Lake Oswego Office Market Overview

December 2020

Contents

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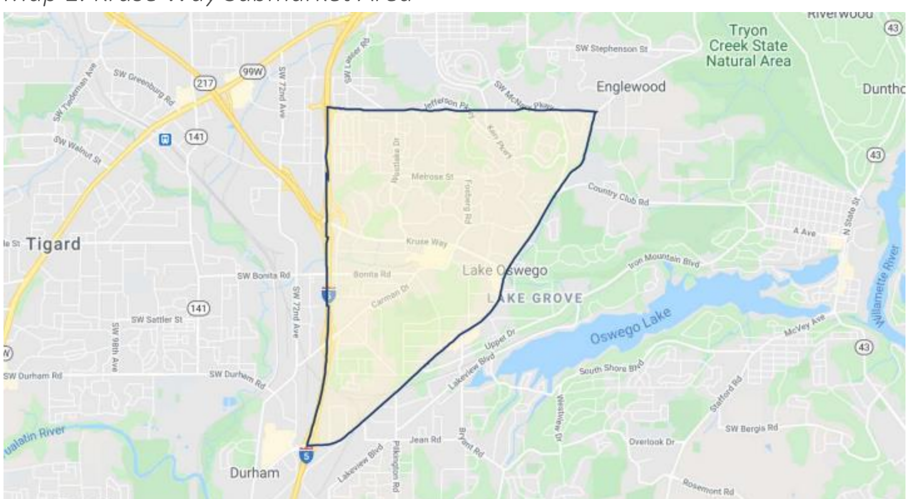
Introduction and Summary

The City of Lake Oswego asked Marketek to provide a current snapshot of metro Portland's and Lake Oswego's office market, estimates of near-term change, and topline office space trends as conveyed by top industry sources.

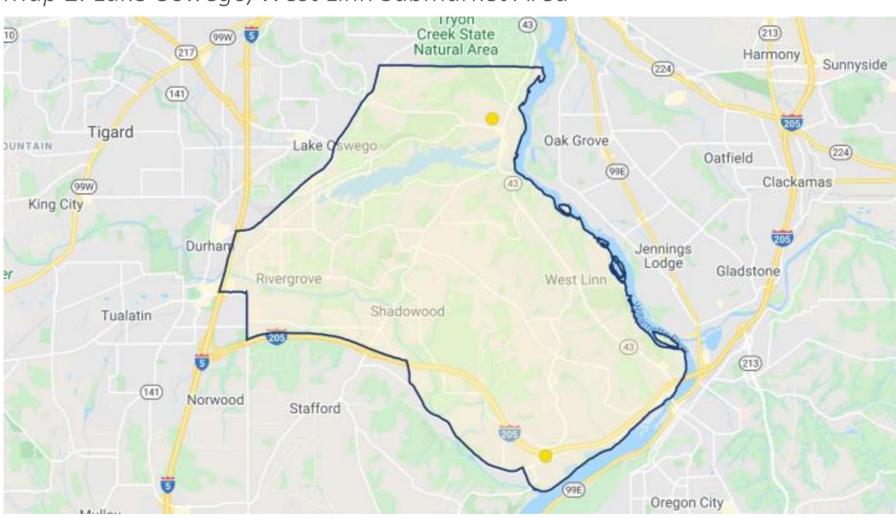
In preparing this brief, Marketek relied on data from the proprietary real estate service CoStar as well as CBRE research documents. Data was augmented with site visits to Lake Oswego's commercial districts and Kruse Way, an online search of office trend reports, and interviews with local office tenants, real estate brokers, and managers.

CoStar organizes real estate data for the Portland region into 44 submarkets of which Lake Oswego is part of two: 1. Kruse Way is bound to the west by I-5 and includes the western portion of Lake Oswego; and 2. Lake Oswego/West Linn encompasses the area between Hwy 43 and I-5 to the Willamette River. Maps of each area appear below.

