2013 COMMERCIAL REAL ESTATE

ECONOMIC FORUM

FEBRUARY 21

SALEM CONFERENCE CENTER

2ND FLOOR
WILLAMETTE RIVER ROOM
201 LIBERTY STREET SE
SALEM, OREGON

7:00
NETWORKING

7:45
BREAKFAST SERVED

8:00
PROGRAM BEGINS

9:30
CONCLUSION

presented by

Sperry Van Ness.
Commercial Advisors, LLC

sponsored by

WELLS FARGO

CDREDDING CONSTRUCTION

Saalfeld Griggs PC

FH&A

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2013 INDUSTRIAL MARKET UPDATE

SEDCOR

MISSION STATEMENT

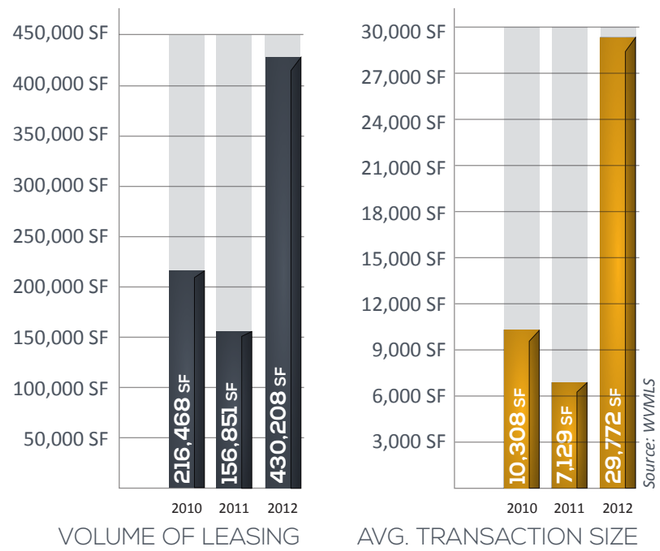
Leverage the strength of our Public/Private partnerships, aggressively retaining and attracting high value jobs and capital investment, while providing member services that support business success in Marion and Polk Counties.

INDUSTRIAL SALES

YEAR	VOLUME
2012	$9,474,498
2011	$1,540,000
2010	$5,241,000
2009	$1,318,998
2008	$11,400,000
2007	$14,420,400
2006	$25,746,992
2005	$7,084,700

While the volume of leasing dramatically improved in 2012, this number is deceiving. More than half of this volume was in two short-term leases to both Kettle Chips and Norpac (6 months) and in Kettle's eventual expansion within the same building. The last time an industrial user signed a lease for more than 40,000 SF in a new building (to the user), for more than a one year lease, was 2009.

INDUSTRIAL LEASING



The lack of large–scale industrial leasing activity, combined with strict bank underwriting, will hamper significant new development for the next couple of years. That being said, the cost of capital is so low it is expected one or more owner-users will look to build in 2013-2014. Some of these projects may include additional square footage offered for lease.

12.3% The vacancy factor, which finished at 12.8% in 2011, will finish 2012 at 12.3% based upon no new construction activity and modest gains in leasing activity. The average asking rent for leases closed in 2012 was $.33/SF per month, modified gross. Final effective rents were likely far below that amount because of continued concessions. With leasing activity still well below pre-recession levels, we have seen many landlords reducing asking rents in above–average facilities to as low as $.23/SF, modified gross to attract the few tenants that are in the market.

SEDCOR

SEDCOR is a private membership–driven organization leading efforts to develop the economy in the Mid- Willamette region.

SEDCOR is currently working with a portfolio of companies evaluating projects to potentially invest over $144M in the local economy. If made, these investments are expected to add approximately 1,600 jobs to the region. These projects include companies looking at expansion and recruitment within the Salem region.

MILL CREEK CORPORATE CENTER

Source: SEDCOR

- 480 Acres of flat, shovel–ready land, from $2.50/SF
- Turn key development opportunities
- Employment center zoning for industries such as manufacturing and distribution
- Enterprise zone with 3 to 5 year property tax abatement for eligible firms locating on Phase 1C.
- Expedited and concurrent permitting where construction could occur in less than 180 days.
- Wetland and environmental permitting complete
- 100 Acres of open space/natural area

	VACANCY	RENTS	CONSTRUCTION	ABSORPTION
2012	↓	↓	↕	↑
2013	↓	↕	↑	↑

Source: Sperry Van Ness Commercial Advisors, LLC

NOTEWORTHY PROJECTS

FORMER LOOSE ENDS
2065 MADRONA AVE SE
Sold to: Gilgamesh Campus, LLC
Price: $1,075,000
Notes: 17,476 SF on 2.78 acres

