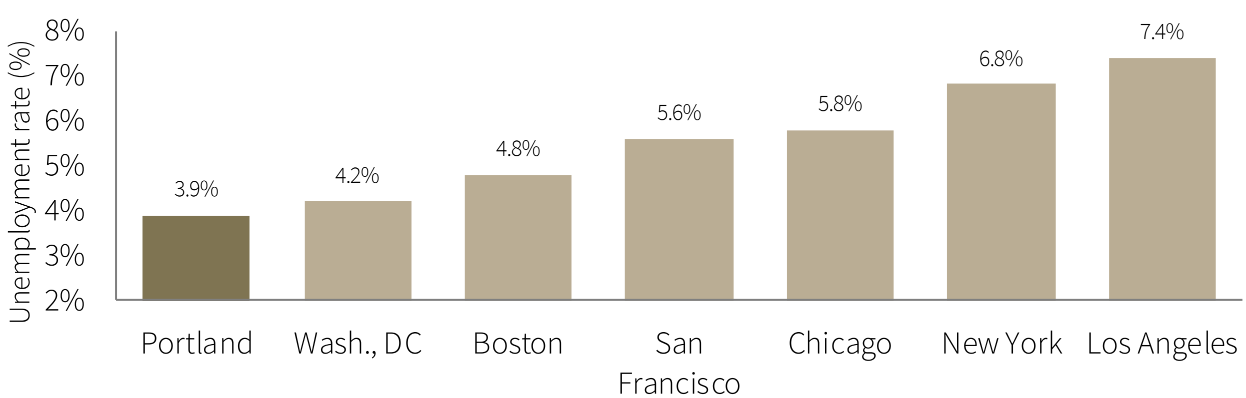
Unemployment

Despite a somewhat slower rate of job recovery than the U.S. as a whole, Portland's unemployment rate is now below the national average at 3.9%, dropping below 4% for the first time since the onset of the pandemic in September 2021. This comes after it rose from 3.4% in February 2020 to 13.1%, 150 basis points lower than the national peak of 14.8%. In comparison, unemployment peaked at 11.2% in 2009 at the apex of the financial crisis.

Unemployment in Portland is lower than all gateway markets, a sign of both the market's faster recovery as well as lower exposure to leisure and international tourism. The closest primary market to Portland – Washington, DC – has an unemployment rate of 4.2%, while New York and Los Angeles remain above 6%. Secondary markets more similar to Portland have comparable unemployment rates, such as Nashville (3.0%), Austin (3.5%), Charlotte (3.6%) and Denver (4.8%).

Moving forward, the biggest challenge for Portland in terms of unemployment is a much lower rate of labor force expansion than needed to satisfy demand for workers. The regional labor force has grown by just 12,274 people compared to February 2020, an increase of 0.9%. With the number of employed individuals rising 2.5 times faster than the number of people in the local labor force, the shortfall in talent will be further exacerbated.





Source: JLL Research, Bureau of Labor Statistics

Economic diversity

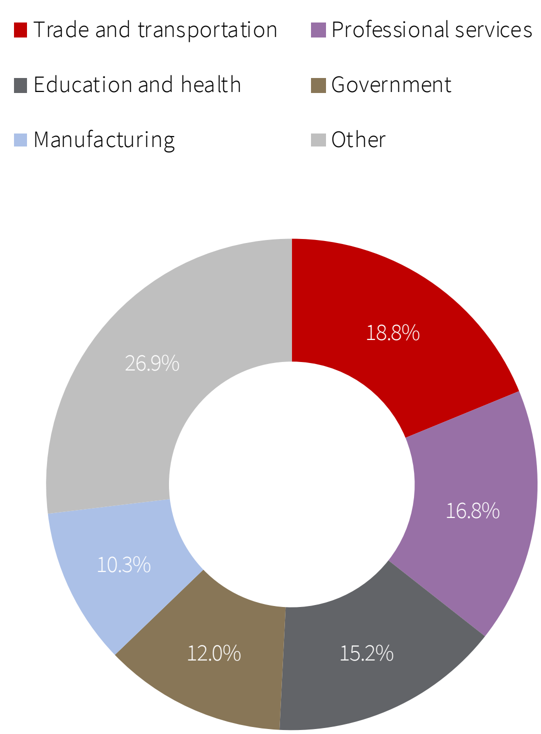
Portland is a growing hub for creative services, education, health and retail companies, with a fast-growing tech scene and a modest but significant life sciences and environmental engineering cluster for a market of its size. This has created a dynamic market of small- and mid-sized users unique among peer metro areas.

Non-cyclical sectors – education, health and government – represent just under one-third of employment, while 25.1% of regional employment is found in the office-using sectors. In comparison, these industries comprise 22.2% of national employment. Leisure and hospitality is notably a smaller contributor to employment than the national average.

At the company level, Intel, Nike, U.S. Bank and Wells Fargo are by a wide margin the largest office-intensive employers, having a combined headcount of more than 40,300 people. Outside of these users, health systems as well as universities are responsible for a significant share of employment.

Benefitting Portland's economic diversity is a cost of doing business ranking of 104% (of the U.S. average) according to Moody's, well below the San Francisco, New York and Boston, whose cost of doing business is estimated at 62%, 46% and 23% above that of Portland, respectively. This has enabled in-migration from Seattle, Los Angeles and the Bay Area to total more than 12,000 people annually.

Employers	Employed
Intel	20,600
Providence Health	18,885
OHSU	17,556
Nike	12,000
Kaiser Foundation	11,898
Legacy Health	11,404
Fred Meyer	10,637
PeaceHealth	4,445
U.S. Bank	4,031
Wells Fargo	3,721



Source: JLL Research, Bureau of Labor Statistics, Moody's

Market introduction (office)

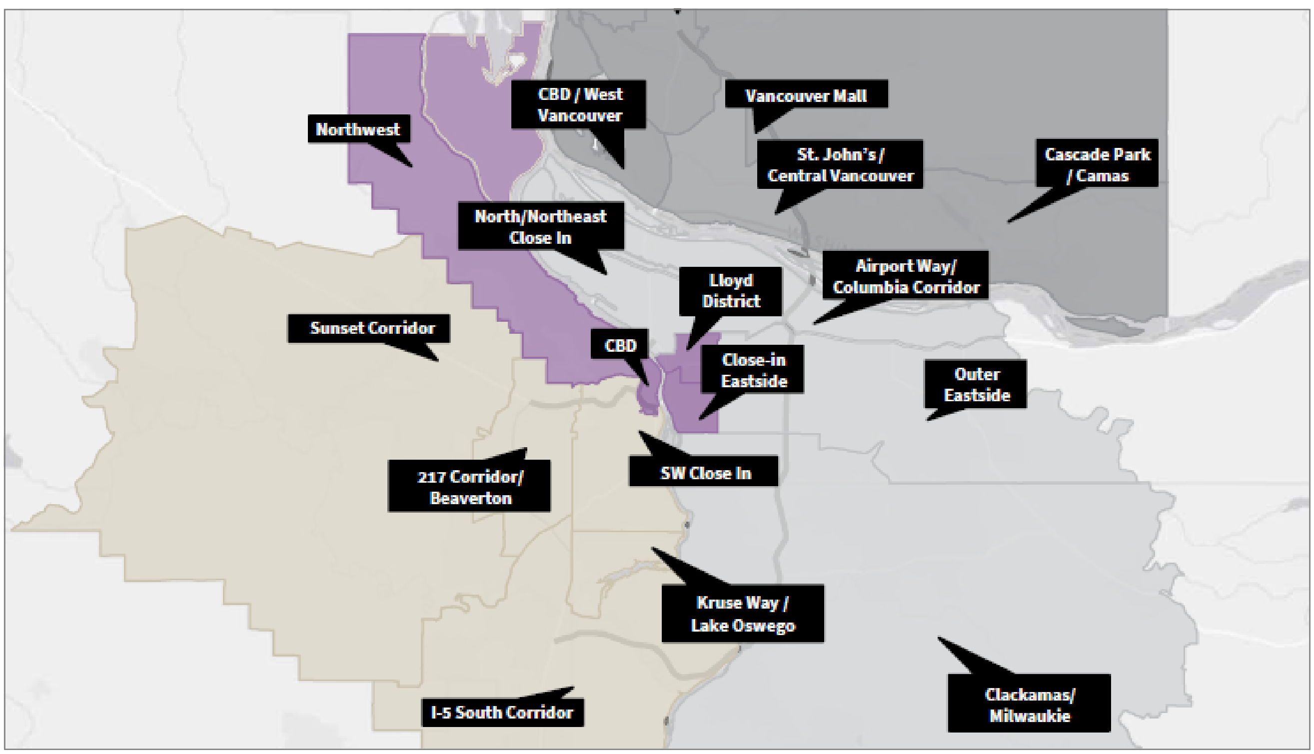
Portland's office market encompasses 59.8 million square feet of leasable corporate-grade space spread across a number of distinct submarkets. Centered on Downtown Portland, the regional office market sprawls to the west, north and east, each segment with its own unique dynamics, tenant profiles and demographic composition.

Downtown Portland is the hub of the larger Willamette Valley real estate market, containing 31 million square feet of space, or nearly 52% of all office stock in the metro area. This inventory is a combination of historic loft and adaptively reused light industrial product, mid-century office skyscrapers and a growing body of mixed-use, environmentally focused Trophy and creative space.

The national resurgence of urban cores and peripheral neighborhoods has been felt even more acutely in Portland, leading alternative urban neighborhoods such as the Pearl District, Northwest Portland and the Close-In Eastside to see intense residential, office, hotel and retail infill development, in some cases rivalling the CBD in terms of demand.

Portland's suburban office market is more varied in terms of demand and performance than its urban core. The Westside, comprised of the Sunset Corridor, 217 Corridor/Beaverton, Southwest Close-In, Kruse Way and I-5 South submarkets is by far the dominant cluster, comprising just over 63% of suburban inventory. Within this, the Sunset Corridor – home to Nike and numerous tech and life sciences companies – and Kruse Way are traditionally and currently the focus of the most growth and transaction volume.

Linking these areas together is Portland's expansive light rail network, comprised of five lines stretching throughout the region.



Source: JLL Research

Office statistics by submarket

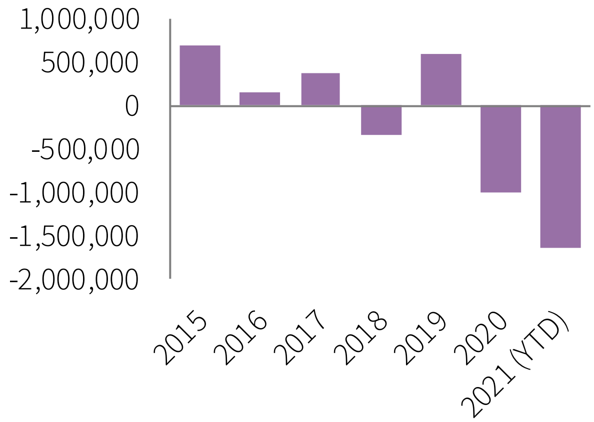
	Inventory (s.f.)	YTD total net abs. (s.f.)	YTD net abs. (% of stock)	Total vacancy (%)	Direct asking rent ($ p.s.f.)	YTD completions (s.f.)	Under const. (s.f.)
CBD	23,293,024	-778,696	-3.3%	20.6%	$36.82	0	509,825
Lloyd District	2,473,661	-79,789	-3.2%	9.6%	$34.75	33,276	0
Close In Eastside	2,691,820	-71,337	-2.7%	22.6%	$38.58	49,390	59,363
Northwest	2,541,704	-153,596	-6.0%	32.6%	$43.35	0	0
Urban Core	31,000,209	-1,083,418	-3.5%	20.9%	$37.56	82,666	569,188
Airport Way	1,022,728	-38,670	-3.8%	15.2%	$21.34	0	0
Clackamas/Milwaukie	1,602,938	-55,079	-3.4%	12.9%	$27.04	25,632	0
North/Northeast Close In	791,627	-2,602	-0.3%	3.7%	$38.68	0	0
Outer Eastside	879,050	-10,787	-1.2%	8.3%	$21.56	0	14,770
Eastside	4,296,343	-107,138	-2.5%	10.8%	$25.52	25,632	14,770
217 Corridor/Beaverton	4,095,945	-78,384	-1.9%	17.0%	$24.38	0	0
I-5 South Corridor	4,018,956	42,556	1.1%	11.9%	$25.88	0	0
Kruse Way/Lake Oswego	2,835,900	-18,623	-0.7%	18.3%	$37.43	0	0
Sunset Corridor	4,642,303	-168,773	-3.6%	20.4%	$26.58	0	85,047
SW Close In	2,594,586	-56,281	-2.2%	19.7%	$33.17	0	0
Westside	18,187,690	-279,505	-1.5%	17.3%	$28.91	0	85,047
Cascade Park/Camas	2,352,072	-72,303	-3.1%	11.3%	$26.22	0	50,225
CBD/West Vancouver	1,912,526	-63,870	-3.3%	10.6%	$26.85	0	107,400
Hazel Dell/Salmon Creek	435,278	634	0.1%	1.8%	$27.17	0	0
Orchards/Outer Clark	291,297	-11,614	-4.0%	15.9%	$18.52	0	0
St. John's Central	510,379	2,383	0.5%	25.0%	$18.50	0	0
Vancouver Mall	818,346	-20,547	-2.5%	14.0%	$22.45	0	0
Vancouver Suburbs	6,319,898	-165,317	-2.6%	12.1%	$25.40	0	157,625
Portland	59,804,140	-1,635,378	-2.7%	18.2%	$34.27	108,298	826,630

