DUNCAN & BROWN
OFFICE & RETAIL REPORT
2004

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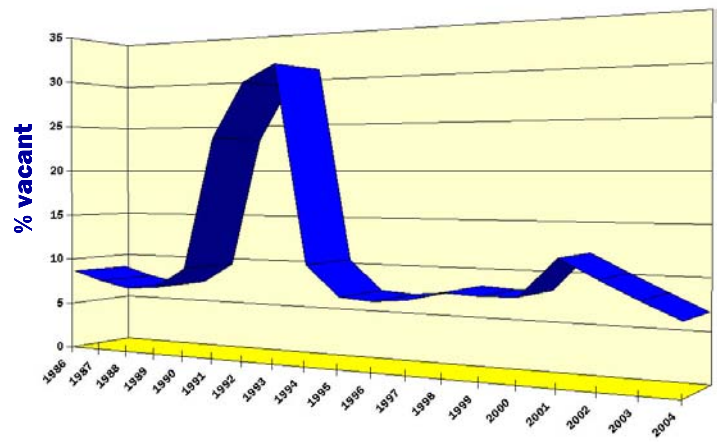
Fourth year of decline in downtown retail vacancy rate



DOWNTOWN RETAIL VACANCY

The 2004 retail vacancy rate of 6.85% continues the trend of declining overall retail vacancies in the downtown core area that began in 2001. Sixteen of the 19 spaces that were vacant on the current survey were also on the 2003 survey, based on street addresses. The Aurora Building, located at 11th and Oak, increased the base survey by approximately 6,600 square feet. As of the survey date, none of the space was leased.

The vacant spaces range in size from 660 square feet to over 6,600 square feet. Few vacant spaces have on-site parking with the lease offerings. Most have close proximity to metered parking. The asking rental rates range from a low of approximately $0.50 per square foot to a high of $1.45 per square foot with terms varying; however, the predominant rental rate was on a triple net basis. Modified gross rents, where the landlord pays the base year taxes and insurance, range from approximately $1.00 per square foot to $1.30 per square foot.

Survey Date	Area Surveyed (sf)	Vacant Space (sf)	Vacancy Rate
1986	740,794	63,848	8.62%
1987	751,952	57,838	7.69%
1988	753,947	52,707	6.99%
1989	759,347	55,174	7.27%
1990	753,445	71,046	9.43%
1991*	929,922	218,132	23.46%
1992*	939,922	274,979	29.26%
1993†	1,022,302	317,392	31.05%
1994‡	780,901	81,408	10.42%
1995	780,301	56,990	7.30%
1996	721,863	50,829	7.04%
1997	735,026	54,148	7.37%
1998	737,610	61,152	8.29%
1999	737,610	59,587	8.08%
2000	761,165	62,310	8.19%
2001	734,565	88,034	11.98%
2002	711,565	72,269	10.16%
2003	711,565	60,274	8.47%
2004	**718,165**	**49,219**	**6.85%**

** Includes the Sears & Bon Marché buildings.*
† Includes Sears, Bon Marché & Rubenstein's buildings.
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Several factors have contributed to the continued decline of vacancy rates. Over the past several years, the absorption of the former Anderson's Sporting Goods store, Heron Building and Broadway Place leasing, as well as conversion of several of the buildings on Willamette and Pearl street from retail to office, have resulted in the overall decline. Another factor is the absorption of the space at One East Broadway, which was in escrow at the time of the survey.

Despite record high office vacancy rates in the core area, the retail sector has been doing relatively well, all else considered. Convenient, affordable parking, as well as the need for attracting major employers to the core area, continue as the most commonly-cited issues facing downtown retailers. Anticipation of the new ORI building, to be located at 10th and Charnelton, and the possible leasing of the Aster Building, have created cautious optimism among some retailers.

