DUNCAN & BROWN
OFFICE & RETAIL REPORT

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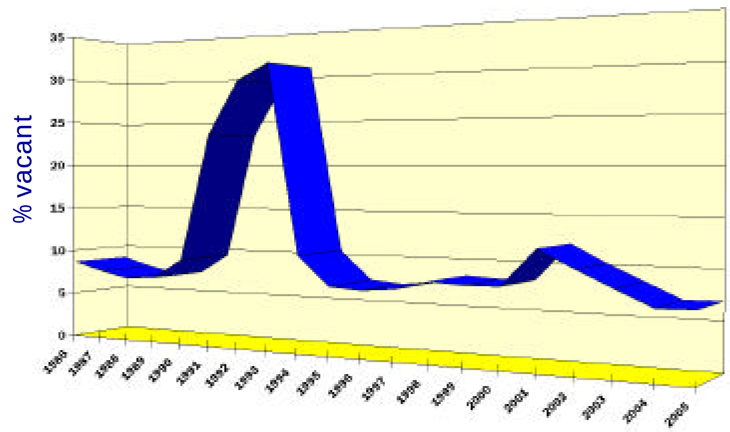
2005

Downtown retail vacancy rate appears stabilized since 2004



DOWNTOWN RETAIL VACANCY

Downtown retail vacancy in spring 2005 was 6.93%, virtually unchanged from 6.85% in 2004 though down from 8.47% in 2003, possibly ending the trend of increasing vacancy the market has seen since 2001. Several factors have been positive influences on downtown retail vacancy over the past few years, including the absorption of retail space in The Strand at 8th Avenue and Charnelton Street, in the Heron Building at 6th Avenue and Olive Street, and in Broadway Place at Broadway and Charnelton Street.

Available retail space in the downtown core ranged from 660 square feet to 7,500 square feet, with the majority of the spaces in the 3,000- to 4,000-square-foot range. Asking rents ranged from $0.50 per square foot for mid-sized space located on the edge of the downtown market area to $1.50 per square foot per smaller retail space in a high-traffic area. Lease terms range from triple net to full-service, with about half of the properties' asking rents on a triple net expense basis.

Duncan & Brown's retail survey provides a snapshot of vacancy at a specific point in time, specifically spring 2005. Since this survey was completed, both positive and negative news for the downtown retail sector was released.

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%
2005	718,165	49,792	6.93%

** Includes the Sears & Bon Marché buildings.*
† Includes Sears, Bon Marché & Rubenstein's buildings.
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According to a February 2005 article in the *Register-Guard*, Whole Foods Market is interested in locating across the street from the new federal courthouse on Broadway between High Street and Mill Street. The retail store plan is related to another proposal from Oregon Festival of Music (OFAM), operator of The Shedd Performance Hall, which proffered a land swap with the City of Eugene. The exchange would provide OFAM with area for future construction adjacent to their existing building and would give the city the half-block area needed for the proposed Whole Foods development.

In June 2005, the *Register-Guard* reported that local real estate developers Tom Connor and Don Woolley planned to team with Minnesota-based developer The Opus Group to redevelop several downtown blocks, mainly along Broadway between Willamette and Charnelton Streets, into a mixed-use project. According to the *Register-Guard*, an Opus executive reported that the proposal could include 200 to 300 housing units, stores, offices and restaurants.

Also in recent news, Café Paradiso, the tenant at Broadway and Olive Street, has closed its doors due to transient pedestrian traffic interrupting its business operations. Safety and pedestrian traffic are of primary importance to the vitality of downtown's retail business.

Additionally, Oregon Research Institute plans to redevelop the former Sears property at 10th Avenue and Charnelton Street. The reported $21 million project will bring 250 employees into the downtown core when complete, anticipated in 2007. Additionally, the Morse Federal Courthouse is under construction with completion expected in 2006. These public development continue to enhance the image of the downtown Eugene core as a community destination for business, entertainment and recreation.