FORMER SENECA FACILITY
1746 OXFORD STREET SE, SALEM
Leased to: Kettle Foods
Size: 118,000 SF
Notes: Expansion from 60,000

FORMER SUMCO SOUTH
3950 FAIRVIEW INDUSTRIAL DR SE
Sold to: Local Investor
Price: $5,967,500
Notes: 189,376 SF on 10.5 acres

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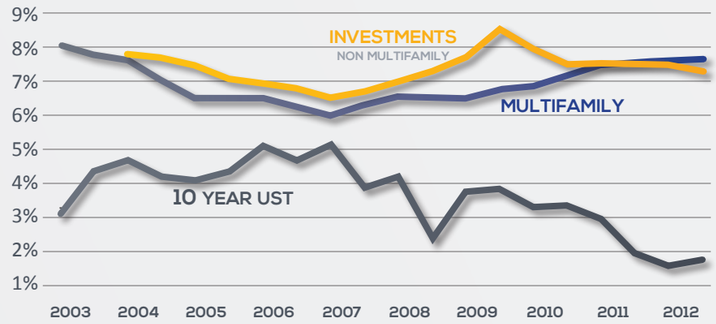
2013 INVESTMENT & MULTIFAMILY MARKET UPDATE

Sperry Van Ness.
Commercial Advisors, LLC

Multifamily and investments have not followed the same path this year. Quality inventory for investment properties has driven cap rates down, with continued investor demand and favorable lending rates. Multifamily projects coming to the market are largely "B" quality or distressed assets, which puts upward pressure on cap rates. This drives values down despite lending opportunities.

REGIONAL CAP RATES & 10 YR TREASURY



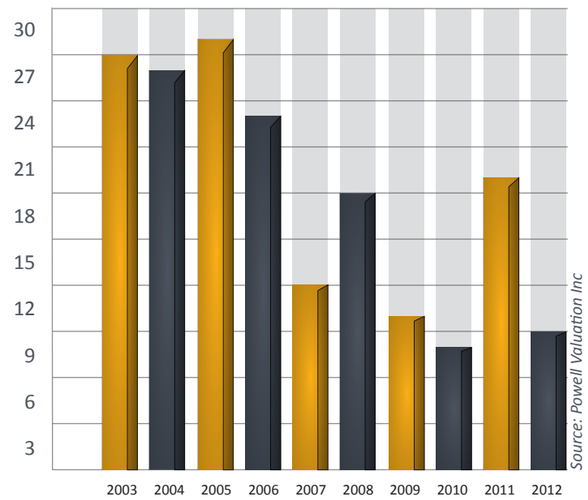
Source: Powell Valuation Inc and Sperry Van Ness Commercial Advisors, LLC

2012 RECAP

In 2012 high–quality supply drove prices up and low–quality supply drove prices down. In spite of relatively flat rents in the multifamily market, due to decreased vacancy and Landlord's increased tenant bill-backs, net operating income was up. Buyers of all investment types were plentiful, but were seeking only quality projects, either in terms of investment quality or aggressive pricing. Fewer buyers today are willing to take on moderate risk for moderate return. Moderate risk needs to be met with high upside potential, and high-risk properties require even more upside potential return in today's market.

MULTI-FAMILY 2012 was a year driven once again by yield. Multifamily continues to be the investor's darling, and dominates sales nationally. National investors continued looking toward smaller markets to achieve yield. However in both multifamily and traditional investments, lack of quality supply hinders transactional volume in Salem and surrounding areas.

MULTIFAMILY SALES



Source: Powell Valuation Inc

Transaction volume declined significantly in 2012, and the exact cause is difficult to pinpoint. There were investors in the market and favorable lending terms, so a lack of inventory is likely the main cause. Although Portland's sales volume was down as well, it was much less significant than the valley.

2013 PREDICTION

Based on current trends, lending rates are expected to remain widely unchanged. This leaves opportunity for investors to continue to capitalize on positive leverage. The question remains, "Will sales lag like last year?" If there isn't quality inventory available for sale, we will continue to see modest movement. Owners are still playing close-to-the-chest, hoping for a stronger rebound before selling. However, our analysis points toward this being an excellent time for owners to sell, based on continued downward pressure on cap rates across most investments.