Source: JLL Research

Key performance indicators (Portland)

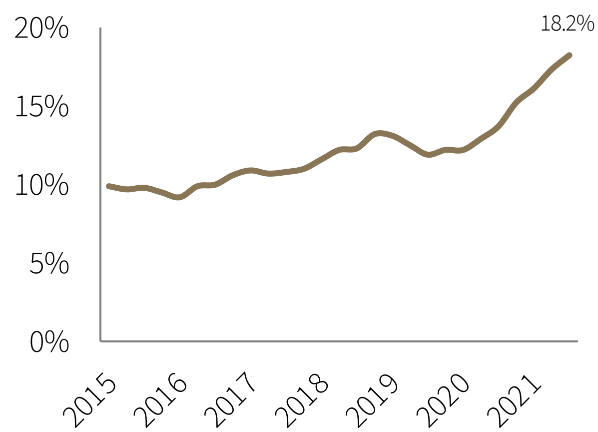
Net absorption

Market-wide net absorption has been inconsistent in recent years. Before the onset of COVID-19, occupancy growth totaled just under 1.5 million square feet, while pandemic-induced losses so far have reached 2.6 million square feet. Highly variable market conditions and demand profiles between submarkets are a key reason for this volatility.



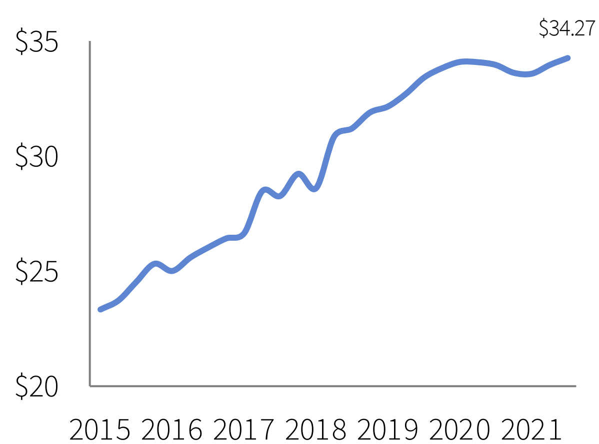
Vacancy

Since 2015, vacancy has been rising incrementally, limiting the COVID-specific shock. A combination of give-backs and new construction have caused this upward trajectory: sublease absorption since Q2 2020 has totaled -274,094 square feet, which has pushed sublease vacancy up 36% faster than direct vacancy. This has been compounded by nearly 1.2 million square feet of deliveries in the past six quarters.



Rent

Rents have stabilized since the onset of the pandemic after significant increases over the past six years. Asking rents are up 46.6% since 2015, one of the highest rates of any secondary market, as out-of-market companies have caused a step change in expectations for pricing and quality in Portland. Rent growth has been particularly acute in the CBD and Close-In Eastside, where demand for creative product has spiked.



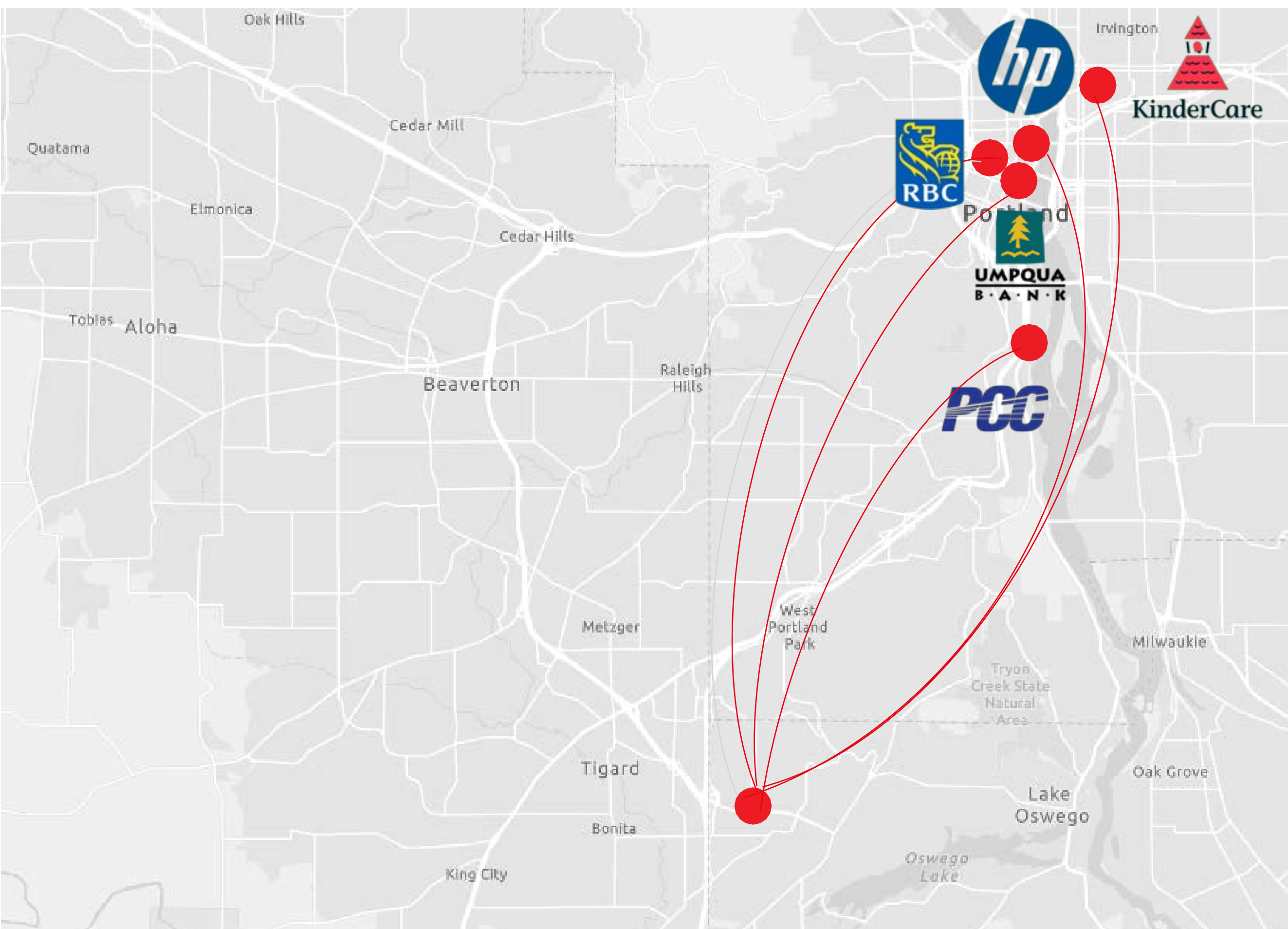
Source: JLL Research

Tenants are exploring options outside the Urban Core

Some Urban Core tenants have made the move to the suburbs, as health & safety and tax concerns mount. Tenants leaving the Urban Core have overwhelmingly chosen Kruse Way/Lake Oswego for their new locations as the submarket has the largest concentration of Class A product outside of the CBD. To date, tenants are vacating approximately 350,000 s.f. in the Urban Core and absorbing 130,000 s.f. in Kruse Way.

The increased demand from the Urban Core has led to a shortage of large blocks in Kruse Way and the submarket's largest landlord, Shorenstein, has raised rates 4 times during the pandemic. Looking to capitalize on the record occupancy, Shorenstein have begun to strategically sell high occupancy buildings from their Kruse Woods portfolio, including 5800 & 6000 Meadows selling to Unico Properties for $71.5 million ($351 p.s.f.) and 5885 Meadows currently listed for sale.

Outside of relocations from the Urban Core to Kruse Way/Lake Oswego, there has been increased demand in the suburbs from large tech users that would have previously looked to the Urban Core for space. Apple expanded in the 217 Corridor with just under 50,000 s.f. at 3555 SW 153rd Dr and Microsoft chose Ambercreek for a new 85,000 s.f. location for their cloud platform, Azure.



Source: JLL Research

Largest tenants (Portland)

Portland's tenant base is diverse, with notable strengths in tech, media and retail, which have led to sustained growth in recent years as companies from out of state have seized on the area's talent pool for expansion.

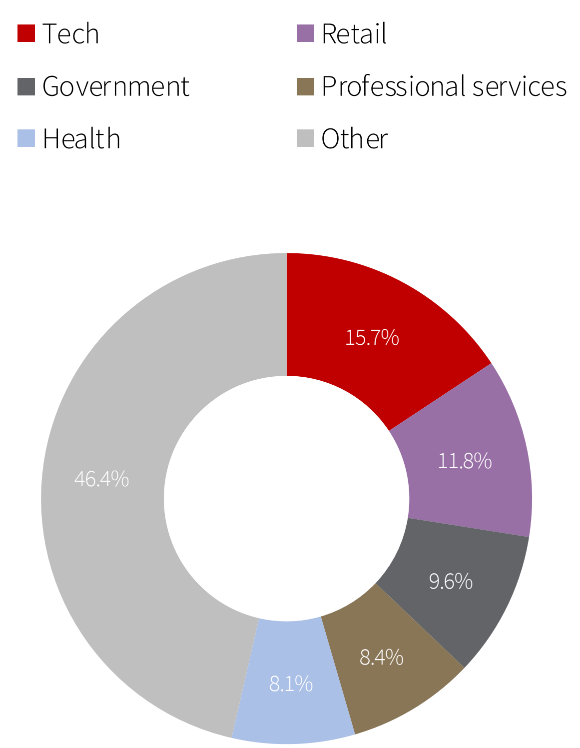
Anchored by Intel, tech is the single-largest industry by footprint in Portland. Both legacy companies (Intel, HP, Synopsys) and emerging users (Tektronix, Salesforce, nLight, Pupper) are represented in Portland, the latter both from inbound migration from the Bay Area as well as organic growth out of the metro area's start-up scene.

As the headquarters of Nike, Portland has a very large retail and consumer goods office footprint, totaling 11.8% of occupancy. Adidas, Columbia Sportswear and Under Armour also occupy a combined 1.5 million square feet across the region.

Although not the capital of Oregon, Portland nevertheless has a large government presence owing to its status as the state's largest city. Federal, state, county and local agencies alike are slightly less than 10% of the region's tenant pool.

Finally, education and health – particularly life sciences – are cornerstones for regional employment and office demand, notably in the South Waterfront area.

