ANCHORAGE, ALASKA

MARKET WATCH

OFFICE 2008

Prepared by RELIANT, LLC on Behalf of BOMA ANCHORAGE

MARKET INDICATORS

Description	Current	1 Yr. Forecast
Class A:		
Vacancy	2.1%	↗
Lease Rates	$2.40	↗
Class B:		
Vacancy	6.8%	→
Lease Rates	$1.79	↗

HOT TOPICS

- On May 9th oil prices were $126 per barrel.
- The announcement by BP and ConocoPhillips to join forces in the construction of a natural gas pipeline has resulted in anticipation of future increases in demand for Anchorage office space. Reportedly, the new joint venture, Denali, will be headquartered in Anchorage with 150 employees by summer 2008 coinciding with the start of their field work and 300 employees by 2011. Reportedly, there is a RFP for approximately 55,000 square feet of office space in Anchorage to house the new Denali headquarters.
- Brokers report significant leasing activity to new oil industry related tenants expanding into the Anchorage market, although at this time most of these are for smaller blocks of space.

Office Market Overview

Economic Trends: Anchorage just finished its 19th consecutive year of employment growth. Employment growth was forecast by state labor economist Neal Fried to remain stable for 2008, increasing by a nominal 0.5 percent. However, the recent announcement by BP and ConocoPhilips regarding construction of a gas pipeline is not reflected in these projections. Upon being asked how the pipeline project announcement impacts his original projections, Fried indicated that the pipeline project will likely have a material positive impact on employment growth and the Anchorage office market over the short and long term. We anticipate that the majority of office employment associated with the new pipeline will be created over the next five years, prior to the start of actual construction. Anchorage should be highly insulated from any potential national recession and economic trends have a favorable influence on the market at this time.

HISTORIC OFFICE CONSTRUCTION

Property	Year	Area
Nafla Michael Building	2001	46,000
DMV	2001	40,000
DEA	2001	40,000
ASRC Building	2002	192,500
3000 "C" Street Expansion	2002	75,000
Southcentral Foundation	2003	54,000
Stewart Title	2003	7,500
National Park Service	2003	65,000
Chugach Alaska Building	2003	28,000
Centerpoint II	2004	95,500
ANTHC Office Building	2004	65,000
Alaska Spine Institute Building	2004	60,000
Calais Company	2004	7,000
Alaska Psychiatric Institute	2004	80,000
ReMax Real Estate	2004	32,000
Residential Mortgage	2005	31,000
AlaskaUSA Financial Center	2005	92,000
BBNC Building	2005	67,000
ASD Boniface Mall Conversion	2005	65,000
Cook Inlet Tribal Council Inc.	2005	70,239
Credit Union 1	2005	50,000
Afognak (Alutiiq)	2006	130,000
Aleution Pribilof	2007	36,000
Total		1,428,739
Annual Rate of Expansion		204,106

Vacancy: Major national surveys report vacancy rates for the national office sector ranging from 10 to 14 percent. Over the last several years, vacancy in the Anchorage market has remained considerably lower than national levels and is currently 2.1 percent. Due to minimal new deliveries in 2007, this is down from a year ago when vacancy was approximately 5 percent. This figure does not include JL Tower or the 188 WNL Building in midtown that are not currently ready for occupancy. To understand the impact these properties will have on vacancy rates a review of historic construction is helpful . As shown on the included table, Class A new construction in Anchorage has been occurring on a sustainable basis every year since 2001. As this product came online, vacancy rates increased, but remained under 10 percent. In most cases, the new construction was by owner users and therefore had no absorption period. When built on a speculative basis or when there was available space upon completion, absorption periods ranged from six to eighteen months. Employment growth during this time period ranged from 1.2 percent up to 2.5 percent. Average historic absorption has been around 200,000 square feet annually. The current round of new construction is only unusual in that it is in the form of high rise office construction. When these buildings are completed, Class A vacancy will increase to only 4 to 7 percent, which is within the range of historic levels and well below national levels. The amount of product coming online is consistent with historic delivery levels that have proven to be sustainable and a short absorption period is anticipated. Given growth trends and the limited amount of deliveries scheduled for 2009, this increase in vacancy will be short term in nature and should immediately trend downward. Vacancy in the Class B market is currently at 6.8 percent. The majority of this vacancy is within a limited number of entirely vacant properties. Excluding these properties the Class B vacancy rate is only 4.2 percent. There are less than five blocks of space greater than 15,000 square feet in both the Class A and Class B markets, making new construction or multiple locations the only option for very large users. Overall, the new construction will have a limited short term upward influence on vacancy rates but the market is expected to continue to remain very tight with downward pressure on rates over the mid to longer term.