3.1% MULTIFAMILY

CURRENT VACANCY - In 2012, vacancy continued to drop, which lead the way for savvy investors to capitalize on the growing demand. With healthy vacancy hovering closer to 5%, it is clear that our demand outweighs supply. Assuming a market of 20,000 units, with vacancy at 3%, that is 600 units available, in a market that should have 1,000 units available. This shows there is immediate room for 400 units, which is supported by the increase in development in 2012.

	CAP RATES	INTEREST RATES	# OF TRANS.	DEVELOPMENT
2012 MULTIFAMILY	↓	↔	↓	↑
2012 INVESTMENT	↔	↔	↔	↔

Source: Sperry Van Ness Commercial Advisors, LLC

NOTEWORTHY PROJECTS

Salem Center Mall
Sold to: Gregory Greenfield & Associates
Price: $43.5 Million
Notes: 76% LTV at 4.8%, 61 mo. term

Good Samaritan | Corvallis, OR
Sold To: Private Buyer
Price: $2,990,000 **Cap:** 6.4%
Notes: 1031 Exchange, 3 year firm term remaining

Oil Can Henry's | Salem, OR
Sold To: Portland Buyer
Price: $1,215,000 **Cap:** 6.95%
Notes: 15 Year firm term remaining, sold above asking price

Brooktree Apartments | Salem, OR
Sold to: Private Buyer
Price: $2,250,000 **Cap:** 7.06%
Notes: 44 Units, at $51,136 per unit

Arboretum | Salem, OR
Sold to: Private Buyer
Price: $2,000,000 **Cap:** 6.55%
Notes: 23 Units, at $86,956 per unit

Meridian | Salem, OR
Sold To: Killian Pacific
Price: $8.5M **Cap:** 6.0% PROFORMA
Notes: 85 units, mixed-use. Distressed loan amount, $36.2M

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2013 OFFICE MARKET UPDATE

Sperry Van Ness.
Commercial Advisors, LLC

$1.59

Average asking rents for the year finished at $1.59/SF, full service, up from $1.53 in 2011. High–end Class "A" buildings can demand $2.00-$2.45/SF but most leasing activity is in the $1.40-$1.75/SF range.

2012 RECAP

The news is not positive. 2012 saw the weakest market activity in more than fifteen years sending vacancy rates to their highest in recorded history. The problem is it is difficult to pinpoint a consistent theme driving the vacancy.

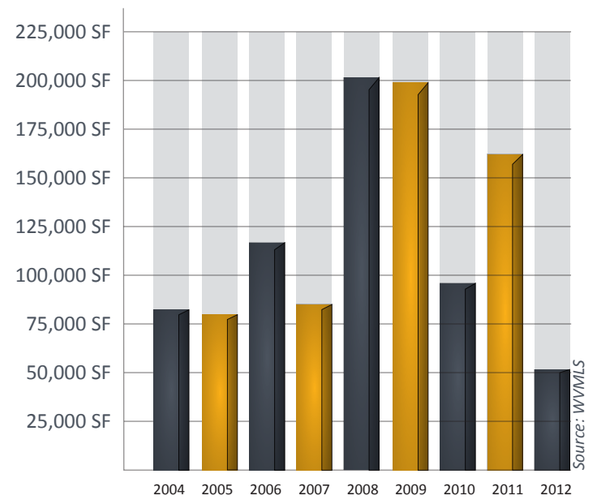
Multiple Suburban Class "A" buildings became vacant during the past year driving that sub-market to greater than 30% vacancy. Landlords should prepare to provide concessions to drive deals in this sub-sector.

CBD Courthouse Square, the structurally condemned former home to Marion County and the Transit District, is being remodeled with an expected completion date of Spring, 2014. Downtown will see renewed occupancy but vacancies will suffer as the agencies vacate more than 75,000 SF they currently lease in the private sector.

MEDICAL The one bright spot in the market is medical buildings. With single–digit vacancy and continued growth in demand, there are at least three ground–up developments planned for 2013. PacTrust is building 40,000 SF on Kuebler, anchored by Salem Clinic.

Silverton Health will jump into the market with a new clinic in Keizer and a significant private development will occur in 2013-2014 at Mission and 12th Street.

LEASING VOLUME



Leasing activity fell to 2003 levels with slightly over 56,000 SF of new office leases finalized in 2012. We are forecasting a strong year in 2013 with more than 120,000 SF of new leases. Absorption was negative 96,000 SF.

STATE OF OREGON The State of Oregon, which leases approximately 25% of the office space in the market, suspended 51 negotiations on lease renewals statewide for leases of 10,000 SF or more on January 25th as they explore an Executive Order to change lease practices statewide. The goal is take advantage of the market by further reducing occupancy costs, and receive leasing concessions comparable to what is happening in the private sector.