Tenant	Size (s.f.)
Intel	4,562,679
Nike	3,961,468
Portland State University	3,008,604
Multnomah County	2,257,079
Providence Health	1,835,536
Adidas	1,267,922
U.S. GSA	1,070,976
OHSU	854,141
State of Oregon	837,773
Kaiser Permanente	729,323



Source: JLL Research

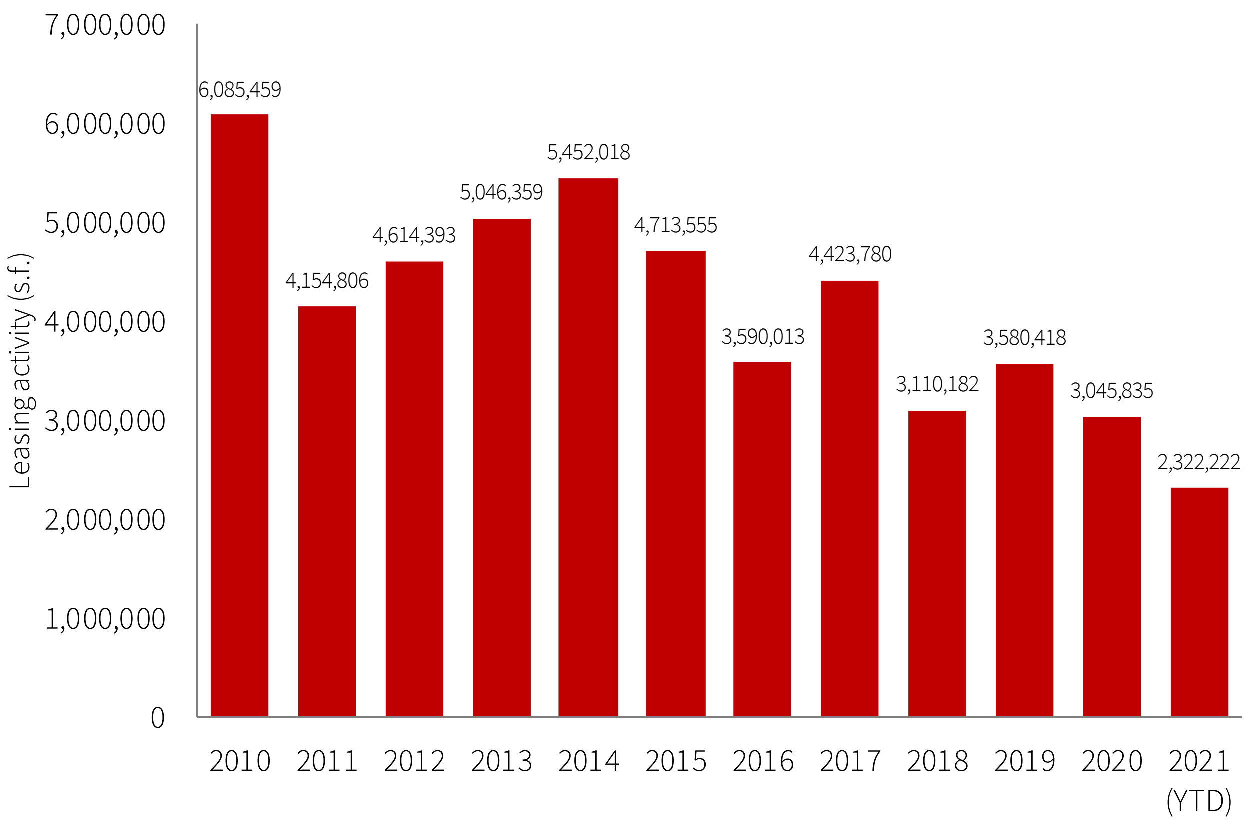
Leasing activity (Portland)

As with other markets, Portland's leasing volumes have been adversely affected by the COVID-19 pandemic, but is recovering in earnest. From 2010 to 2019, Portland registered an average of slightly less than 4.5 million square feet of transactions, dropping by 32% in 2020 and maintaining stability into 2021.

This drop-off, however, was lower than the 46% decrease seen in the national office market, pointing to Portland's resilience. Additionally, Portland's lower reliance on large-scale and long-term leasing activity from major corporate entities has insulated it from the same level of uncertainty and scale of some of the worst effects on the pandemic on office leasing activity.

Similar to employment growth, leasing in recent years has been dominated by tech, finance and skilled services, with HP, Standard Insurance, Wells Fargo, HSBC, Capital One, Salesforce and Autodesk all taking on or renewing more than 100,000 square feet since 2010.

Mirroring the clustering of new construction, the CBD is by far the most active submarket, registering 43% of all leasing since 2010 despite being just 38% of inventory. The Sunset Corridor and Kruse Way followed with 10% and 8%, respectively, given their status as suburban hubs.



Source: JLL Research

Notable recent leases (Portland)



	HP	Wells Fargo	State of Oregon
Address	1115 SE 164th	18700 NW Walker	9275 SW Peyton
Submarket	Cascade Park	Sunset Corridor	I-5 South
Size (s.f.)	248,972	211,863	120,180
Year 1 rent ($ p.s.f.)	$16.25 FSG	-	$14.50 NNN
Term (months)	60	60	37
Lease type	Renewal	Renewal	New lease
Industry	Tech	Finance	Government


	Nike	ZGF	Microsoft
Address	20510 NW Evergreen	430 SW 13th	9800 NE Gibbs
Submarket	Sunset Corridor	CBD	Sunset Corridor
Size (s.f.)	91,084	85,691	85,000
Year 1 rent ($ p.s.f.)	-	$32.75 NNN	$22.00 NNN
Term (months)	60	120	60
Lease type	Renewal	Renewal	New lease
Industry	Retail	Architecture	Tech

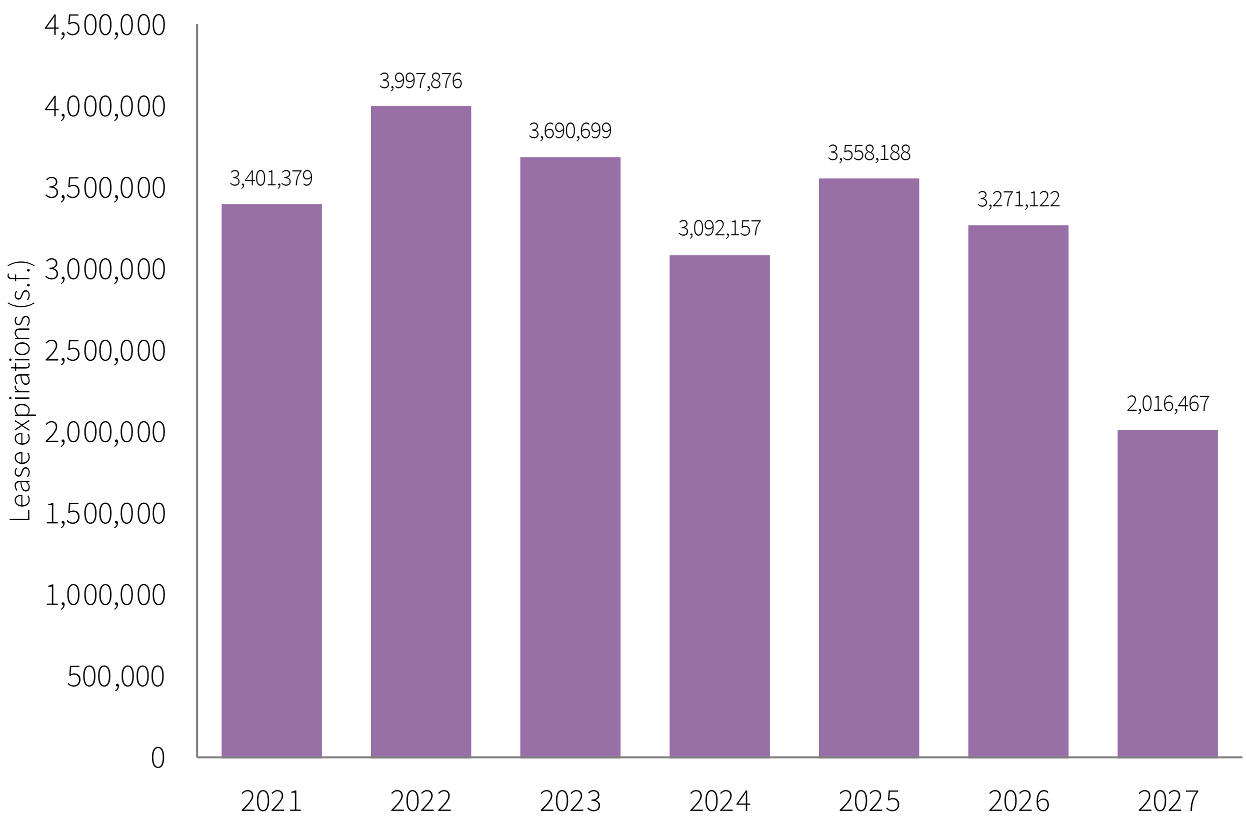
Source: JLL Research

Lease expirations (Portland)

The pandemic brought upon a sudden halt to leasing activity in Portland's office market with a number of tenants letting their leases expire while they wait to re-enter the market or negotiating short-term renewals. These changes to normal leasing timelines are set to cause an imbalance in leasing activity in the coming years, with an outsized number of expirations coming in 2022-2023 from the normal expiration cycle and short-term extensions signed in 2020-2021.

Another trend gathering speed is early renewals. Larger tenants set to expire in 2+ years are negotiating early renewals with market conditions currently in the tenants' favor. While Portland has not seen a significant decrease in face rents, concessions in the form of free-rent have doubled and some tenants renewing early have negotiated the free rent into their existing lease obligations as they remain working from home.

Professional & Business Services, Finance and Technology firms are responsible for the majority of leasing in the Portland Metro and 60% of the upcoming roll will be from companies in these industries.



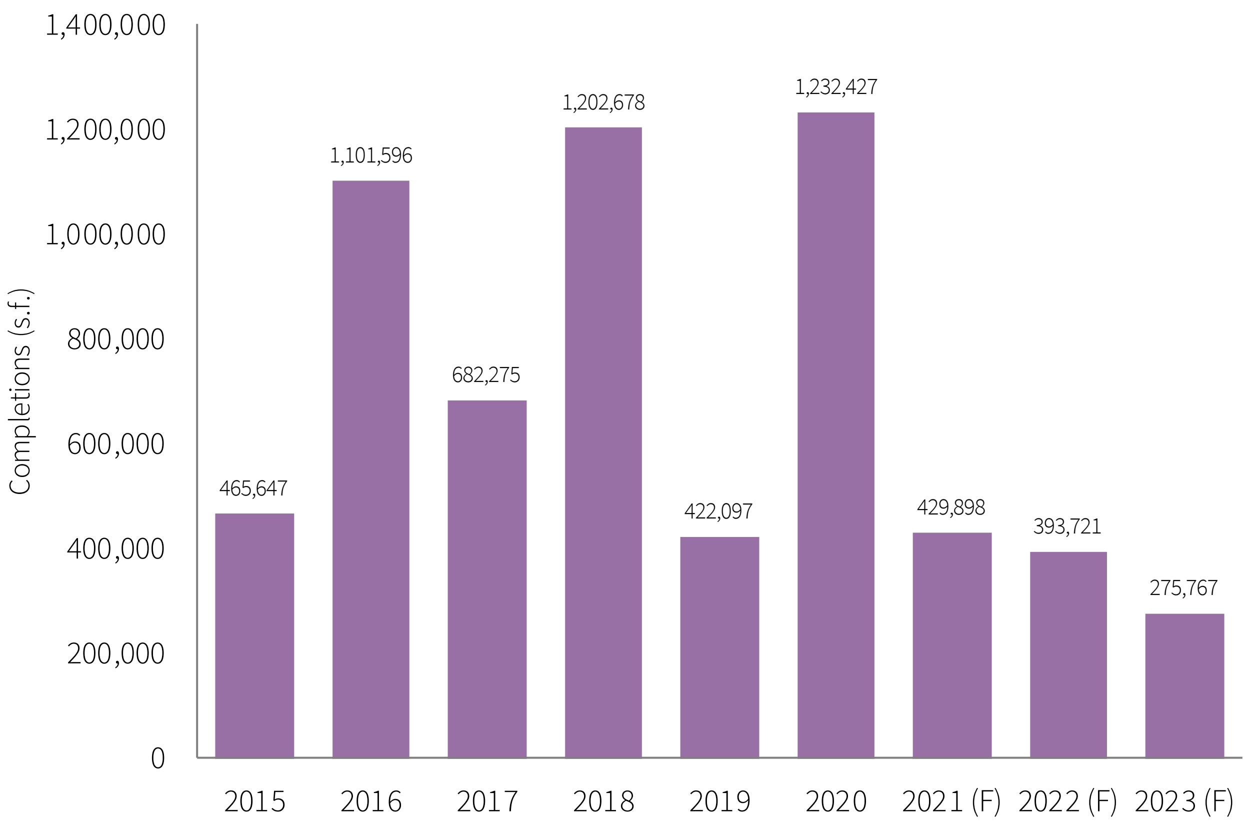
Source: JLL Research

Development pipeline (Portland)

Portland has seen 5.2 million square feet of new supply hit the market since Q1 2015, representing 8.7% of existing inventory. Additionally, there is a further 826,630 square feet of space currently under construction or renovation. Normalized for inventory, this is a lower rate of new construction than peer markets, which will reduce concerns surrounding oversupply within the region.