Map 1. Kruse Way Submarket Area



Map 2. Lake Oswego/West Linn Submarket Area



Key Findings

- As of the first week of December 2020, CoStar real estate reports show just over 110M square feet (SF) of rentable office space across the Portland region[1] with a vacancy rate of 9.9%. Vacancies are expected to continue to climb in 2021, leveling off in the 4th quarter with Portland peaking at just under 12% similar to the U.S. as a whole.
- The combined office inventory of the Lake Oswego and West Linn communities totals 3.9M SF distributed as follows: 2.8M SF included in the Kruse Way submarket and 1.1M SF within the Lake Oswego/West Linn (LO/WL) submarket.
- As of the end of 3rd Quarter, the Kruse Way vacancy rate was at 17.3% and forecast to rise to 19.5% in 2021. During the same timeframe, the LO/WL vacancy stood at 8.5% projected to go to nearly 10% next year. However, brokers believe the Kruse office campus will remain a top choice for those seeking a high-quality suburban Portland office location.
- Nationwide, 22% of the workforce is currently home-based. In Oregon, the pandemic accelerated a trend toward working from home. The Oregon Office of Economic Analysis estimates that nearly 15% of the state's workforce will be working from home at least part-time by 2025 (compared to 7% in 2019).
- Many expect the hybrid workforce to grow significantly over the next five years – with a balance between working in-office or at home. Employees will increasingly request this option following COVID. Greater Portland Inc. notes that "retaining the workforce is critical and companies will respond."
- Long term remote work is tied to job function more than industry sector. Using Occupational Information Network (O*NET) and Occupational Employment Statistics data, it's estimated that 37% of current U.S. jobs can be performed entirely at home. Telework is most suited to Financial Activities (81% able to telework), Information (80%) and Professional and Business Services (72%).
- Other COVID impacts on offices include: demand for smaller footprints, rotating employee schedules, more square feet per person, adaptable space to address distancing between employees and adding 'amenity' space.

[1] Defined as 7 county region of Clackamas, Multnomah, Washington, Clark, Skamania, Columbia and Yamhill Counties

The Office Market: Current Situation

Across the U.S. in December 2020, office demand is at its lowest level in 20 years. As a cost-cutting measure, tenants are reducing footprints or vacating space completely. CoStar Analytics reports that space reductions are greater than the total from the Great Recession. Longer term, the future for office space is highly uncertain. With the continued economic stress of the COVID pandemic and the relative success of home office workspaces, forecasting is risky business.

This section discusses the status of the Lake Oswego office sector in the context of the metro Portland office market and overall employment base. Bear in mind that demand for office space is directly linked to local and regional economic expansion. (See Exhibit 2.) Large office users typically seek business environments with excellent accessibility and abundant amenities and services nearby to accommodate their needs and those of their workforce and/or clients. Close proximity to top quality housing is often another key location factor for business owners/executives. Small office users are especially convenience and price-driven and may have less ability to negotiate long-term leases.

Portland Region Overview

As of the first week of December 2020, CoStar real estate reports show just over 110M square feet (SF) of rentable office space across the Portland region[2] with a vacancy rate of 9.9%. This is up from 7.2% a year ago. During 2020, 1.1M SF of new office space came online, most of it associated with Nike and Adidas campus expansions. About 1.9M SF are currently under construction and average lease rates across all properties are $27.89/SF.

[2] Defined as 7 county region of Clackamas, Multnomah, Washington, Clark, Skamania, Columbia and Yamhill Counties

Exhibit 1. Top 10 Submarkets

Top 10 Office Submarkets in Portland Metro Region with Lake Oswego Comparisons Rank by Office Inventory 2020					
Rank	Submarket	Bldgs	SF (000)	% Market	Market Rent $/SF
1	CBD	384	28,519	25.9%	$32.81
2	Sunset Corridor/Hillsboro	413	14,070	12.8%	$25.78
3	Lloyd District	229	5,696	5.2%	$29.99
4	217 Corridor/Beaverton	237	4,245	3.9%	$23.59
5	Clackamas/Milwaukie	404	3,565	3.2%	$26.19
6	SE/Close-in	215	3,523	3.2%	$27.49
7	Tigard	235	3,510	3.2%	$24.91
8	North Beaverton	157	3,297	3.0%	$26.02
9	Cascade Park	131	3,147	2.9%	$28.92
10	CBD/West Vancouver	261	3,098	2.8%	$24.22
13	Kruse Way	74	2,812	2.6%	$31.81
26	Lake Oswego/West Linn	142	1,118	1.0%	$27.97

Source: CoStar provided by Greater Portland Inc.