Rents: Due to a very tight market, Class A office rents have increased roughly 10 percent over a year ago. Given pent up demand within the Class A office market, particularly for larger blocks of space, even with 400,000 sq ft of new construction being delivered, increases in vacancy will be nominal, indicating that landlords will be in a strong position to obtain increases in rental rates. This is supported by the fact that the majority of vacancy will be at a limited number of properties and these landlords should not experience significant competitive pressures. As with 2006, some “musical chairs” between buildings will occur. With continued economic growth and minimal proposed product in the pipeline for 2009, the two year outlook is for continued increases in market rent. Look for the spread between existing building rent and new construction rent to continue to shrink, particularly for higher quality Class A product. Given vacancy rates within the Class B market, rents should experience less upward pressure than for Class A, but should still see some increases over the next year.

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Hot Topics Continued:

- JL Tower has attained 100 percent occupancy prior to completion. Major tenants include Chevron & Chugach Native Corp.

- CIRI recently acquired a majority stake in PTP, following the trend of Alaska Native Corporations' growing interest in the Anchorage commercial real estate market.

JL Tower

- Less than 5 contiguous blocks of existing space greater than 15,000 square feet remain available for both Class A or Class B office space.

- Rising energy costs and new available technologies have resulted in a surge in conservation related capital expenditures.

- NANA/Colt Engineering recently signed a long term lease for approximately 36,000 square feet in the Dimond Center office tower, one of the largest lease transactions in South Anchorage in recent years.

- Augustine Energy Center recently released information to the public including asking rents and details on proposed lease terms for the new mixed-use project. This would be the first downtown high rise built in twenty years.

Augustine Energy Center

- Brokers report that the tight market has resulted in fewer tenant moves as many tenants are choosing to renew.

MARKET STATISTICS

CLASS A

	Downtown	Midtown	East	South	Total	New	Existing
Inventory (1)	2,351,434	2,315,594	775,389	51,365	5,366,740	1,161,550	4,205,190
Development Pipeline (2)							
Under Construction	0	388,911	20,888	0	409,799	-	-
Proposed Construction	365,000	100,000	0	0	465,000	-	-
Projected 2008 Deliveries	0	388,911	20,888	0	409,799	-	-
Projected 2009 Deliveries	0	100,000	0	0	100,000	-	-
Projected 2010 Deliveries	365,000	0	0	0	365,000	-	-
Vacancy Rate	1.6%	3.1%	0.2%	0.0%	2.1%	3.0%	1.8%
Market Rents (4)							
Low	$2.25	$2.15	$1.90	-	$1.90	$2.65	-
High	$2.90	$2.90	$2.60	-	$2.90	$3.40	-
Average	$2.45	$2.42	$2.12	-	$2.40	$2.92	-
Face Rents (5)	$2.38	$2.46	$2.25	-	$2.42	$3.12	$2.42

CLASS B

	Downtown	Midtown	East	South	Total
Surveyed Inventory (3)	211,263	413,620	219,008	335,703	1,179,593
Vacancy Rate	5.2%	2.7%	24.5%	1.3%	6.8%
Average Rents (4)	$1.84	$1.84	$1.80	$1.71	$1.79
Face Rents (5)	$1.90	$2.01	$1.93	$2.00	$1.93