Portland's development cycle has been concentrated in a select few submarkets in recent years: 2.3 million square feet (44.2% of total) of this new supply can be found within the CBD, with a further 17.3% of deliveries occurring in the Close-In Eastside. The remaining 38.5% is scattered throughout the rest of the market.

This bifurcation is even more intense among space under construction, where 68.9% of new inventory underway is in the CBD or Close-In Eastside. Most notable of these is the office component Block 216 at 900 SW Washington Street in the CBD, which remains largely available with triple-net rents of upwards of $42 per square foot. Additionally, Sera Architects will be taking 42,764 square feet at the under-renovation Galleria at 600 SW 10th Avenue, just as all office space at 11W is currently available for lease. The pending slowdown in construction will stabilize market conditions heading into 2022 and into 2023.



Source: JLL Research

Ownership composition (Portland)

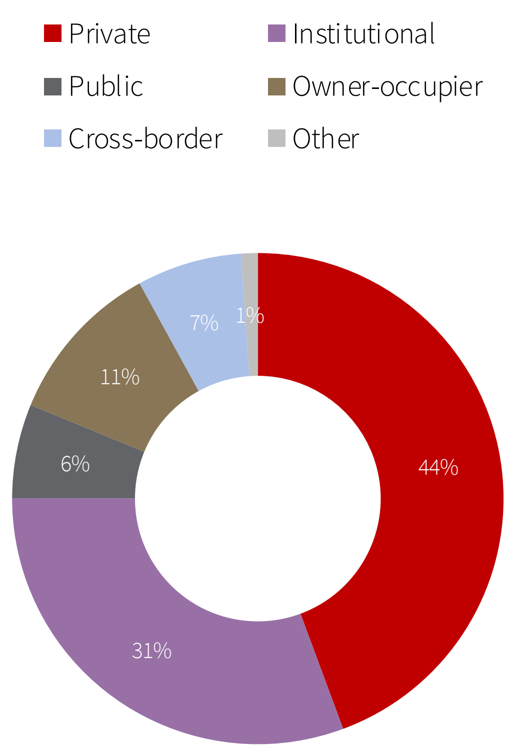
Portland's capture of spillover technology demand from Seattle and the Bay Area have long driven a heightened share of institutional ownership relative to other secondary markets. The institutional share of the market has waned in recent years as recent larger-scale transactions have been acquired by private capital or users.

The user ownership composition in Portland grew substantially over the past cycle, with technology users such as HP and IBM, other corporates including Nike, and several government entities making large investments in Portland office space between 2012-2018.

Portland's location on the West Coast, and technology tenancy attract a heightened share of capital from the Asia-Pacific region compared to other secondary markets, and cross-border groups at large have consistently maintained 5.0 to 10.0 percent ownership of Portland office. The share has waned in recent years amid sell-side activity from Chinese investors.

Portland is not a core market for public office REITs, so public ownership composition is predominantly relegated to smaller scale healthcare or medical office properties.

Owner	Owned (s.f.)
Intel	4,562,679
Nike	3,651,456
Portland State University	3,068,442
Multnomah County	1,606,059
Unico Properties	1,342,587
Weston Investment	1,278,998
PacTrust	1,152,572
UBS	1,113,402
Shorenstein Properties LLC	913,825
Gramor Development	844,690



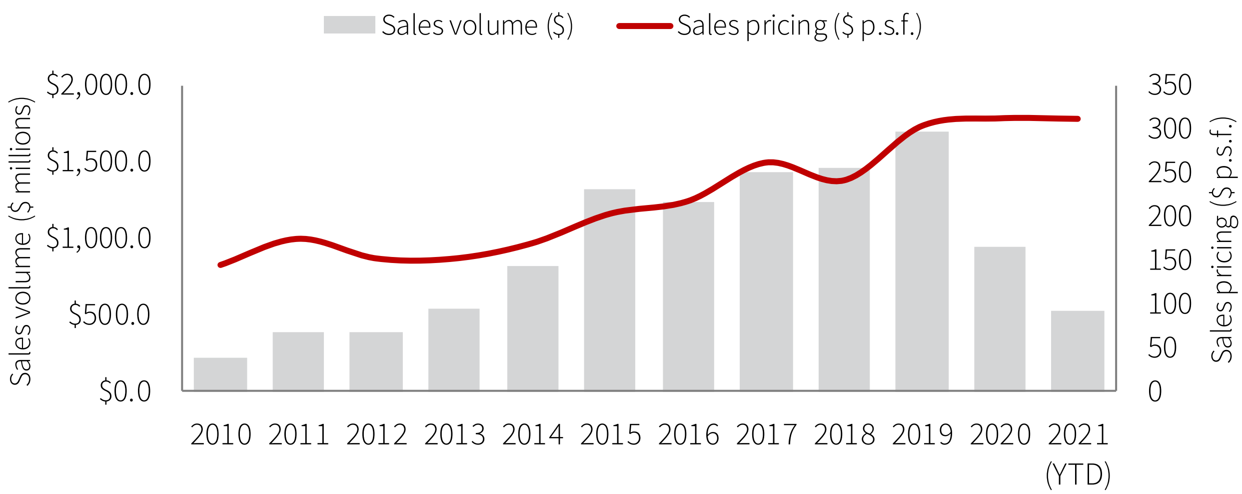
Source: JLL Research, Real Capital Analytics

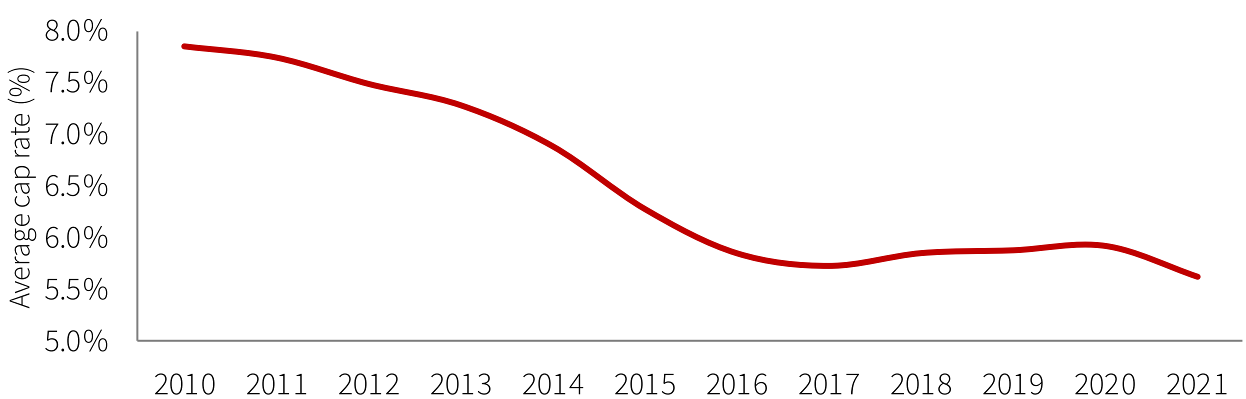
Sales volume, pricing and cap rates (Portland)

Factors outside of commercial real estate fundamentals caused an outsized impact to office investment in Portland during and since the pandemic, stifling what was one of the strongest momentum markets in the U.S. prior to disruption. Investment volumes in Portland have fallen 56.4 percent relative to pre-pandemic levels on an annualized basis but have in the past two quarters begun to show positive momentum as volume has grown 14.8 percent in the past 12 months relative to the previous year.

Like other markets that have seen greater impact to office investment from the pandemic, Portland's decline in activity has been driven partially by a sharp decline in liquidity for large-scale assets. Portland has had no transactions above $100.0 million in 2021, despite average three to four per year prior to the pandemic.

Due to political unrest in Portland during the early stages of the pandemic, pricing across property types was more impacted than peer markets, with Minneapolis and Houston being the only secondary markets that saw a sharper impact to office pricing. With activity beginning to stabilize, pricing metrics are reinforcing Portland's positioning as a higher-yield alternative to other northern West Coast markets including Seattle and San Francisco.





Source: JLL Research, Real Capital Analytics

Notable recent sales (Portland)



	5800 & 6000 Meadows	5550 Macadam	Pittock Block
Date sold	2021 Q2	2021 Q2	2020 Q4
Address	5800-6000 Meadows	5550 S Macadam	921 SW Washington
Submarket	Kruse Way/Lake Oswego	SW Close In	CBD
RBA (s.f.)	198,976	43,151	297,698
Sales price ($)	$71,500,000	$15,800,000	$326,000,000
Sales price ($ p.s.f.)	$359	$366	$1,095
Cap rate (%)	N/A	5.94%	3.83%
Buyer	Unico Properties	Harder Holdings	Harrison Street
Seller	Shorenstein	ScanlanKemperBard, WHI	Alco Investments



Owner	Mason Ehrman Building	Beaverton Creek V	Broadway Tower
Date sold	2020 Q3	2020 Q3	2020 Q1
Address	208 NW 5th	2555 SW 153rd	710 SW Columbia
Submarket	CBD	Sunset Corridor	CBD
RBA (s.f.)	81,736	82,742	175,000
Sales price ($)	$25,000,000	$15,500,000	$132,300,000
Sales price ($ p.s.f.)	$306	$187	$756
Cap rate (%)	N/A	5.91%	4.95%
Buyer	ScanlanKemperBard	Strategic Office Partners	Principal Financial
Seller	Gaw Capital	Gloria Gee Living Trust	Downtown Dev Group

Source: JLL Research, Real Capital Analytics

Market outlook (Portland)

Portland is primed to see further gains in population, corporate presence and cultural prominence in the coming years. Although its cost of living is rising, it remains distinctly affordable compared to Northern California and the Seattle area, which will fuel continued migration and satellite expansion.

On the office side, the region has an outsized inventory of creative and historic assets, a legacy of its origins as a shipping and manufacturing city. These types of buildings are highly desirable for tech, media and other creative tenants. Additionally, its extensive light rail network, integrated urban planning and propensity for mixed-use and other forms of sustainable development make it relatively unique among smaller markets in the country and better-suited to meeting tenant preferences.

One of Portland's critical differentiating strengths, which has already been a source of investment and interest and will continue to be so in the future, is its very strong arts and cultural presence. Employees moving to smaller metro areas for quality of life reasons over the past 18 months have routinely cited the readily available array of entertainment venues and amenities as a selling point for making the decision to move. This has also been seen in Austin, Miami and Nashville, which have also registered intense growth in the past decade.

Portland is not without its challenges, including concerns over public safety downtown, a deficit of new housing construction due to stringent development regulations and a less business-friendly environment than states such as Texas, Georgia and Florida. However, its economic drivers remain strong and investor and tenant appeal has stayed buoyant despite headwinds.

- Portland's arts and culture scene is among the most prominent of secondary markets, making it appealing for new residents.

- Continued affordability and quality of life-related migration from California and Washington will spur demand for space.

- Integrated infrastructure planning and investment will help Portland accommodate growth more easily than its peer markets.