In the last few years, the Portland office market benefited from strong demand and limited new supply. A steady supply of start-up companies stimulated high demand for creative office space which is anticipated to continue and could be an opportunity to reposition existing office buildings. Overall, the uncertainty of the coronavirus pandemic is expected to delay real estate decisions and reduce office leasing activity well into 2021.

CoStar Analytics forecasts that office vacancies will continue to climb in 2021 leveling off in the 4th quarter with Portland peaking at just under 12%, similar to the U.S. as a whole. Projections show the vacancy rate staying above 10% in Portland and nearly 12% nationally through 2024. After the last eight years of positive rent growth, lease rates are expected to decline sharply in 2021 and gradually return to pre-COVID levels by the end of 2022.

Demand Driver: Employment

- The primary determinant of office space demand is employment. The dominant sectors where workers historically occupy office space are categories within the Financial and Service employment sectors.
- Current estimates of office employment for the Portland region (provided by Oxford Economics to both CoStar and CBRE) are 345,400 workers out of 1.28M total. Over the last five years, office employment has grown by 0.8%/year, but over the last 12 months declined by 5.6%.
- Exhibit 2 below depicts employment changes by economic sector with all but one (Natural Resources) declining over the last 12 months. With its diverse economy, Portland is regarded to be better positioned to withstand the COVID recession than comparably sized metros and growth is projected to

pick up in the next 5 years averaging 2.0%/year as economic recovery occurs. However, these estimates may not account for the permanent impacts of COVID related to employer and employee preferences for remote work. See the chapter on Trends for more information on the current landscape and future projections.

- In the wild economic swings of 2020, metro Portland unemployment's peaked in April at 14.3% and falling to 8.3% in August.

Exhibit 2. Employment by Industry

Portland Employment by Industry in Thousands 2020						
	Current Level		12 Month Change		5 Year Forecast	
NAICS Industry	Jobs (000)	LQ	Market	US	Market	US
Manufacturing	122	1.2	-5.73%	-4.29%	1.23%	0.58%
Trade, Transportation and Utilities	213	1.0	-3.93%	-3.69%	1.03%	0.80%
Retail Trade	112	0.9	-4.84%	-3.25%	1.49%	0.76%
Financial Activities	71	1.0	-5.82%	-1.32%	1.74%	0.79%
Government	144	0.8	-4.53%	-4.02%	1.16%	0.80%
Natural Resources, Mining, and Construction	78	1.2	0.49%	-3.81%	1.45%	1.29%
Education and Health Services	175	0.9	-5.35%	-4.35%	2.62%	2.02%
Professional and Business Services	184	1.1	-4.34%	-5.09%	1.47%	1.78%
Information	25	1.2	-8.03%	-6.69%	3.64%	2.33%
Leisure and Hospitality	94	0.9	-26.27%	-21.20%	6.76%	5.01%
Other Services	40	0.9	-6.23%	-7.52%	2.08%	1.55%
Total Employment	1,146	1.0	-6.79%	-6.10%	2.06%	1.62%

Source: Oxford Economics; (LQ=Location Quotient is the industry's concentration in the region relative to national share/average of 1.0)

Lake Oswego Market

The combined office inventory of the Lake Oswego and West Linn totals 3.9M SF distributed as follows: 2.8M SF included in the Kruse Way submarket and 1.1M SF within the Lake Oswego/West Linn submarket. Appendix A shows the most active buildings in the Lake Oswego areas over the last 12 months. The exhibit below distributes this inventory across CoStar's 5-Star rating system[3] of office product. At the bottom, a snapshot of trends as of September 30, 2020.

Exhibit 3. Kruse Way Submarket Key Indicators

Kruse Way Submarket Key Indicators 2020				
Properties by Rating	Leasable SF	Vacancy Rate	Market Rate $/SF	Under Construction
4 & 5 Star	1,420,323	16.2%	$34.66	0
3 Star	999,835	25.5%	$30.77	0
1 &2 Star	391,619	0.9%	$24.13	0
Submarket Total	**2,811,777**	**17.3%**	**$31.81**	**0**

Annual Trends	12 Month	Historical Average	Forecast Average
Vacancy Change (YOY)	3.8%	13.5%	19.5%
Net Absorption SF	(108 K)	17,558	(31,676)
Rent Growth	2.7%	1.8%	1.8%
Volume	$4M	$39.9M	N/A

Kruse Way Overview

- Shorenstein's Kruse Woods Corporate Park stands at 1.8M SF comprising 65% of this submarket's office product. Kruse is home to two of the largest office tenants, Logical Position (54K SF) and NAVEX Global (45K SF) both locally headquartered.
- Vacancies began trending up before COVID through company relocations. Autodesk (43K SF at Kruse Woods) moved to the Lloyd District and the Huron Consulting Group moved to Beaverton. In addition, the 78,000 SF Providence Mercantile Medical Plaza was demolished to enable the new Mercantile Village mixed-use center. Vacancies are forecast to rise to 19.5% in the next several months.