In 2013, we expect to see at least four State of Oregon needs hit the market that will require 30,000 to 100,000 or more square feet in addition to the Department of Fish & Wildlife finalizing their move out to Fairview Industrial Drive.

2013 PREDICTION

We are tracking 5-6 tenants with requirements of 20,000 to 75,000 SF, so 2013 is shaping up to be a much stronger year. The State of Oregon, at least three medical users, and two call centers are driving the activity. We anticipate rents on existing buildings to hold steady and vacancy to drop by 1-3%.

New development will all be medical related in the coming year. Kaiser Permanente is active in the market, looking for a fourth location and seems to be focused on North Salem/Keizer. Both Salem Clinic and Silverton Health will be expanding their footprint in the market, and Mission Medical Imaging is spearheading a new four-story development at Mission and 12th Streets.

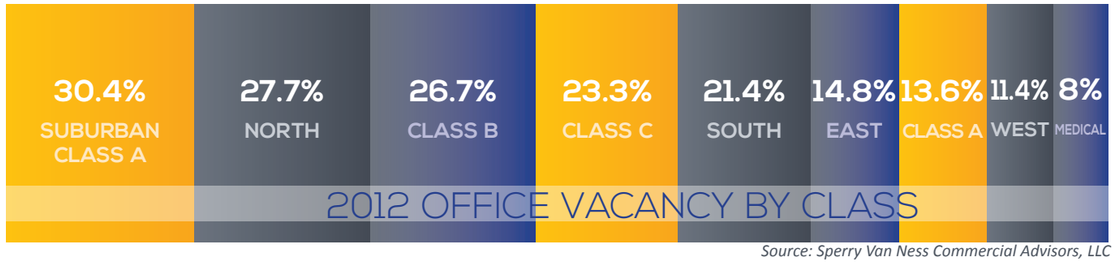
MARKET STATISTICS

As the rest of the market continues to rebound, the office market in Salem/Keizer bottomed out in 2012. Market activity was the weakest in more than fifteen years, sending vacancy rates to their highest in recorded history. The difficult thing is — we have no central theme as to why.

The Suburban Class "A" market was the hardest hit, with vacancy rates currently exceeding 30% as three buildings of more than 60,000 SF lie empty. Average asking rates actually climbed slightly for the year, finishing at $1.59/SF, per month, full service.

22.1% VACANCY

The Salem/Keizer office market finished 2012 with a vacancy of 22.1%, based on our analysis of 3,942,000 SF. The square footage surveyed increased 400,000 SF in 2012. That vacancy is up dramatically from 14% in 2011. West Salem, Medical and Class "A" downtown remained our healthiest sub-markets for the second year in a row because of stable supply and strong demand.



Source: Sperry Van Ness Commercial Advisors, LLC

NOTEWORTHY PROJECTS

SALMON RUN
1750 MCGILCHRIST STREET SE
Leased to: VA Medical Clinic
Size: ≈30,000 SF
Notes: Locating next door to Social Security.

PacTrust KUEBLER PROJECT
SEC OF BATTLECREEK AND KUEBLER
Rents: $21/SF NNN
Size: 15,000 SF
Notes: Adjacent to Salem Clinic

NEW MEDICAL DEVELOPMENT
1155 MISSION ST SE
Timing: Delivery early 2015
Anchor: Mission Medical Imaging

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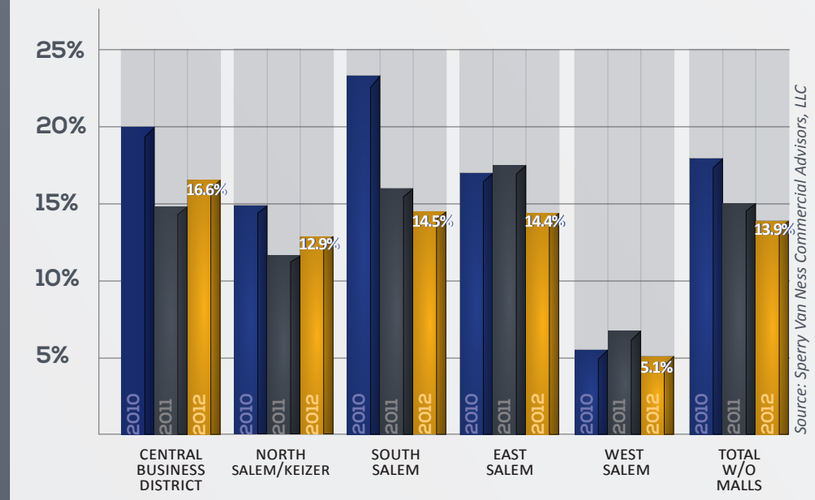
2013 RETAIL MARKET UPDATE

Sperry Van Ness
Commercial Advisors, LLC

$2.82

The annual NNN lease rate provided to Big Lots for their relocation on Lancaster Drive. This deal makes the building worth just over half (on a per SF basis) of what two vacant Lancaster buildings sold for in 2010. This lease rate is less than average warehouse rates.