Source: JLL Research

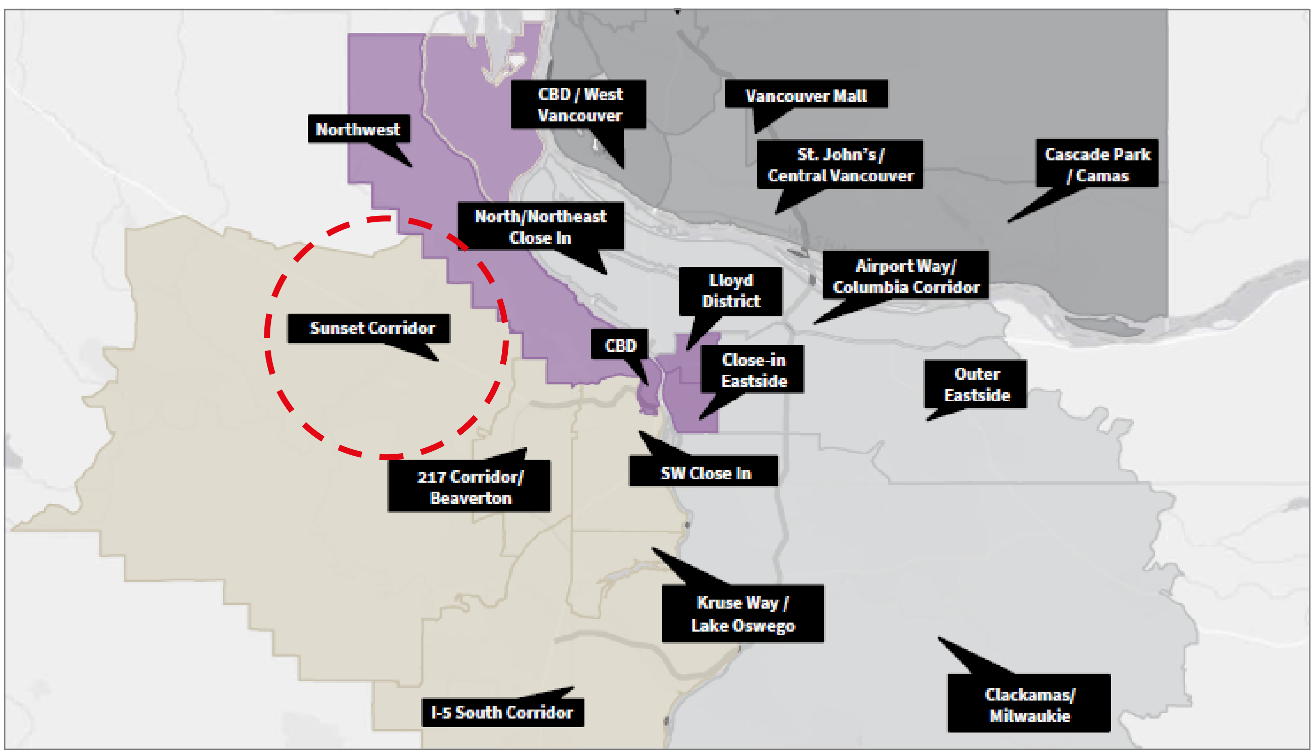
Submarket introduction (Sunset Corridor)

Home to 4.6 million square feet of office space, the Sunset Corridor is the largest component of the broader Westside office market in Portland, representing roughly one quarter of its inventory. Located to the northwest of Downtown Portland, the Sunset Corridor is well known as the home of the headquarters of Nike and has a robust roster of tech, life sciences and professional services users looking to locate near some of the most educated and well-connected suburbs in the region.

Within the Sunset Corridor, there are a number of smaller clusters of office buildings, typically in corporate campus settings but increasingly as part of mixed-use, transit-oriented developments along the Blue Line of the MAX Light Rail system. Some of the most notable examples include the Nike headquarters complex between Murray Boulevard and 158th Avenue, the neighboring Amberglen and Tanasbourne micromarkets, Orenco and Downtown Hillsboro. The remaining large office buildings can be found along the southern side of Sunset Highway, with minimal development north of it due to Portland's urban growth boundary.

Challenging the submarket has been a lack of speculative or build-to-suit development, leading to an aging inventory and making it harder to accommodate new-to-market growth. In some cases, such as Microsoft's expansion in Amberglen, companies and developers are taking the opportunity to renovate and reposition older assets to better meet tenant needs, but these plays are few and far between.

Even with these challenges, the Sunset Corridor benefits from one of the largest collections of large office occupiers in Portland, while also being able to take advantage from the desire to reduce commute times for suburban employees.

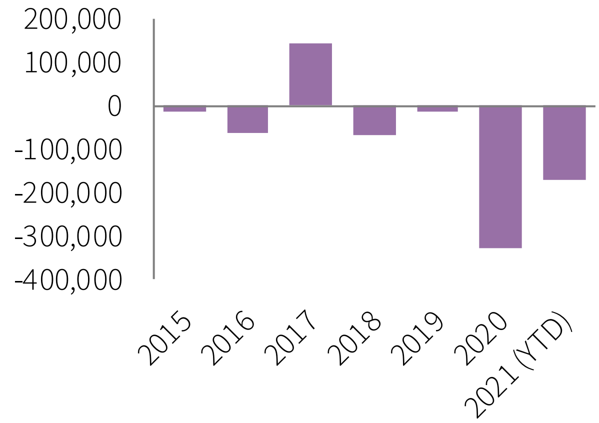


Source: JLL Research

Key performance indicators (Sunset Corridor)

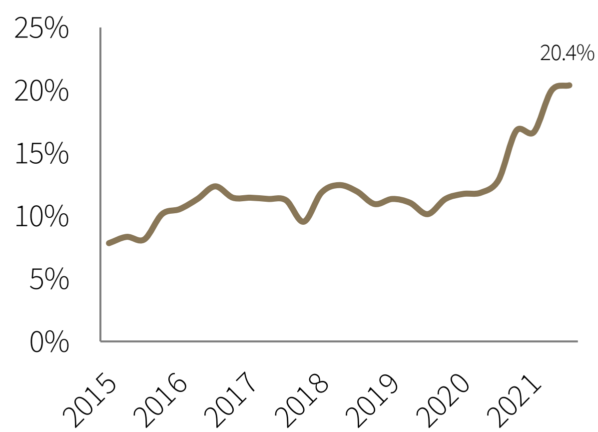
Net absorption

Occupancy has fallen over the course of the past six years, with moderate decreases even before the onset of the pandemic. This is in part due to consolidation among users in the submarket as well as flows into the urban core from smaller creative users. However, 2021 is on track to see less negative net absorption than 2020, evidence of a rebound in progress.



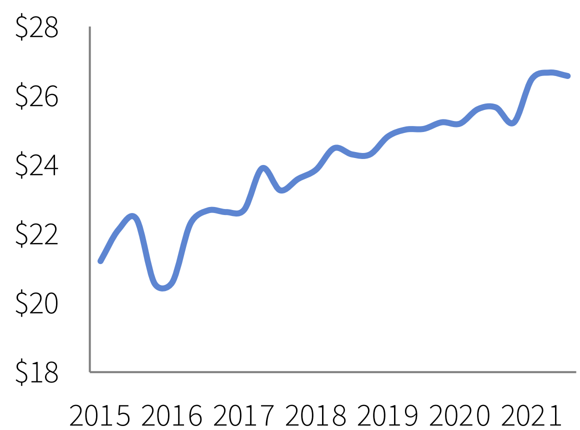
Vacancy

Vacancy reached a record high of 20.4% in Q3 2021, but appears to be slowing in line with broader trends in the office market. Unlike other geographies, this is almost entirely coming from direct move-outs rather than from give-backs of sublease space. Sublease absorption since the onset of the pandemic in the Sunset Corridor stands at only 4,672 square feet.



Rent

A lack of new supply combined with softening conditions as tenants opt to move out of second-generation product has kept Sunset Corridor rent growth below that of the CBD and inner urban areas. Asking rents will likely stay flat moving forward, with the potential for modest rent increases as blocks are slowly chipped away at from growing tech users.



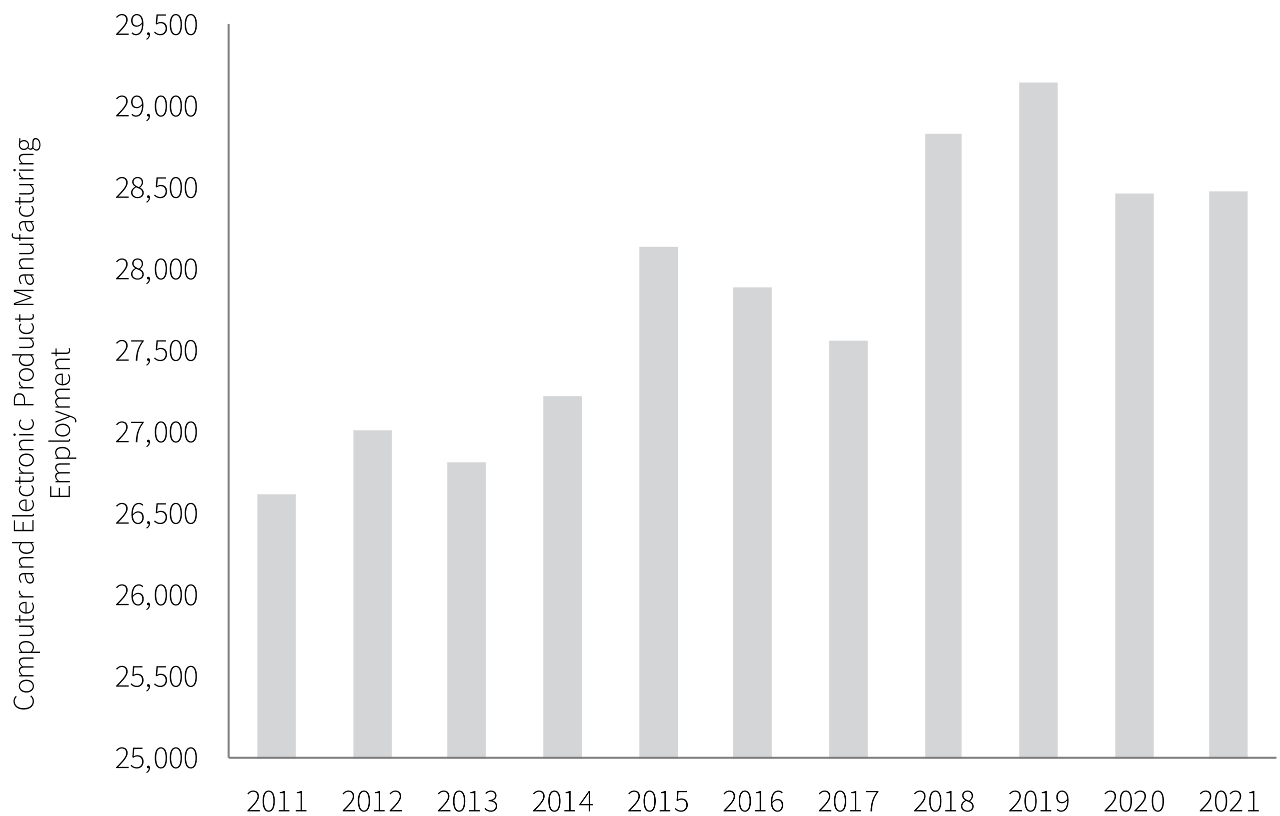
Source: JLL Research

Hillsboro – home of Oregon's largest employers

The state of Oregon has the fourth-highest concentration of computer and electronics companies in the U.S., and Intel tops the list of employers in Hillsboro, with 20,000 employees across its three Hillsboro campuses. In all, there are more than 27,000 jobs in Hillsboro focused on computer and electronics manufacturing, earning the city its nickname "The Silicon Forest." Intel is nearing completion of its multi-billion-dollar expansion of its D1X facility, adding nearly 1.5 million s.f. of production capacity. It will bring the total square footage of D1X to roughly 4 million s.f.

With Intel as Hillsboro's anchor, the region has drawn a multitude of related companies to the area, as well as spurring spin-offs from Intel including Applied Materials, Lattice Semiconductor, Epson, Thermo Fisher Scientific, Tokyo Electron and more. The concentration of tech talent has grown the region's software giants as well with Microsoft, Salesforce, Adobe, McAfee, Flexential, NTT Global, Nvidia, Synopsys and WMware all calling Hillsboro home.

Not to be overshadowed by tech, Washington County is also home to the HQ of the world's largest footwear & apparel manufacturer, Nike as well as the state's second largest footwear & apparel company, Columbia Sportswear. With over 12,000 employees spread between Nike's 300-acre World HQ campus and multiple satellite offices in Washington County, Nike is the largest occupier of leased office space in the Portland MSA.