[3] CoStar uses a national office building rating system that includes architectural design, quality of construction materials, aesthetics, amenities, lobby and exterior site condition/landscaping. The rating is 1 -5 with 1 for buildings requiring significant renovation to 5 representing blgs reflecting latest trends, quality and exemplary state of the art.

- Properties with 4- and 5-Star status total 1.4M SF, making up half of the Kruse Way submarket. Vacancies stand at 16.2%. With nearly 1M SF, 3-Star properties have a significant presence and vacancy rate, 25.5%. Asking rents range from $24 to $34.6/SF and average $31.81 for the submarket.

Exhibit 4. Lake Oswego/West Linn Submarket Key Indicators

Lake Oswego/West Linn Submarket Key Indicators 2020				
Properties by Rating	Leasable SF	Vacancy Rate	Market Rate $/SF	Under Construction
4 & 5 Star	114,916	21.8%	$38.12	0
3 Star	404,150	15.5%	$28.81	0
1 &2 Star	598,837	1.2%	$25.45	0
Submarket Total	**1,117,903**	**8.5%**	**$27.97**	**0**

Annual Trends	12 Month	Historical Average	Forecast Average
Vacancy Change (YOY)	3.5%	8.9%	9.8%
Net Absorption SF	12.7 K	9.122	2,317
Rent Growth	1.4%	1.9%	2.1%
Sales Volume	$3.4M	$8M	N/A

Lake Oswego/West Linn Overview

- In the Lake Oswego/West Linn submarket, office properties rated 1 and 2 stars represent the majority of the base with 3-star properties also making a significant contribution. In total there are 140 office buildings with just two exceeding 60,000 SF- both in West Linn.
- The Beacon Building was the first office construction in the submarket since the Great Recession and ended a decade-long office building drought. Two floors were preleased as co-working space to CENTRL (30K SF) with an additional 10,000 SF on the fourth floor serving as event space and another 10,000 SF on the ground floor for retail/office. The Beacon is the submarket's newest and highest quality product, with rents over 35% higher than the submarket average.
- Like the Portland region overall, COVID impacts will produce falling rents in this submarket through mid-2021 that will gradually rise by 2022 year-end before plateauing through 2024. Vacancies will rise from 8.5% to nearly 10% in 2021.
- According to CoStar, office assets in the local market are most often traded by investors who live in the market area. There are typically about 15 sales per year topping out at $10M. One exception was the sale of the 7,000 SF Westlake Building in May 2020 for $2.6M to a Portland-based investor. The seller was Bend-based.

Lake Oswego Office Clusters

Beyond the dominant office destination of Kruse Way are numerous office clusters and freestanding buildings within Lake Oswego's commercial centers or corridors. These properties are included in the statistics by submarket but are summarized below for reference. Tenants are professional service providers (CPAs, attorneys, financial advisors, architects), medical providers and services, insurance offices, real estate professionals and banks (9). Veterinary services appear in spaces formerly office and retail.

Downtown Lake Oswego

Within the downtown core office clusters are found on A Avenue, B Avenue and 2nd Street. Including the many residential-to-office conversions, there are easily over 20 office buildings in the area. Selected properties appear below.