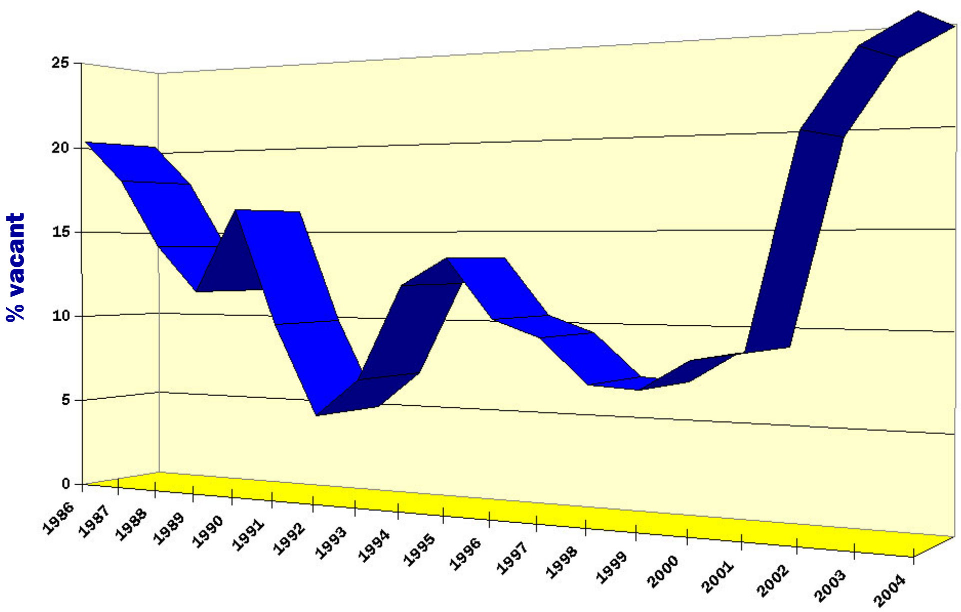
The library has been a major attraction for bringing considerable numbers of people during normal business hours, as well as nights and weekends. In addition, conversion of the former First Baptist Church to The Shedd Concert Hall at 868 High Street, as well as the revitalization of the McDonald Theater, are all considered very positive factors for the overall health of the downtown economy.

The anticipated groundbreaking for the federal courthouse, although not located in the boundaries of the survey, will also have a positive effect on the overall market appeal for the greater downtown core area. However, until there is a substantial increase in both office occupancy and downtown housing, it is anticipated that rents and occupancy levels will remain relatively unchanged for the next 24 to 36 months.

The downtown Eugene core area survey boundaries are 5th Avenue to the north, 11th Avenue to the south, High Street on the east, and Charnelton Street on the west. The survey specifically excludes such special use properties as owner-occupied banks, special service buildings, and others not considered indicative of the rental market. The Lane County Assessor's records and office files were relied upon to estimate the building areas.

The primary intent of this survey is to document trends within the survey boundaries. Some subjectivity was required in the classification of vacant space when the landlord allows either retail and/or office uses.

Downtown office vacancy remains high



DOWNTOWN OFFICE VACANCY

The current vacancy rate of 24.88% is again the highest rate indicated since this survey began in 1986. As previously stated, the downtown surveys conducted in the mid-1970s indicated an office vacancy rate in the range of 35%; however, there was a much smaller base from which measure the vacant space, and the Citizen's Building was in the absorption period; this, based on today's standards, skewed the statistics.

Two major factors are recognized as continuing to contribute to the higher than normal vacancy rate in the core area. The Symantec Building remains unoccupied and comprises the largest unoccupied space in the core area. Not included within the 2003 survey was the space recently vacated by Advanstar, which was located in the Aster Publishing Building. Several factors are also cited as more attributable to the higher than normal office vacancy rate: as previously stated, both Symantec and Advanstar left the downtown core area, creating large voids of unoccupied space; the addition of the 10th and Mill Building created an additional approximate 66,000 square feet (however, leasing activity has been relatively good and, if the trend continues, the building should reach stabilized occupancy in the near future); the recent completion of the downtown public library resulted in the City of Eugene vacating several structures in the downtown core area.

Upon completion of the federal courthouse, additional vacancies in the core area are anticipated, either by vacating federal agencies currently occupying structures in private ownership, or by new construction closer to the federal courthouse. Other factors affecting the future of the downtown core will be the movement of the PeaceHealth facility from 11th and Willamette to other locations, thus potentially allowing approximately 5 acres of commercially-zoned land to be developed, most probably as a combination of office/retail.

Approximately 91% of the total vacant space is contained within six structures. The majority of the vacancies are large spaces, in excess of 15,000 square feet. Asking rates range from \$0.60 per square foot on a full service basis to \$1.65 per square foot; the predominate range was from approximately \$1.10 per square foot to \$1.50 per square foot. Tenant improvement allowances continued to range from approximately \$20.00 to \$35.00 per square foot, depending on the type of build-out, tenant requirements and proposed lease terms. Few of the vacant spaces included parking in the offerings; however, those who did typically offer parking on the basis of 2.5 spaces for every 1,000 square feet of rented area.