Source: JLL Research

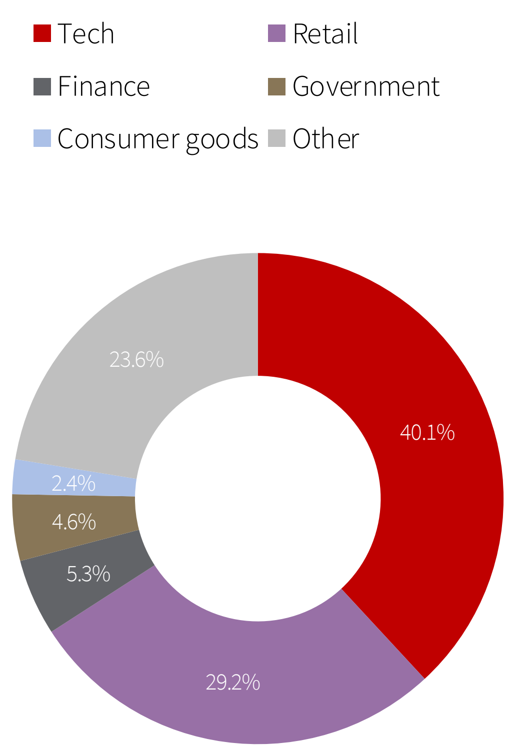
Largest tenants (Sunset Corridor)

The Sunset Corridor is home to Portland's two largest tenants – Intel and Nike – whose footprint totals a combined 8.5 million square feet (almost entirely across properties the companies own rather than lease). Apart from Intel and Nike, only three other users have more than 300,000 square feet of space in the submarket.

These companies' presence is largely responsible for the Sunset Corridor being a focal point for the region's traditional tech, retail and consumer products industries, with companies such as Salesforce, Synopsys, McAfee, Microsoft and Apple all planting their local office flags nearby. As a result, tech tenants comprise more than 40% of all of the Sunset Corridor's office occupancy, a share that is 2.6 times higher than that of the market as a whole.

Outside of tech and retail, only consumer goods, telecom and finance have a meaningful share of occupancy in the submarket. Finance is largely found in the form of satellite offices with a focus on payroll, support and operations: Wells Fargo, First Tech Credit Union and Umpqua Bank all have more than 40,000 square feet of space in the Sunset Corridor. Additionally, Tektronix and Comcast round out large non-government occupiers in terms of advanced manufacturing for consumer products and telecom and media.

Tenant	Size (s.f.)
Intel	4,562,679
Nike	3,961,468
Tektronix	346,448
Washington County	325,770
Wells Fargo	314,863
City of Hillsboro	218,691
Providence Health	163,876
First Tech	156,000
StanCorp	141,790
Comcast	118,612



Source: JLL Research

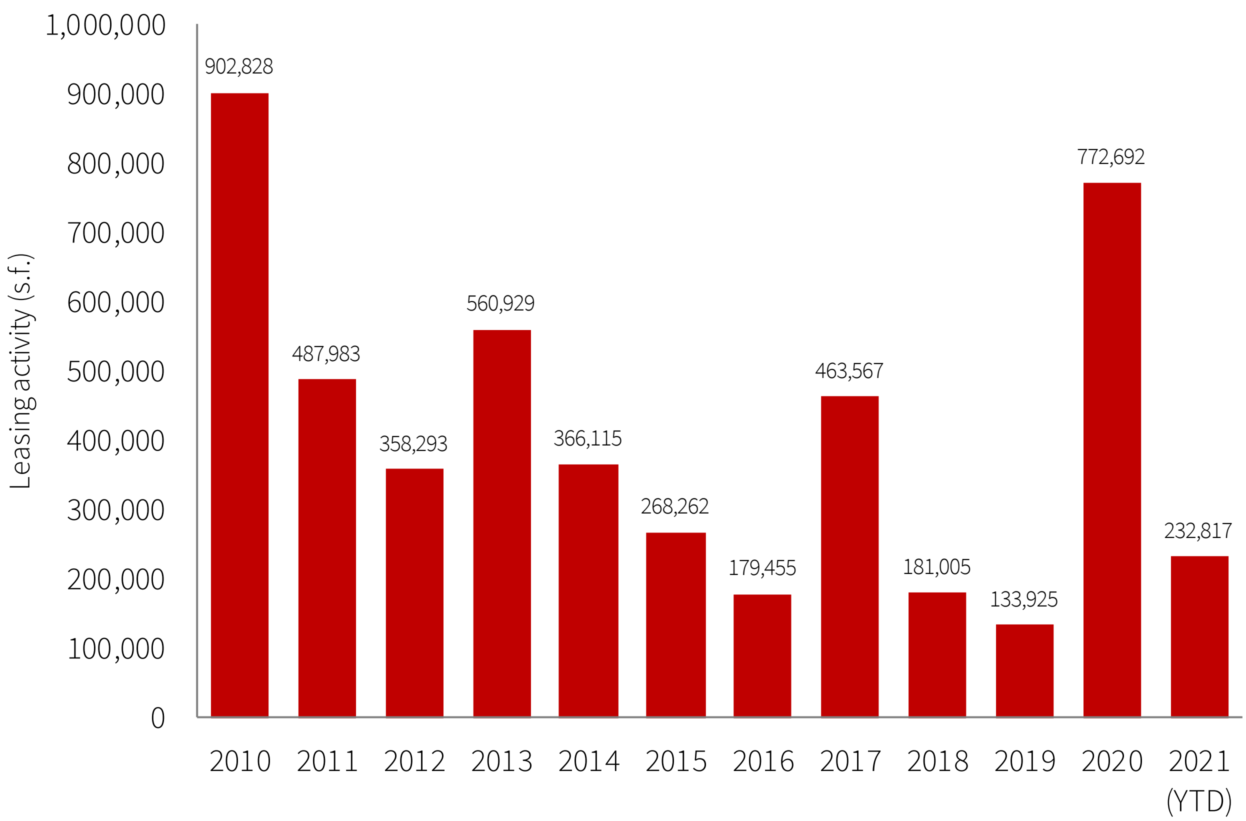
Leasing activity (Sunset Corridor)

The Sunset Corridor saw its strongest year of leasing activity (772,692 square feet) in 2020 since 2010 after averaging 333,282 square feet of transactions from 2011 to 2019. Driving this spike in spite of the pandemic was Nike, which renewed 552,182 square feet of leased space at Evergreen Corporate Park, Parkside and the Cortez Building, largely for a five-year extension. This makes the Sunset Corridor one of the few submarkets with a significant improvement in activity in 2020 and into 2021.

Adding to this was Wells Fargo's renewal at 18700 NW Walker Road for just over 200,000 square feet in October 2020, the largest single lease to take place in the submarket since the onset of the pandemic.

By industry, tech and retail comprised more than half of all leasing since 2010, a lower share than occupancy as Intel's space is mostly owned. Salesforce, McAfee and Microsoft all signed leases larger than 85,000 square feet this cycle.

Professional services and healthcare have also been moderate contributors in recent years. These have mostly been in the 30,000-75,000-square-foot size bracket from users such as SureID, Huron Consulting, 6 Degrees and SureScripts along with a host of medical services operators.



Source: JLL Research

Notable recent leases (Sunset Corridor)


	Wells Fargo	Nike	Microsoft
Address	18700 NW Walker	20510 NW Evergreen	9800 NE Gibbs
Size (s.f.)	211,863	91,084	85,000
Year 1 rent ($ p.s.f.)	-	-	$22.00 NNN
Term (months)	60	60	60
Lease type	Renewal	Renewal	New lease
Industry	Finance	Retail	Tech


	Genesis	Nike	Planar Systems
Address	14600 NW Greenbrier	20500 NW Evergreen	1195 NW Compton
Size (s.f.)	77,395	75,010	72,242
Year 1 rent ($ p.s.f.)	$16.50 NNN	-	$18.00 NNN
Term (months)	132	60	36
Lease type	Relocation	Renewal	Renewal
Industry	Finance	Retail	Manufacturing

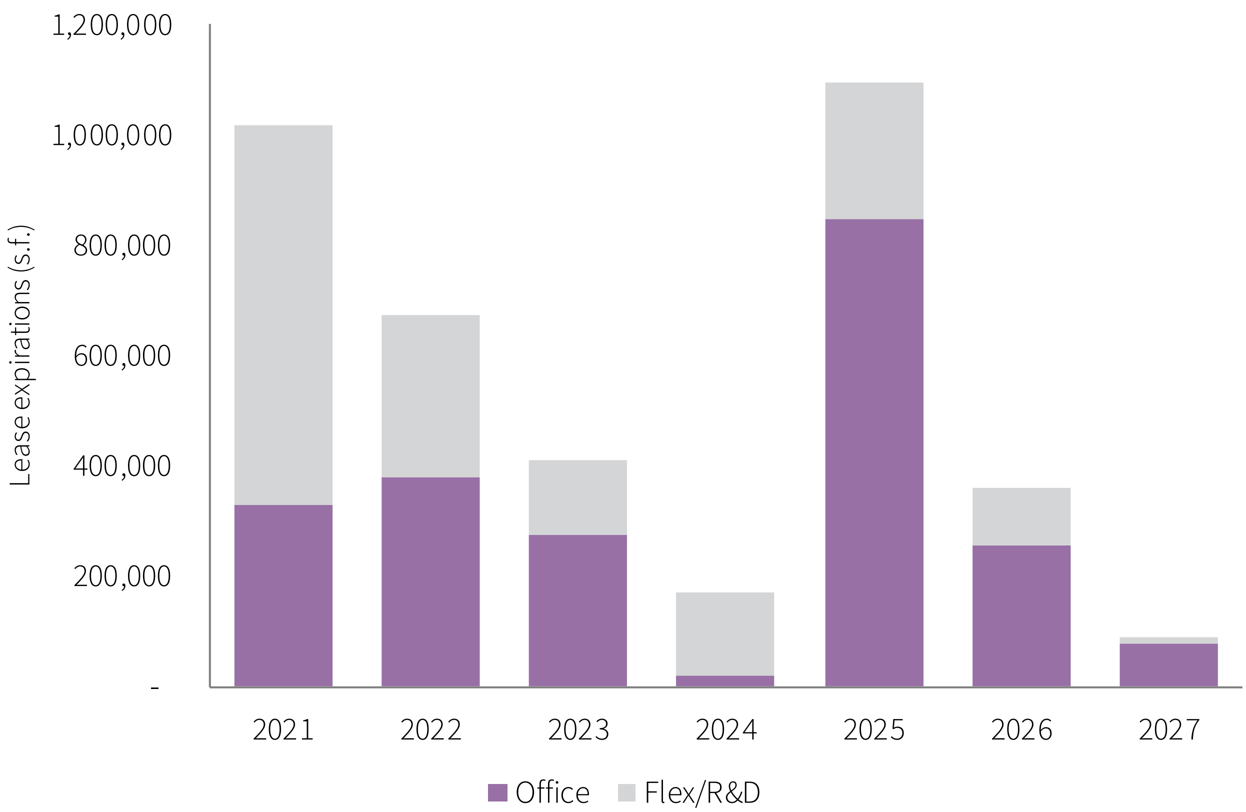
Source: JLL Research

Lease expirations (Sunset Corridor)

Almost half of the tenants in the submarket are expected to roll between 2021-2027 with companies in tech and consumer products industries making up over half of the roll.

Nike is by far the largest tenant in the submarket and they currently lease just under 2 million s.f. off campus. While they have delivered almost 1.5 million s.f. of new office space on campus and have indicated a desire to bring most of their employees back to their World HQ, Nike's employee base is unlikely to all move back and they have renewed at the majority of their off-campus locations.

Other large tenants with roll in the submarket include Wells Fargo, Planar, Salesforce and McAfee.