- Lakeside Plaza, 26 N. State Street, 2 story, 1 office available
- Beacon, 3rd & B Street, 6,320 SF available, $40/SF
- Lake View Village, 7,600 SF available, $23-$30/SF
- Banner Bank Building, 412 A Avenue, 3 floors, occupied with Banner, Legacy, financial/other medical
- Oswego Business Suites, 311 B Avenue, 2 floors, 685 SF available, $20/SF
- Oswego Pioneer Plaza, 155 B Avenue, 18,000 SF on 3 floors; 1,100 SF available, $28/SF
- Stafford Commons Building, B Avenue and 2nd St., 16,000 SF 2 story, (anchor - Umpqua Bank)
- Hanna Building, 530 1st St, 2 story, 1 office available
- Oswego Village, upper story offices
- Former Bank of America Bldg., 400 A Avenue; 8,850 SF on 3 floors available, $19/SF

Southwest Employment Area

This employment district is home to several pockets of small office or flex space buildings including:

- Lake Oswego Medical Plaza, 17704 Jean Way, 7,027 SF of 1st floor medical space available, $35.00/SF
- Lake Oswego Executive Park, 5775-5795 Jean Road, a three-building, 37,197 SF flex space park available: 4,608 at $12.96/SF
- Lakeview Business Center 5740-5820 Jean Rd, 12,025 SF available

Bangy Road

- Kruse Professional Building, 15171 Bangy Road, 3 offices available
- Viridian Place, 15573 SW Bangy Road, 3-story 14,488 SF; 1,966 SF available, $28/SF

Lake Grove/ Boones Ferry

Similar to downtown Lake Oswego, numerous freestanding single tenant office buildings are located on Boones Ferry, including 6+ banks, real estate, medical, vet services, insurance and related services. Several multi-tenant properties also exist there.

- Lake Grove Building, 16325 SW Boones Ferry, 13,222 SF total with 2,450 SF available
- Sunset Crossing Medical Professional Center, 16699 Boones Ferry, 2-story, multi-tenant
- Spring Creek Business Park, 15110 SW Boones Ferry, 15,042 SF total, 1 space available
- Boones Ferry Professional Plaza, 15962 SW Boones Ferry
- Shon-Tay Professional Center, 15800 SW Boones Ferry, 1 space available

Office Market Insights

Marketek interviewed nine Lake Oswego business owners, commercial brokers and other Portland area office market professionals to gather on-the-ground information and insights about long-term COVID impacts on office characteristics and demand. The list appears in Appendix B with trends and insights shared below.

General Office Trends

- Short term, Portland CBD will struggle to rebuild its image as a desirable location with the double V effect of the virus and violence. 'Flight to the suburbs is real. One brokerage firm is buying up office space in suburban markets.' '41% of office inquiries during COVID have been asking for suburban.'
- Yet, the Portland region's value proposition of 'cheap, fast, growing' will make us desirable on the other side of COVID. The CBD will rebound but it will take time.
- Portland economy is increasingly diversified with tech, bioscience, health care and hospitality. Pent-up demand in some of these sectors will help the office market in short term.
- GPI's commercial broker roundtable insights: With money cheap and Portland a low-cost business location on the West Coast, the region is well-situated for long-term play and increased investment by national developers. With vaccine availability, expect the largest office rebounds in 3rd and 4th quarters of 2021.
- Lots of subleasing is occurring. 30-50% of office employers are allowing remote work for now. For now, downsizing makes financial sense.
- Upper echelon of professional service firms – attorneys, CPAs, financial adviser – appear to be hanging on to their space. Two individuals commented: 'We wouldn't change a thing.' Specialty medical providers are also stable office users.
- Short-term success of co-working space is dependent on design and layout; long-term it is here to stay serving especially millennials and tech workers.

Structural Office Shifts

- Even before COVID, people were demanding remote work, open office environments have been falling out of vogue.
- Fully expect that smaller footprints, rotating schedules, more square feet per person and not sitting next to other people will go on for at least the next two years. 'Retaining the workforce is critical; companies will respond.'
- Over the next five years, expect hybrid workforce- working from home one to two days a week. Office environments may change but will not go away. 'Humans want interaction and the experience of engagement.'

About Lake Oswego

- Although there is an exodus occurring out of large Class A high rent offices like on Kruse, long term, the Kruse office campus will remain the 'darling of suburban Portland office locations.' Key advantages noted are location, access, parking and not subject to City of Portland and Multnomah County tax. It will always be desirable for larger tenants looking for suburban markets.
- Kruse is 'very comfortable.' Amenities are good and getting better with the addition of nearby restaurants and services at Kruse Village and soon at Mercantile Village. However, it was noted several restaurants vacated before COVID hit. Walkability is improving.

- Smaller footprints (2-5K SF) will remain desirable and stable especially with professional service tenants in law, accounting, insurance. Downtown LO is where many of these smaller scale operations exist.