Over the past decade, the have been numerous efforts that have helped build the foundation for a revitalization of the core area. These actions include the opening of Willamette, Broadway and Olive Streets to vehicular traffic, construction of the downtown library and the LTD transit station, improved downtown security and reestablishment of the property tax exemption for certain types of housing developments in the core area. However, the availability and affordability of convenient parking continues to be a major impediment to the financial success of the downtown core development. The recently formed committee to consider a new civic center, including city hall, police station and other civic buildings, provides a vision for enhancing the overall appeal for the downtown core with respect to the government sector. The anticipated ORI development at 10th and Charnelton, coupled with several housing projects on the periphery of the core, all lead to anticipation of renewed development activity on the core.

Primary economic factors for the short-term will be the construction of the federal courthouse and development on its periphery. In addition, the speculation surrounding Triad Hospital obtaining the EWEB headquarters property results in cautious optimism that the greater downtown core area will receive resurgence in demand and market appeal. There are no known major tenancies pending; however, the Aster Building is currently in escrow pending sale, though no known owner/user is reported to be anticipating utilizing the space. The short-term outlook for the downtown core area is unchanged from that discussed in the 2003 survey. For the short-term (2 to 3 years), no significant changes are anticipated, except gradual absorption of the abundant supply of readily tenable office space.

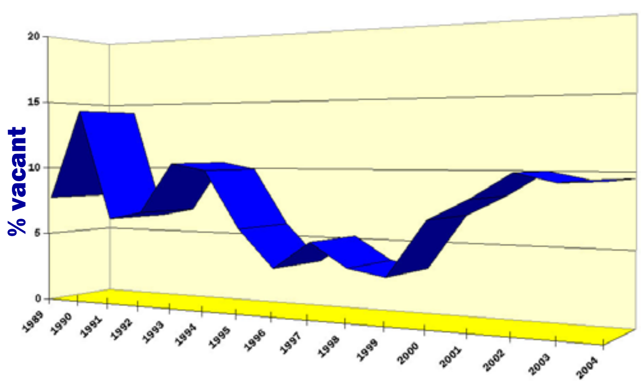
Survey Date	Area Surveyed (sf)	Vacant Space (sf)	Vacancy Rate
1986	557,856	113,546	20.35%
1987	541,626	97,450	17.99%
1988	560,584	79,340	14.15%
1989	564,800	65,342	11.57%
1990	607,304	98,568	16.23%
1991	607,304	59,735	9.84%
1992	607,304	29,573	4.87%
1993	629,054	43,632	6.94%
1994	727,531	87,707	12.06%
1995	920,131	124,670	13.55%
1996	954,289	99,171	10.39%
1997	954,289	90,896	9.52%
1998	954,289	69,033	7.23%
1999	976,162	69,031	7.07%
2000	997,380	86,204	8.64%
2001	997,380	90,359	9.06%
2002	958,980	174,807	18.23%
2003	1,022,980	239,832	23.44%
2004	**1,022,980**	**254,528**	**24.88%**

Suburban office vacancy outlook improving

The 2004 suburban office market vacancy rate has increased slightly to 9.57% from last year's 9.44% vacancy rate. The 2003 vacancy rate was the first decline realized in the market in the four years prior, which had increased to a high of 10% in 2002. This suburban office study is an attempt to measure vacancy rate at a snapshot in time. Therefore, there is often a large swing affected by a small number of spaces becoming available or leasing. In fact, nearly 25% of the total vacant space is located in one building, vacated by a single tenant in mid 2004.

Since Duncan & Brown, Inc. began the office survey in 1989, it has always been the practice to slowly add additional office buildings as those buildings become available and data can be obtained. This year, an additional 90,000 square feet of office area has been included. That 90,000 square feet represents a geographic segment of the Eugene market not previously surveyed. This addition does not reflect new office construction but the ability for Duncan & Brown, Inc. to obtain new information not available before.

A notable change in this year's survey over prior surveys is the large percentage of available space in newer, better-quality, higher rent-per-square-foot buildings. In contrast, the data reflects very few vacancies in the older buildings. There are approximately 40 to 50 vacant office spaces currently for lease, and of the total number, less than 10 are located in buildings where asking rents are under $1.25 per square foot. Actual configurations may vary slightly. The data does not suggest there are any locations or space sizes more in demand than others; vacant spaces are scattered throughout the Eugene marketplace.