Source: JLL Research

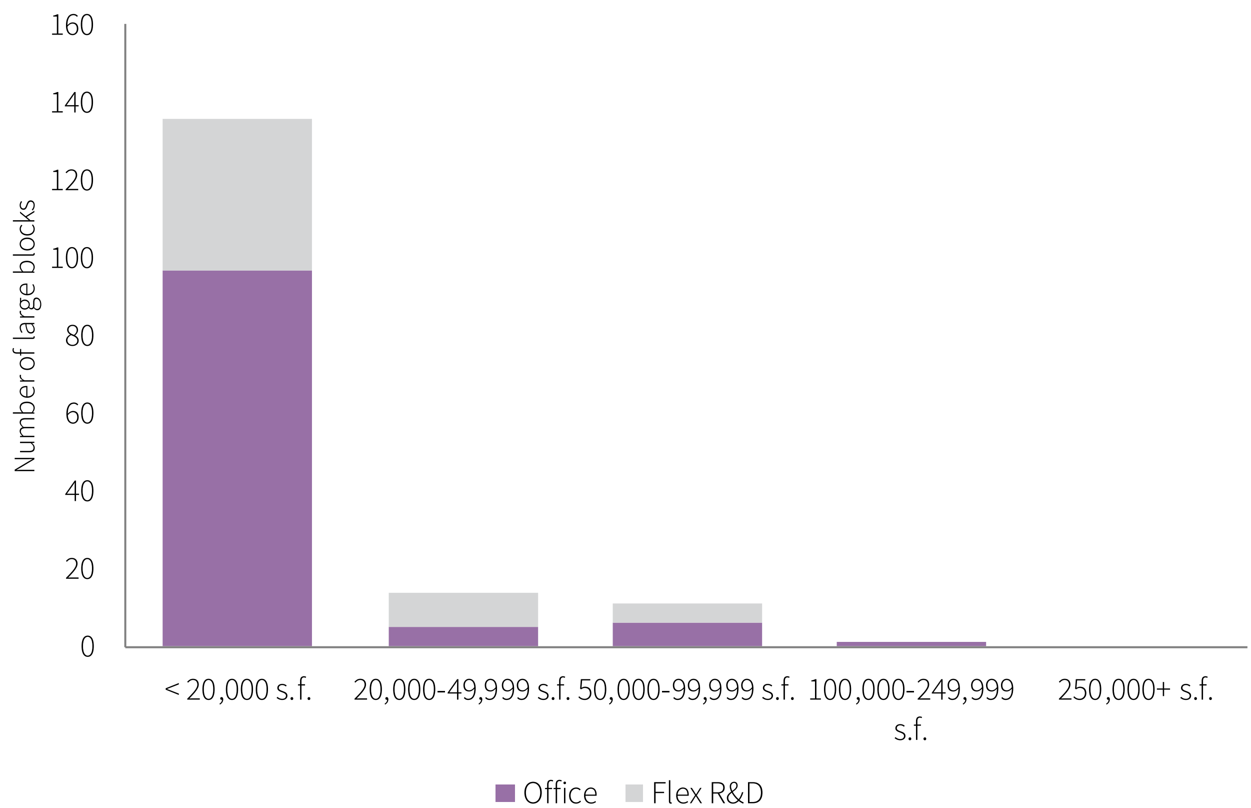
Large availabilities (Sunset Corridor)

The Sunset Corridor has been adversely impacted by the COVID-19 pandemic, with over 485,000 s.f. of negative net absorption since the onset of the virus. However, the majority of the negative absorption can be attributed to Nike and Columbia Sportswear vacating over 550,000 s.f. as both companies announced plans before the pandemic to grow on their corporate campuses in Beaverton.

Without these two companies' pre-planned move-outs, the Sunset Corridor would currently be one of the top performing submarkets in the Portland metropolitan region.

The line between office and flex product in Portland's Westside suburbs is blurred as the majority of flex product is used predominantly for office purposes. Together, the combined office and flex non-owner-occupied inventory in the submarket totals 8.5 million s.f. and is split evenly between office and flex.

The majority of available space in the submarket is smaller blocks, less than 20,000 s.f. , and the only available space larger than 100,000 s.f. is Tektronix's 195,000 s.f. at their 58 Building.



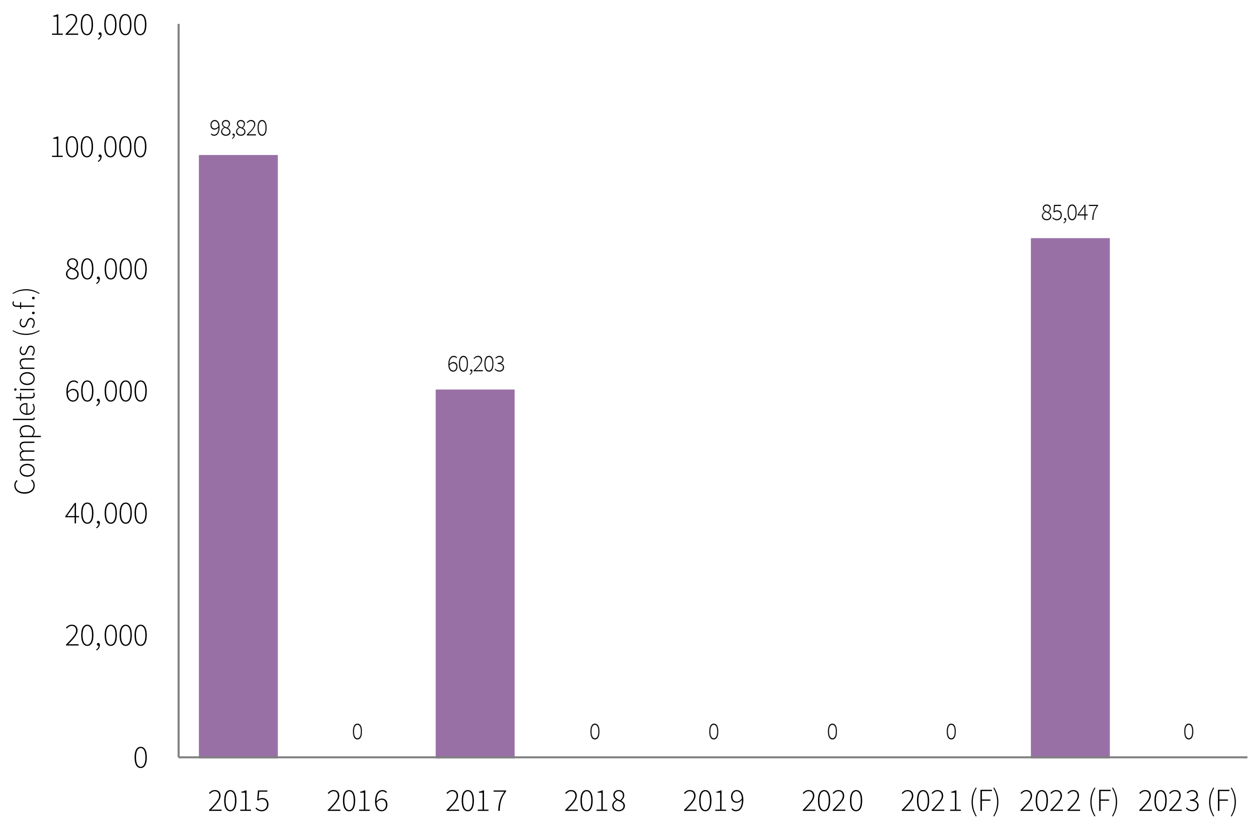
Source: JLL Research

Development pipeline (Sunset Corridor)

The Sunset Corridor's development cycle has been extremely thin, with only 159,023 square feet of new supply delivered since Q1 2015. These two projects – 5505 NE Moore Court, leased entirely to McAfee, and a DHS facility at 15425 NW Greenbrier Parkway – have provided essentially no substantive new supply to one of Portland's largest submarkets, in turn leading to a deficit of needed space and an erosion in competitive advantage.

There is also one office property currently near completion: the 85,047-square-foot renovation of Ambercreek at 9800 NE Gibbs Drive by Southwest Value Partners, which has been entirely leased to Microsoft. As a result, the Sunset Corridor has no new product to meet demand over the short term, which will help to bring down vacancy in the coming quarters but at the same time lead to more tenant migration to submarkets such as the CBD with higher availability in new construction.

A number of development proposals do exist, however, albeit with longer timeframes for construction and delivery. These include a transit-oriented development next to the Sunset Transit Center by Peterkort (172,000 square feet across two buildings) as well as the AmberGlen master plan to the north of Quatama light rail station.



Source: JLL Research

Ownership composition (Sunset Corridor)

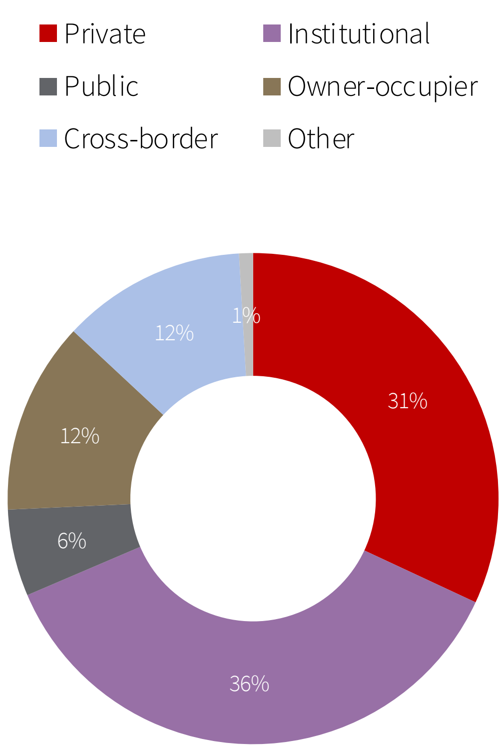
Sunset Corridor's strong tenant base and heightened development activity during the past cycle drive a large supply of institutional-quality office assets which have attracted a diverse pool of owners.

While the market was held entirely by domestic groups in 2010, now roughly 12 percent of Sunset Corridor is held by cross-border groups after large acquisitions by Zurich Financial and Ascendas-Singbridge in 2015 and 2018, respectively.

Early in the cycle, institutional groups were actively acquiring product in Sunset Corridor, acquiring 53 percent of the market by 2015, but many of those holdings have since been sold to private investors.

Large user acquisitions by Intel and Nike in the past cycle drove a sizable presence of owner-occupiers in the submarket. In 2010, less than 3.0 percent of total office inventory was owned by occupiers.

Owner	Owned (s.f.)
Intel	4,562,679
Nike	3,651,456
Tektronix	744,627
City Office REIT	343,187
Principal Global Investors	341,000
Ascendas-Singbridge Group	312,739
City of Hillsboro	296,011
Washington County	269,484
Griffin Capital Corporation	266,841
PCCP	248,881



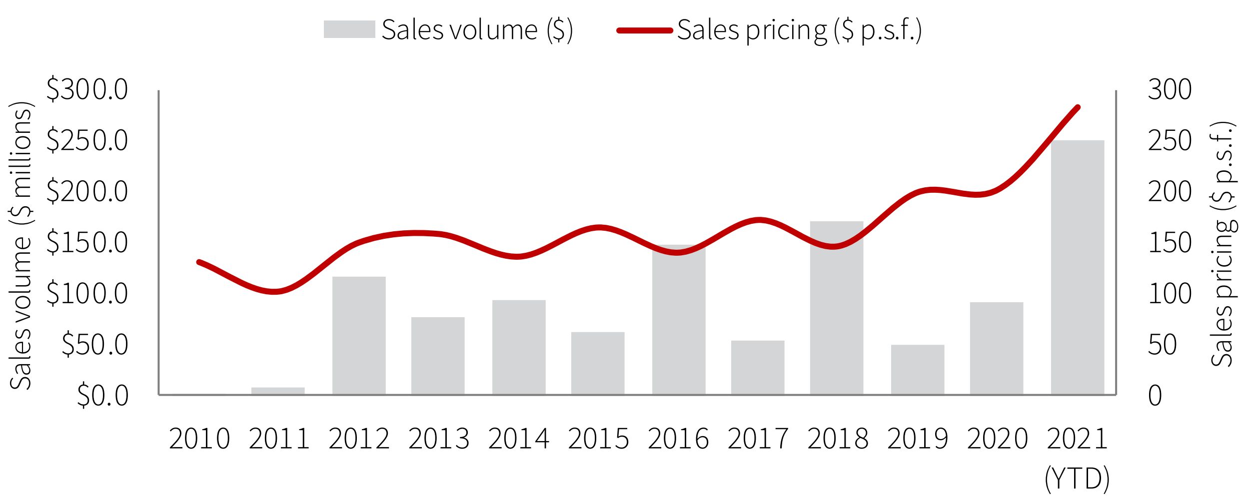
Source: JLL Research, Real Capital Analytics

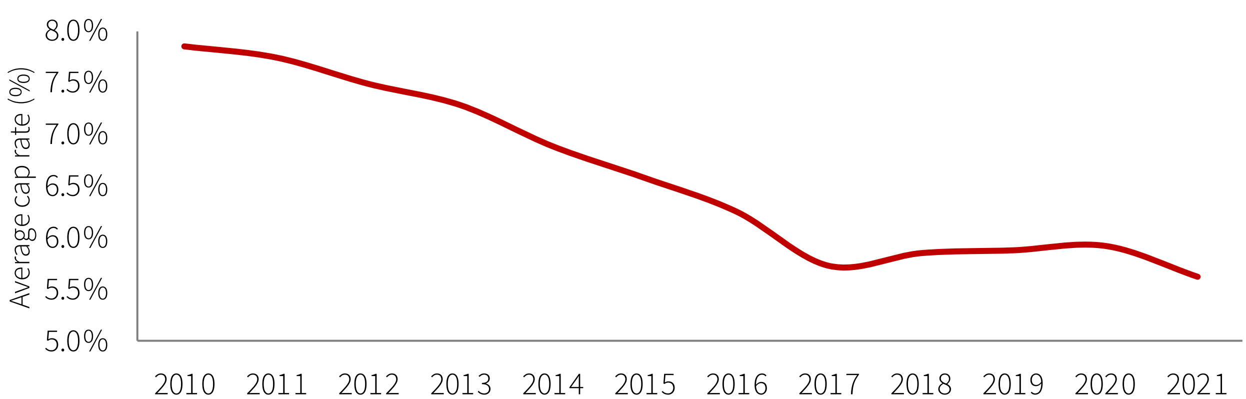
Sales volume, pricing and cap rates (Sunset Corridor)

A 430,000 s.f. data center that traded in Blackstone and BREIT's entity-level acquisition of QTS Realty Trust was the only asset to trade in 2021, but that allocated volume has been enough to drive record volumes for the submarket given the scale of the asset and current pricing for data center product.