OPERATING & INVESTMENT CRITERION

	Avg. Expenses (6)		Avg. Landlord TI's		Stabilized OAR Range (7)		
Type	$ / Sq Ft	% EGI	New	Renewal	Lower	Upper	Middle
Class A Existing	$9.28	33.7%	$14.70	$4.23	7.25%	9.0%	8.0%
Class A New	$10.50	33.3%	$35-$40	-	-	-	-
Class B	$8.44	42.1%	$9.18	$2.35	7.75%	9.5%	8.25%

(1) Reported as BOMA rentable building area. Includes new, existing, user, investment and government office properties. Excludes medical office.

(2) Current projected pipeline of new construction based on current proposed projects that have acquired sites, assuming they are all built. The new construction pipeline is subject to change due to additional proposed product, change in development timelines and success of pre-leasing and may ultimately differ from the forecast.

(3) Reported as BOMA rentable building area. Based on selection of a representative sample within each submarket.

(4) Average rents of leasing activity within last 12 months. Rental ranges vary widely depending on each building's physical and economic characteristics. Janitorial is included for Class A rents and excluded for Class B rents. New construction is presented separate from existing.

(5) Current asking rents. Note that in submarkets with very low vacancy rates, face rents may not be representative or meaningful.

(6) Reported unadjusted expenses based on actual property taxes and excluding reserves.

(7) Typical OARs for property's at physical and economic stabilization. May not reflect typical "going in" OARs, which may be higher or lower depending on a property's income pattern and risk profile.

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Focal Point: Growing Native Corporation Influence

Over the past few years there has been a surge in development by Alaska Native Corporations. This development is primarily for corporate headquarters and related subsidiaries and entities. Since 2001, over 50 percent of Class A new construction has been by Native Corporations. Almost all is considered to be first tier Class A by Alaska standards. These new office buildings are setting a new standard for artistic and architectural significance with their reflection of the Native Alaskan people and their culture. The inclusion of museums, decorative native artwork and artistic building facades has made these buildings into a statement of cultural pride in addition to serving as the headquarters for their operations in Alaska. The level of quality and detail included in these new Native Corporation buildings are resulting in a social and economic shift in the public's and real estate market's perception of what constitutes Class A office space in Anchorage. Much of this development has been a result of the ANCs success in resource development, government contracting and other activities under the Small Business Administration's 8(a) program. The success of many subsidiaries has not only facilitated the financial foundation for construction of multi-million dollar developments, but has also necessitated large amounts of office space to support the ANCs and their related subsidiaries. The presence of these ANC headquarter buildings has solidified Anchorage as the regional hub for ANCs operations, which in some cases span many different states and even countries. In addition to development of buildings to support their business, some ANCs are beginning to partner with developers in the construction of other large scale projects. One example is JL Tower, a new construction high rise office building built by JL Properties in a joint venture with Chugach Alaska Corporation. Another example is the recent acquisition by CIRI of a majority interest in Pacific Tower Properties, one of the largest commercial property management firms in Alaska. CIRI is also currently developing a major shopping center located in North Anchorage. The impact is felt in the Class B office market as well, where smaller ANCs are major owners, investors and tenants. It is apparent that ANCs are developing an interest in the Anchorage commercial real estate market beyond the development of these headquarters buildings. In light of their continued contribution to the local and regional economy and favorable prospects for continued growth, this developing interest is likely to have a significant positive impact on the future of the Anchorage office market.

Submarket Discussion and Trends

Downtown Anchorage: Vacancy rates in Downtown are 1.6% for Class A product and 5.2% for Class B product. Class A rents typically range from $2.25/sq ft for lower quality product up to $2.90/sq ft for higher quality product and average $2.45/sq ft. For Class B, the average face rent is $1.90/sq ft and rents in place average $1.84/sq ft. Given the low vacancy rates there has been limited new leasing activity. Major deals include the renewal of 33,000 square feet in the Brady Building. Vacancy includes 16,000 square feet in the Key Bank Plaza, which has reportedly had several interested parties. As with many other CBD districts, strong demand in office, tourism, retail, restaurants, and civic/government has resulted in a shortage of parking in Downtown. For the most part, this is a temporary situation that should be alleviated when new and proposed parking facilities are developed. The Linny Pacillo Parking Garage located on E street, which will have 850 spaces as well as ground floor retail and restaurant space. The short term parking shortage in Downtown Anchorage will likely intensify until the new parking facilities come online, because the majority of proposed construction will be located on lots currently used as surface parking. Overall, the Downtown market is strong at this time.