SUBURBAN OFFICE VACANCY

As discussed in both the 2002 and 2003 surveys, brokers indicated difficulty in leasing larger, better quality spaces. That appears to have changed somewhat this year, in that the better quality spaces are generally more prevalent and more difficult to lease versus the smaller, less expensive offices. Continuing the trend over the last few years, brokers still report that companies looking for new space are taking considerable time in deciding on larger spaces because they recognize there is still some softness in the market. Brokers have indicated there is an understanding by market participants that the economy is strengthening and this luxury will likely not continue into the foreseeable future. Major elements in the decision to locate still are location and, most importantly, ample on-site parking. This is in general contrast to the downtown office area, where most parking is located in structures.

The 2003 report indicated a movement toward the smaller, lower priced spaces. This apparently is continuing and has in fact strengthened since last year's report. Brokers noted that there has still not been a general increase in overall rental rates in the past year. The only possible exception is again the modest to average quality office spaces under $1.10 per square foot. There is an indication these lower rent levels are increasing, which should at some point provide pressure to push demand into the slightly higher rent levels. The indication is still that some additional concessions are being offered either in better tenant improvements, longer set rent levels or actual rent concessions. During re-rent, property owners indicate it is still difficult to achieve higher rent levels and many indicate rents are remaining stable. Noted between 2000 and 2003 was often a consideration at re-rents to lower rent levels.

Asking rents have remained relatively stable between $0.75 to $1.65 per square foot, with a few higher rents being asked in the more specialized buildings. Rental rates are typically quoted on a full service basis, some excluding janitorial. Of the available spaces, most are less than 3,500 square feet with only a few in excess of 5,000 square feet.

As was true last year, there appears to be general optimism in the market regarding lease-up of suburban office spaces. Brokers indicated that the increase in activity experienced and discussed in the 2003 survey has continued throughout the year, with numerous showings and a general activity increase from 2002. There is still a strong emphasis by brokers to have their clients continue to upgrade and maintain their facilities at a high level because of the higher vacancies experienced. Owners have continued to react positively to these suggestions and are attempting to maintain and upgrade properties. Overall, this will have a positive effect on the inventory throughout the Eugene marketplace. In summary, the vacancy rate shows a slight increase due primarily to the single large space vacated during 2004. Over the next year the vacancy rate is expected to continue to decline somewhat. Current economic trends suggest continued strength of the overall economy, which should slowly affect the office vacancy rate in the Eugene area. By the 2005 office survey, expectations for a slightly lower vacancy rate are predicted to be between 7% and 9%. Although vacancy rates are expected to continue to decline, there will still be the need to continue the process of reconditioning and renovating existing buildings. The better quality spaces will continue to see a reduction in their vacancy rate as the medium- to lower-end rental units are absorbed.

The suburban office survey focuses on Country Club Road, Valley River and the periphery of the downtown core. This survey also excluded the same types of properties as the downtown survey, i.e., owner-occupied banks, public service buildings, and properties such as residences converted to office space. The location and types of buildings surveyed are intended to be a cross-section of the suburban Eugene office market.

Survey Date	Area Surveyed (sf)	Vacant Space (sf)	Vacancy Rate
1989	420,109	32,466	7.73%
1990	602,570	86,378	14.33%
1991	817,673	51,099	6.25%
1992	834,688	56,745	6.80%
1993	834,688	87,049	10.43%
1994	943,257	93,855	9.95%
1995	958,060	56,484	5.90%
1996	958,060	31,515	3.29%
1997	958,060	49,822	5.20%
1998	980,060	35,297	3.60%
1999	958,060	30,492	3.18%
2000	958,060	66,550	6.95%
2001	1,024,800	85,273	8.32%
2002	1,024,800	102,438	10.00%
2003	1,024,800	96,734	9.44%
2004	**1,114,111**	**106,585**	**9.57%**

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Info & features at www.duncanbrown.com

Duncan & Brown Real Estate Analysts has updated the design and features of the firm's Web site, www.duncanbrown.com.

Users can register online to be included on the electronic mail list used to announce the availability of new reports and new services. All information will remain private and confidential and will not be sold.

Visitors can also order appraisal services online, allowing existing and new clients to contact appraisers at their convenience, even outside business hours. Visitors can learn more about the real estate appraisal process and reporting options on the Frequently Asked Questions page, and four different survey reports/studies can be downloaded and printed right from the site.

Links to community sites are provided (such as state, county and city government sites, local and regional events, and community organizations), contact information for each of Duncan & Brown's nine appraisers and staff, as well as professional licenses and qualifications.

Comments, questions and suggestions are welcome and may be e-mailed to info@duncanbrown.com.