Transactions of institutional scale are rare in Sunset Corridor, with the largest single-asset trade of the past cycle being the $45.5 million sale of Evergreen Corporate Center in 2016. Because of the smaller average scale, the avoidance of large-scale transactions caused by the pandemic had minimal impact on Sunset Corridor office investment, and 2020 investment volume actually grew compared to the average annual volume from 2017-2019.

Pricing in Sunset Corridor generally mirrors the broader Portland market in terms of yields; price PSF tends to be lower due to non-core location.





Source: JLL Research, Real Capital Analytics

Notable recent sales (Sunset Corridor)



	Beaverton Creek V	167 E Business Ctr	Sunset Corporate Park
Date sold	2020 Q3	2019 Q2	2019 Q1
Address	2555 SW 153rd	1600-1800 NW 167th	22867 NW Bennett
Submarket	Sunset Corridor	Sunset Corridor	Sunset Corridor
RBA (s.f.)	82,742	79,453	133,700
Sales price ($)	$15,500,000	$15,100,000	$29,000,000
Sales price ($ p.s.f.)	$187	$190	$217
Cap rate (%)	5.91%	N/A	N/A
Buyer	Strategic Office Partners	Garry Vallaster	Kennedy Wilson
Seller	Gloria Gee Living Trust	St. Laurent Properties	Swift Realty Partners



Owner	Sunset Corporate Park III	Sunset Corporate Park	Evergreen Corporate Ctr
Date sold	2018 Q3	2017 Q2	2016 Q2
Address	23175 NW Bennett	22867 NW Bennett	20540 NW Evergreen
Submarket	Sunset Corridor	Sunset Corridor	Sunset Corridor
RBA (s.f.)	103,279	133,700	266,840
Sales price ($)	$34,500,000	$24,500,000	$45,500,000
Sales price ($ p.s.f.)	$334	$183	$171
Cap rate (%)	N/A	N/A	6.21%
Buyer	Crown Realty & Dev	Swift Realty Partners	Griffin Capital
Seller	Washington Capital	Lone Star	Washington RE Holdings

Source: JLL Research, Real Capital Analytics

Submarket outlook

The Sunset Corridor will remain one of the more prominent submarkets in Portland, particularly in comparison to the region's suburban submarkets, having competition largely only with Kruse Way. Benefitting the Sunset Corridor is its status as the anchor of the metro area's two largest office occupiers, its lock on tech and related users in the submarket and an ample supply of space near light rail stations for mixed-use town center-type development.

At the same time, the Sunset Corridor will be challenged by a scant development pipeline limited to one conversion of second-generation product that has been fully preleased. Even with the potential for new construction given market fundamentals and changing expectations, the lag between approval, financing, construction and ultimately completion of new space means that ground-up construction will not be delivered until 2024 at the earliest, leading tenants with multiple geographic options to potentially choose CBD or urban fringe locations, where blocks of new construction remain available.

However, concerns over public safety in Downtown Portland as well as cost and commutability factors will buffer against the worst of this for the Sunset Corridor. Short-term performance will remain consistent, buoyed by a healthy mix of occupiers matching Portland's growth sectors and attraction for inbound companies and residents.

- Access to suburban talent and strong anchors keep the submarket in high demand.

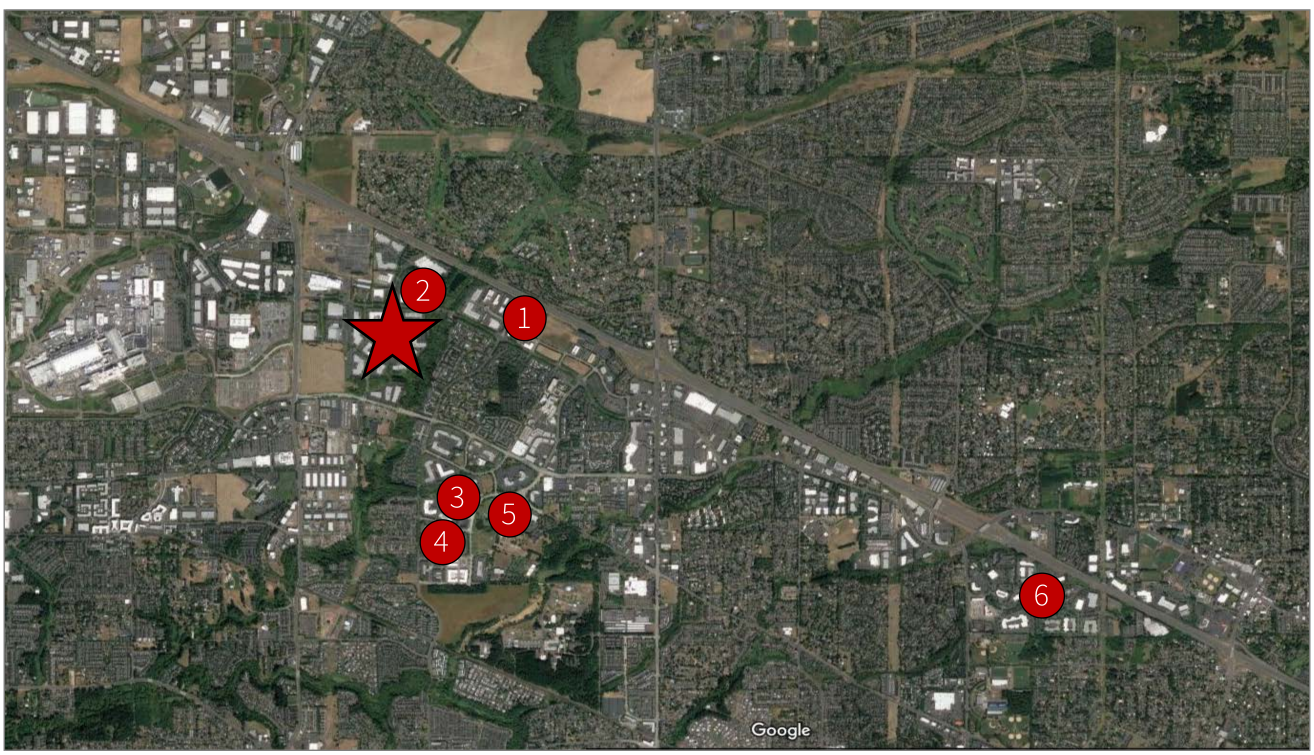
- Limited new supply will help to bring fundamentals back into balance faster than the market overall.

- An aging inventory will reduce the Sunset Corridor's appeal as quality becomes paramount.

Source: JLL Research

Competitive set (Sunset Corridor)

1.	Rock Creek Corp. Ctr.	4.	The Park At AmberGlen
2.	Evergreen Corp. Ctr.	5.	AmberGlen Corp. Ctr.
3.	Trellis	6.	Cornell Oaks Corp. Ctr.



Source: JLL Research

Competitive set (Sunset Corridor)

	Rock Creek Corp. Ctr.	Evergreen Corp. Ctr.
Class	A/B	B
Owner	Lone Star Funds	Griffin Capital Corporation
Year built	1999	1997-2001
RBA (s.f.)	143,424	266,840
Occupancy (%)	42.9%	100%
Availability (s.f.)	81,866	0
Max. contiguous space (s.f.)	67,152	0
Typical floor size (s.f.)	22,000	37,500-91,000
Direct asking rent	$28.00 FSG	N/A
Op-ex and taxes	N/A	N/A
Walk score	46	35
Transit score	32	31
Parking ratio	4.0/1,000	4.3/1,000

Source: JLL Research

Competitive set (Sunset Corridor)

	Trellis	The Park At AmberGlen
Class	A/B	B
Owner	PCCP/Talon Private Capital	Graymark Capital
Year built	1993-2001	1999-2001
RBA (s.f.)	578,808	210,772
Occupancy (%)	63%	25%
Availability (s.f.)	240,683	157,750
Max. contiguous space (s.f.)	58,283	62,747
Typical floor size (s.f.)	23,800-56,350	42,500-63,000
Direct asking rent	$19.00-20.00 NNN	$18.00-20.00 NNN
Op-ex and taxes	+-$9.00	+-$8.00-9.00
Walk score	68	36
Transit score	30	53
Parking ratio	4.0/1,000	4.0/1,000

Source: JLL Research

Competitive set (Sunset Corridor)

	AmberGlen Corp. Ctr.	Cornell Oaks Corp. Ct.
Class	B	B
Owner	Swift Real Estate Partners	CapitaLand (Ascendas-Singbridge Group)
Year built	1984-1987	1982-1999
RBA (s.f.)	148,409	692,673
Occupancy (%)	71%	77%
Availability (s.f.)	42,596	206,244
Max. contiguous space (s.f.)	21,683	35,250
Typical floor size (s.f.)	25,000	20,000-75,000
Direct asking rent	$24.50 FSG	$16.00-17.50 NNN
Op-ex and taxes	N/A	+-$9.00
Walk score	72	28
Transit score	48	32
Parking ratio	4.0/1,000	4.0/1,000

Source: JLL Research

SWOT analysis

Strengths

- Buildings are in good condition
- Good credit tenants
- Above-standard parking

Weaknesses

- Lack of walkable amenities
- Ambiguity on wayfinding – buildings are spread apart
- Location in the submarket is further West than a lot of competing properties

Source: JLL Research

SWOT analysis

Opportunities

- Improve wayfinding with signage
- Bring amenities to location (e.g., food carts, patios, fitness facilities)
- Tenants from urban core looking at suburban locations

Threats

- A lot of competing space currently on the market
- Location is heavily reliant on 2 major employers; Nike and Intel
- While there is currently no new construction, several parcels are available to be developed into quality Class A space

Source: JLL Research

Property outlook

The region's reliance on High-Tech manufacturing and Footwear & Apparel cannot be ignored. While Intel does not currently lease office space off campus, in past cycles the company has used the Sunset Corridor as expansion space while it develops on campus. The ecosystem that Intel has created has given rise to hundreds of suppliers, which serve Intel and the broader semi-conductor manufacturing industry. The proximity to Intel can be seen as an advantage during times of campus expansion, which the company is in the process of doing.

While Intel's ancillary network is the driver of leasing from the Semiconductor industry, with Footwear & Apparel, Nike and Columbia Sportswear have traditionally been the largest lessees of space in the submarket. This is currently presenting unique challenges for the submarket because even as these two companies expand and are employing more workers, they have pivoted from leasing new space and preferred to build out their owned campuses. Nike's recent renewal at Tanasbourne Commerce Center, even while they delivered new space on campus, indicates a long-term commitment to the property as they have chosen to let leases at AmberGlen, Cornell Oaks and Tekronix expire.

Together with the park's other two major tenants, Tokyo Electron and Kaiser Permanente, the WALT of the park is longer than most other competitive properties, providing more time to ride out the current market uncertainty, whereas other high-occupancy properties do not have this luxury.

While the assets are in good condition and of high quality, changes to wayfinding and adding amenities to compete with the likes of Trellis, AmberGlen Corporate Center and upcoming renovations at The Park At AmberGlen, will go a long way to keep existing tenants happy in their current space.

- Stability and growth potential from the region's two key industries: High-Tech manufacturing and Footwear & Apparel

- Current WALT of existing tenants gives breathing room to ride out current market uncertainty

- Modest changes to wayfinding and amenities can buy favor with existing tenants

Source: JLL Research

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