Midtown Anchorage: Vacancy rates in Midtown are 3.1% for Class A product and 2.7% for Class B product. Note that Class A vacancy does not include the two large buildings currently under construction in Midtown that will be completed in the next few months. Class A rents typically range from $2.15/sq ft for lower quality product up to $2.90/sq ft for higher quality product and average $2.42/sq ft. For Class B, the average face rent is $2.01/sq ft and rents in place average $1.84/sq ft. After the departure of Alutiiq to their new headquarters, Calais I and II had a significant block of vacancy. Strong demand has resulted in only 10,700 square feet of remaining vacancy in both buildings. The remaining space in JL Tower has been leased by Chevron and another oil related company. There are also a number of major deals pending, including a lease for the former Chugach Alaska Corporation Headquarters and an LOI for the former Hooters and Providence space located in the Tudor Park Building. Because of it's central location and availability of vacant land, Midtown is slowly surpassing Downtown to become the largest office market district in Anchorage. Overall, the Midtown market is strong at this time.

South Anchorage: Vacancy rates in South Anchorage are 0.0% for Class A product and 1.3% for Class B product. All of the Class A product is owner user occupied, so there is limited data. For Class B, the average face rent is $2.00/sq ft and rents in place average $1.71/sq ft. Recently, new office space has been developed as a component of mixed-use projects that include a retail or industrial/warehouse component. While South Anchorage has historically catered to neighborhood oriented tenants, as demand has increased for Downtown and Midtown space, it has become the choice of many community tenants seeking a lower cost alternative or larger blocks of space. Dimond Center office tower recently leased 36,000 square feet to Nana/Colt Engineering and is now fully occupied. Many of the existing tenants that were displaced will likely relocate to other South Anchorage properties. The only significant block of vacant space is located in the O'Malley Square development, a new mixed use building with approximately 33,000 square feet of office (or retail) space available. Look for this trend in South Anchorage to continue and the spreads between rates in this submarket and Midtown and Downtown to decrease over time. Overall, the South market is strong at this time.

East Anchorage: Vacancy rates in East Anchorage are 0.2% for Class A product and 24.5% for Class B product. Class B vacancy is skewed due to a few properties with large vacancy. Given the limited number of large blocks of vacant space, these buildings may be the only alternative for larger rate sensitive tenants. Class A asking (face) rents average $2.25/sq ft and the average contract rent in place is $2.12/sq ft. For Class B, the average face rent is $1.93/sq ft and rents in place average $1.80/sq ft. Significant recent transactions include the complete lease up of the former Alyeska Pipeline Complex, as well as the long term lease of 1815 Bragaw to the University of Alaska. One of the only remaining large blocks of space is located in the former Anchorage School District Administration building on Debarr Road, which has approximately 32,000 square feet vacant. Like South Anchorage, East Anchorage has historically been a lower cost alternative to Midtown and Downtown. It is likely that East Anchorage will continue to see increasing office demand from growing institutional users and as space fills up in other submarkets. The recent extension of Elmore Road from Abbott Road to Tudor Road has increased access to East Anchorage from South Anchorage and created some additional demand from non-institutional tenants. Overall, the Class A South market is strong at this time with the Class B market experiencing higher vacancy due to a few properties.