Property Owner – Tenant Strategies

- Kruse Way tenants commented that 'Shorenstein has provided us good lease flexibility' and works well with tenants. However, a commercial broker reported that Shorenstein has raised rents on some clients during COVID which is a hardship.
- One broker observed that banks are generally working with landlords and landlords in turn offering rent concessions to tenants.
- Landlords flexing with the market and holding special deals will do OK. Credit and lease term are the two criteria to manage for success
- Going forward, brokers and landlords will be selling the office again luring people back in with reliable and innovative infrastructure, few distractions and upgraded amenities.
- Lake Oswego could benefit if one realtor's forecast comes true: Satellite suburb offices could emerge near a city base that serve professionals working from home in the neighborhoods where they live

Office Market Trends

Marketek researched office market real estate and user trends from three perspectives: pre-COVID, during the pandemic and the anticipated post-COVID future. Office market experts overwhelmingly agree that COVID accelerated – rather than ignited – trends that were already in motion. An overview of those key trends follows.

The Landscape Looking Back

Several industry trends observed pre-COVID are here to stay for the foreseeable future.

- **Choices and Flexibility Needed**. Flexibility was already being favored over the rigidity of workplaces past. Newer spaces were lauded with innovative 'live and work' areas that fostered more authentic interactions in hopes of attracting creatives and keeping younger workers engaged. For example, some meeting rooms might have couches or high tabletops vs. the traditional table. Even the vending machine has become outdated, with more and more companies opting for community-style kitchens that feature local beers or cold brews on tap and a rotating choice of shared snacks. Similarly, the rote schedule of a 9 to 5 was being challenged as the norm. Staggered hours and work-from-home days for busy parents were increasingly accepted.

Offices made up of gray walls, cubicle farms and antiquated technology are obsolete. But that is because we are in the 21st century, not because of COVID-19.

-National Real Estate Investor (NREI)

- **Digital Transformation Made Anywhere an Office**. Technology allows us to take our job with us anywhere, for better or for worse. The adoption of tech has made it easier for our jobs to be at home and on the go, or in any space we live. The most basic laptop can be taken anywhere, wireless accessories enable easy travel, and VPNs allow for security on most public networks. Plugging into a single station and staying put all day is viewed as outdated. Digital Transformation has contributed to the more flexible work schedule, discussed earlier.
- **Wellness Culture Permeated into Workspaces, Too**. As cultural conversations around health and wellness increased over the last decade, so did their impact on office life. Corporate cultures increasingly encouraged work/life balance with structural changes like incorporating natural spaces, nap pods, and gym or workout rooms. Sustainability features were also fused. Some of this was to meet the needs of younger workers, who are traditionally less company-loyal long term. Studies show that a range of amenities and benefits are attractive to them.
- **Demographic Shifts in the Suburbs and Commuting Pain Made *Work-From-Home* Even More Desirable**. Compounding the demographic shift as millennials moved to the suburbs, which is traditionally further away from urban office space, commute times have increased. Commuting has long been associated inversely with employee satisfaction.

A demographic shift from urban to suburban life was already occurring prior to the pandemic, as millennials in their late 20s and early 30s were beginning to start families and move to the suburbs. As a result, employer and investor interest in suburban office assets was rising.

-National Real Estate Investor (NREI)

- **Safety and Security Considerations Were Growing**. Corporate offices were also increasingly leveraging design and space to proactively problem-solve for #metoo concerns, workplace shootings/crises, natural disasters, etc. And now, this will likely evolve to encompass CDC and OSHA guidelines, too, and reflect the heightened awareness of mental health ignited during the pandemic.

The Landscape Today

- **Many are still working from home**. While over 35% of employed people worked from home in May 2020, the average has stabilized from September through now, hovering around 22%.
  - Averages are much higher with employees that hold higher education levels. In November alone, the number jumped to 35% with a bachelor's degree and nearly 50% when looking at employed persons with an advanced degree. (U.S. Bureau of Labor)
- **Overall, remote work has been going better than expected**, reflected in the general sentiment of various surveys. (Upwork Survey, April 2020)
- **The market is rebounding, slowly**. Net-lease investment volume increased by 24.4% quarter-over-quarter in 2020 Q3 to $11.7 billion after a weak Q2. The net-lease share of all commercial real estate investment activity stood at 18.4% in Q3, well above the five-year average of 11.8%.
  - New York City, Dallas/Fort Worth, Boston, Los Angeles and Orange County had the most net-lease investment volume in 2020 Q3. Investors also were increasingly interested in secondary and tertiary markets. (CBRE)
  - In terms of year-over-year change, demand for office space was down by about 50% from pre-COVID levels. (CBRE)