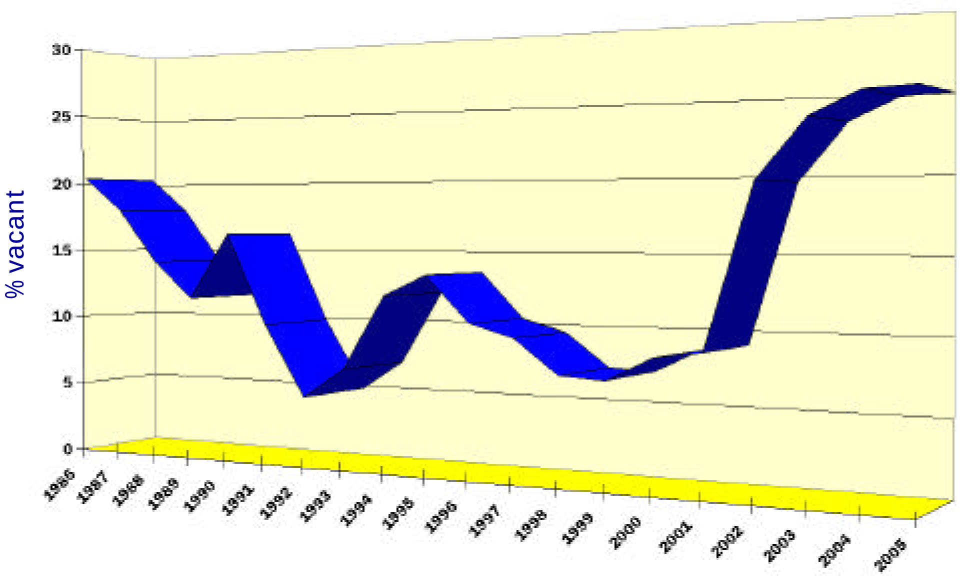
Even with record-high vacancy rates for office space in the downtown core, the retail sector has done relatively well. The Eugene Public Library has been a major attraction, drawing large numbers of people during business hours as well as on nights and weekends. In addition, conversion of the First Baptist Church to The Shedd Performance Hall and revitalization of the McDonald Theater enhance demand for surrounding restaurants, art galleries and other retail shops. As with downtown office space, however, convenient and affordable parking continues to play a major role for businesses located downtown. Most available retail spaces offer no tenant parking or minimal customer parking, with only a few properties offering some parking spaces for rent.

Looking forward, retail vacancy is expected to remain stable in the short-term with no new tenancies anticipated in the near future. However, public and private office and retail development activity is expected in the next couple of years and the downtown retail sector will likely see continued declining vacancy as greater numbers of people are drawn to the downtown core.

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 demand static for three years



DOWNTOWN OFFICE VACANCY

The downtown office vacancy rate crept to 26.40%, up from the 2004 rate of 24.88% and the 2003 rate of 23.44%, confirming past years' expectations for minimal change in demand levels for downtown core office space. The major factor contributing to what have been the highest vacancy rates since this survey began in 1986 is vacancy of large spaces.

Nearly 80% of the total available office space is located in four properties in the downtown core. These properties had the same space available in 2004, indicative of a marketing time that may be longer for space in today's downtown office market as compared to other types of properties in other locations throughout Eugene and Springfield. However, leasing activity has improved as new projects are completed in the downtown core, such as the 10th and Mill Building and Broadway Place. At the time this survey was completed, the Symantec and Aster Publishing buildings comprised about 160,000 square feet of the total 270,000 square feet reportedly available. Excluding these large spaces indicates a vacancy rate of 12.68% in 2005 compared to 10.88% in 2004.

Over the past decade, numerous planning decisions and public development have built a foundation for the revitalization of Eugene's downtown core. The opening of Broadway and Willamette Street to vehicle traffic, completion of the new Eugene Public Library, and location of Lane Transit District's central transfer station, combined with the property tax exemption for certain types of housing developments in the core area, all contribute to positioning downtown Eugene as the heart of the community.