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New and Planned Construction

Two major projects, JL Tower and 188 WNL, are under construction and both are expected to be completed in 2008. Both of these are considered to be high rise construction by Anchorage standards, and both are located in the Midtown submarket. Additionally, there are a few smaller buildings currently under construction, including the new headquarters for the Aleutian Housing Authority in Midtown. Several projects have been proposed and are currently in the planning stages. In Midtown, JL Properties is currently completing plans for a new building located in the Centerpoint complex with approximately 100,000 square feet. Plans for this building are to begin construction later this year and have a projected completion of Fall 2009. In addition, there has been talk of an additional high rise office tower in the same complex, with construction to begin upon lease up of the first building. There is also a proposed second tower in the Frontier Building complex located in Midtown, with construction on hold in anticipation of an acceptable amount of pre-leasing. In Downtown, plans have recently been released on the 21 story Augustine Energy Center. The building is currently completing the design stage, and should begin construction in 2008 with an expected completion of summer 2010. There are a few other proposed developments currently in planning stages, including a 55,000 square foot building in Midtown and a 40,000 square foot building located in South Anchorage. The probability of construction for these and other smaller developments rests primarily on the amount of pre-leasing that is completed, with many lenders requiring a substantial percentage of pre leasing before beginning construction.

188 WNL Building

Because of recent economic factors, including oil prices reaching an all time high and the announcement by BP and ConocoPhillips regarding the construction of a natural gas pipeline, there will likely be a trend towards additional new office construction in the Anchorage market. Much of this new construction will be based on the economic impact of a ramp up towards construction of the pipeline and will be driven primarily by engineering firms and other services related to gas production on the North Slope.

Terms & Methodology

BOMA Rentable Square Footage: Equal to the useable area of an office area with its associated share of the floor common areas and building common areas. Also equal to the gross floor area less any vertical penetrations such as elevator shafts, stairwells, etc. All building areas have been reported using BOMA rentable measurement standards.

Class A Office: BOMA defines Class A office space as the most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence. For the purposes of this survey, a Class A office building is also defined as being more than 30,000 square feet, 3 or more stories, with steel or concrete construction.

New Building: Those buildings built within the last 10 years.

Class B Office: BOMA defines Class B office space as those Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price. The Class B survey is based on a statistical sampling of selective representative buildings from the Anchorage market.

Face Rents: The asking rental rate for a space currently vacant and being actively marketed for lease. Note that in submarkets with very low vacancy rates, face rents may not be representative or meaningful.

Average Rents: The average of contract rents in place at a particular building for leases commencing in the last 12 months. For Class A, the rents have been adjusted to reflect a full service including janitorial expense structure. For Class B, rents are shown on a full service excluding janitorial basis.

Expense Ratio: A measure, usually shown as a percentage, calculated by dividing the total annual expenses by the total annual effective gross income (EGI) for a particular building.

Tenant Improvement (TI) Allowance: The amount of money offered as an allowance for a new (or renewal) tenant to alter their leased space, including but not limited to removal/addition of new walls, carpet, paint, lighting, etc. TI allowances are shown as a $/sq ft of rentable building area.

OAR/Capitalization Rate: An income rate for a total real property interest that reflects the relationship between a single year's net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value (Rate= Income/Value). Capitalization rates vary widely depending on risk profile and income patterns, and therefore these rates cannot be applied to a specific property. Reported rates are "typical" stabilized (physically and economically) rates but actual property specific rates may be above or below the indicated range based on the above factors.

Sources: Appraisal Institute. The Dictionary of Real Estate Appraisal, Fourth Edition (2002). BOMA International Building Class Definitions (www.boma.org) BOMA International. Standard Method for Measuring Floor Area in Office Buildings (1996).

Reliant, LLC (formerly Integrated Realty Resources, Inc.) has been performing commercial real estate valuation in Anchorage since 2003. During this period, Reliant, LLC has appraised over 5,000,000 square feet of office space in Anchorage including numerous proposed Class A office buildings, high rise buildings as well as Class B properties. Reliant, LLC also performs appraisals on numerous other property types, including retail, industrial/warehouse, hotel/lodging, multifamily, medical office, automobile dealerships, mixed use properties, condominium properties and vacant land.

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