Region-Specific

- Of course, there are wide disparities across markets depending on stay-at-home orders. As much of Oregon remains under stay-at-home guidance, we can expect that a local market rebound is still to come.
- Even so, already about one-third of Oregon's work-from-home workers have been called back to the office – further reason to be optimistic that this will only continue to increase. (Oregon Office of Economic Analysis)
- In Portland, COVID's March arrival collided with an office market that already appeared to be cooling. Real estate firm Colliers International warned in October 2019 that it would take years for all the new space coming online to fill up. (Portland Business Journal)
- Net absorption is a crucial indicator of market demand, calculated by subtracting occupied office space during one quarter from the previous quarter. In the Portland area, the metric hit at least a 20-year low in the third quarter (2020) of negative 566,042 SF, much of that concentrated in the central business district, according to Colliers.

A Note about Industry Differences

- There's disparity by industry, too, as many jobs cannot be performed remotely and require that workers be physically present at their worksites. Using Occupational Information Network (O*NET) and Occupational Employment Statistics data, it's estimated that 63%of current U.S. jobs require significant onsite presence and that the remaining 37% can be performed entirely at home.
  - Industries that O*NET concludes are most suitable for telework are Financial Activities (81% able to telework), Information (80%) and Professional and Business Services (72%). For the full breakdown by industry provided by O*NET, see Appendix C.

- As tech firms in Silicon Valley led the trend of remote working both during and after the pandemic (Facebook, Twitter, Slack, Salesforce, to name a few) the Portland Business Journal reported a survey around local tech projections – 75% of Portland's tech executives expect to remain mostly remote after the pandemic. And that appears to be largely welcomed by employees, as one-third of employee respondents said they would leave the Portland area if they could keep working remotely, indicating a degree of favor for the forecasted flexibility.

The Landscape Post-COVID

- Market predictions from Cushman and Wakefield regarding the U.S. market follow:
    - Global office vacancy will rise from 10.9% pre-crisis (2019 Q4) to 15.6% in 2022 Q2.
    - As the economy and employment recover, the global office sector will begin absorbing space in 2022 Q1 and vacancy will trend downward from that point forward. By 2025, global office vacancy returns to pre-crisis levels of approximately 11%.
    - Rents bottom in 2022 Q1 and begin appreciating from that point forward, returning to pre-crisis peak levels in 2025.

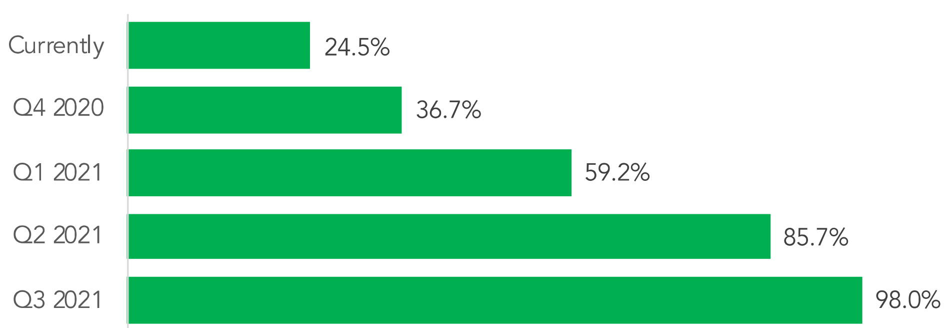
Trend Predictions

Office Use Will Decrease

- In line with trends that were in motion before the pandemic, it is expected that companies across sectors will continue to use less space and will encourage more remote working options.
- As McKinsey and Company reports, the potential for remote work is *more determined by task and activities, not occupations* themselves. For those who transition to remote work, office space may be used primarily for holding meetings and having a home base, with some smaller office spaces for extroverts that want to socialize more, ultimately using a hybrid approach between spaces.

But the Office Isn't Dead

- Most experts agree that some degree of traditional office working will come back. Cushman and Wakefield estimate that while remote work will double over the next 10 years, that saturation will total just 10%.
- The return to office will be gradual, so patience with the market is key. Below is the percent of office workers expected to return to the office over the next year.