Source: Sperry Van Ness Commercial Advisors, LLC

2012 RECAP

2012 felt better than 2011, and better than the current vacancy numbers demonstrate. Of all the properties tracked in the survey, 35 properties lowered vacancy and only 14 increased vacancy. This is good news. However, 29 properties with vacancy did not change their occupancy at all in 2012. Some of these properties, such as the former Six Ultra Lounge, Home & Dining Collections, Parrots, and GI Joes have been vacant for so long, there appear to be more than normal market forces affecting these continued vacancies.

SOUTH In South Salem, there was a tremendous amount of activity, but because of relocations, the vacancy only improved by 1.5%. There was over 20,000 SF of absorption in that trade area last year, and 15 properties improved their vacancy in 2012.

CBD Downtown continues to be plagued by some notable properties that continue to need to be redeveloped. The Metropolitan has a tenant for 2,300SF, and the Roth & McGilchrist buildings will be redeveloped in 2013. The closings of Clockworks, Pete's Place and Mings have hurt vacancy.

WEST In West Salem, the market improved due to Subway locating a new store in the drive-through endcap at Edgewater Crossing which should be open later this year and Muchas Gracias opening at 710 Wallace Road.

2013 PREDICTION

I expect a bit of a speed bump in 2013, depending on your vantage point, but there will be bright spots: the new Natural Grocers on South Commercial, another Panera (hopefully), redevelopment of Roth/McGilchrist in the CBD and continued absorption of newer and well-located properties. However, a number of currently vacant properties will continue to be vacant not only due to a generalized lack of tenant demand, but also because the spaces lack retail synergy or amenities, or have owners who will not respond to current market forces, either because of capital constraints or unrealistic expectations. There may be pockets of new development in response to specific tenant or owner-user demand, but it will likely be limited.

NORTH KEIZER The closing of Roth's Fresh Market and continued vacancies of the former Circuit City and Office Depot artificially inflate the vacancy in Keizer, which increased to 12.9% in 2012. Body Renew Fitness' opening at Keizer Village and Snap Fitness at Keizer Creekside were bright notes for River Road last year, as well as Panera's opening at Keizer Station.

EAST The East Salem trade area absorbed over 50,000 SF in 2012, which helped improve the vacancy rate by 3%. Planet Fitness, Big Lots and Party Mart were big contributors to the positive absorption. Very few closures in the area also helped keep the vacancy trends moving in the right direction.

VACANCY RECAP

The overall vacancy improved just over 1% last year. For the second year in a row, we see sub–sectors trending in different directions because of changing demand factors. The 2012 bright spot is East Salem, where vacancy decreased 3%. The CBD and North Salem/Keizer areas both increased vacancy due to some larger business closures. In South Salem, almost half the vacant space is accounted for in the former Safeway and GI Joes. West Salem continues to be healthy.

10 BUILDINGS

At the beginning of 2010, 12 retail spaces larger than 20,000 SF were vacant. By the end of 2012, ten of them had been backfilled. This is tremendous news, but unfortunately, it took record low rents to drive some of these deals to completion. This compromises overall investment value, which further delays feasibility of new construction, except in limited cases.

	VACANCY	RENTS	CONSTRUCTION	ABSORPTION
2012	↓	→	→	↑
2013	↓	↕	↑	↑

Source: Sperry Van Ness Commercial Advisors, LLC

NOTEWORTHY PROJECTS

HILFIKER SQUARE
4450 COMMERCIAL ST SE
Leased to: Weight Watchers & Tuesday Morning
Sold to: Phillips Edison - 7.41% cap
Notes: Closed December 2012

ROTH MCGILCHRIST
102-120 LIBERTY & 415 STATE STREET
Sold to: Salem-based LLC
Price: $870,000
Notes: Multi-million dollar redevelopment - retail/residential

JIMMY JOHNS
601 LANCASTER DRIVE NE
Leased to: Redhawk RG II, LLC
Size: 1,707 SF
Notes: Salem's second Jimmy John's Gourmet Sandwiches