The completion of the 265,000-square-foot Morse Federal Courthouse, anticipated in 2006, supports the effort of creating demand for downtown office space; however, its completion is expected to draw public agency tenants from privately-owned structures in the downtown core, as seen after the completion of the Eugene Public Library when the City of Eugene vacated several spaces in the downtown area.

Additionally, the availability and affordability of convenient parking downtown remains a major impediment to the financial success of any downtown development. Only a few of the vacant spaces included parking in the offerings; however, those that did offer parking typically did so on the basis of 2 to 2.5 spaces per 1,000 square feet rented.

As previously mentioned, the majority of available space is located in a small number of buildings. Asking rents for these spaces range from $0.60 per square foot on a full-service expense basis, to $1.65 per square foot, full-service less janitorial, with no or minimal tenant parking included in asking rents. The average asking rent for the entire survey area was $1.38 per square foot, with $1.50 per square foot asked for the majority of the available spaces. Tenant improvements remain in the $20 to $35 per square foot range, depending on the type of build-out and the tenant's requirements at the time of lease-up.

Duncan & Brown's office survey provides a snapshot of vacancy at a specific point in time, specifically spring 2005. Since this survey was completed, several important news items have been reported, which will affect demand for the existing office supply in the downtown area. The short-term outlook for Eugene's downtown office market is for continued stagnation of demand for the existing inventory, with no major tenancies pending nor no major vacancies anticipated. As completion of the Morse Federal Courthouse nears, increased leasing and redevelopment activity is expected, creating a potential downturn in office vacancy rates.

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%
2005	1,022,980	270,067	26.40%

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.

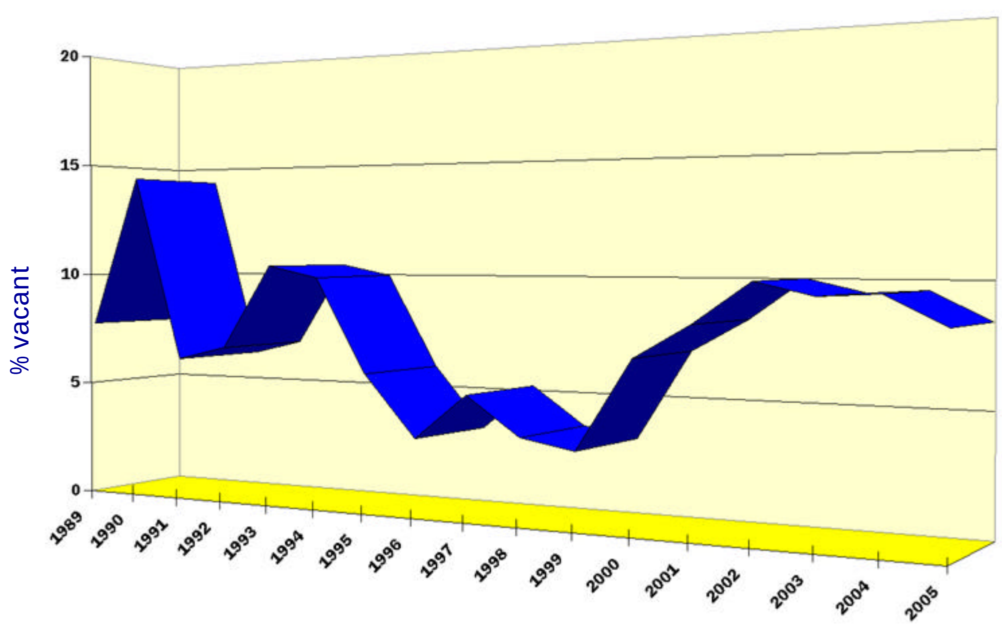
Since Duncan & Brown, Inc. began the office survey in 1989, it has always been the practice to slowly add additional office buildings as those buildings become available and data can be obtained. This year, an additional 90,000 square feet of office area has been included. That 90,000 square feet represents 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.

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.



SUBURBAN OFFICE VACANCY

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%
2005	1,114,111	93,752	8.41%