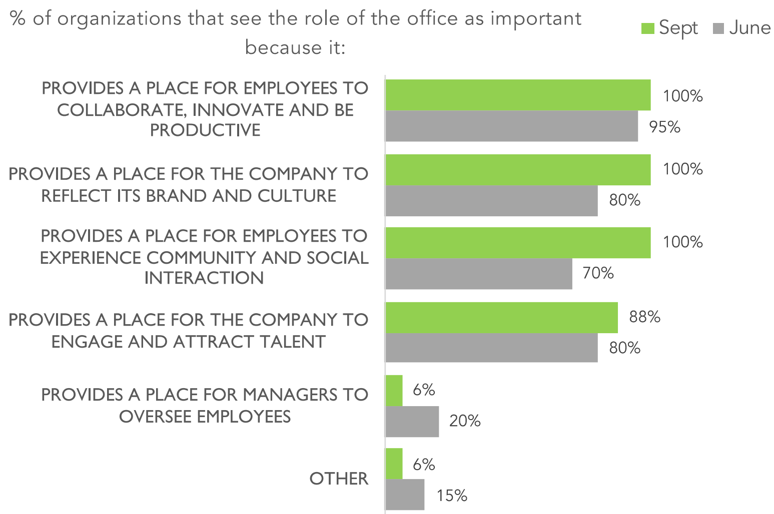


Note: Respondents who said they'd return to the office. Excludes responses of "unsure".
Source: CBRE Occupier Sentiment Survey, September 2020.

- The suburbs are expected to recover more quickly than urban areas, as trends of decentralization and flexible workspaces continue after the pandemic. (Cushman and Wakefield)
    - "The top-performing suburban assets over the past several years and amid the pandemic are those that best emulate the environment of a CBD within a lower-cost, lower-density environment. Newer, class-A office assets that recreate the appeal of an urban environment, with transit connectivity and nearby amenities, outperform older-vintage suburban product in more distant suburbs." (Cushman and Wakefield)

Lean into the Why

- To optimize productivity, employers and employees do want to return to the office in some capacity. While productivity spiked early in the pandemic, it hasn't been sustained. (CBRE)
    - Other top reasons cited for wanting to return to the office include fostering creativity, collaboration, company culture, and mental health. Below are responses to a CBRE survey on returning to the office, with priorities compared from responses June and September.



Source: CBRE Occupier Sentiment Survey, September 2020.

Space Use Will Change

- After months of isolation, there will be a surge in the value of people and conversations. Communal spaces that allow for culture and community will likely be in high demand.
- Many still think that cubicles will continue to phase out in the long-term, with spaces that promote movement and moments of collaboration on the rise, like hoteling or hot desking.
- CBRE predicts that space will be allocated differently, with a larger adoption of the Hub and Spoke model – a central hub HQ will connect a network of smaller regional offices, or spokes, closer to where employees live (likely in Tier 2 locations) – and those T2 savings will be used to reinvest in space upgrades.
- Most companies use their office space to attract and retain talent, but now they will have to fight the inertia of returning to the status quo. The companies that will end up winning from a talent or productivity perspective will be the ones who use this as an opportunity to ask, *what can we do*

differently in the space? What interactions do people need as human beings and how can we create more space for 'casual collisions' between people? (CBRE)

No clear picture yet of how much time will be spent "in office"

Predictions vary across sources, but experts seem to agree that around 20-25% of U.S. workers will work from home on some basis.

- McKinsey and Company research indicates that the percentage of time worked in main and satellite offices will decline by 12 and 9 percent, respectively, while flex office space will remain steady and work-from-home will increase to 27% of work time, from 20%. Of note, this growth is from pre-COVID (not during); as many companies may decide to keep remote working as an option now that they've invested in the infrastructure and seen success.
- Forty-nine percent of organizations surveyed by CBRE in September say they expect 25-75% of employees will be full-time remote moving forward. This estimate was up 10% from when they were asked the same question in June. In other words, there is still no consistent picture.
- It is estimated that 25-30% of the U.S. workforce will be working at home on a multiple-days-a-week basis by the end of 2021. (Global Workplace Analytics)
- By 2025, 36.2 million Americans will be working remotely, totally about 1 in 4 Americans, an 87% increase from pre-pandemic levels, according to Upwork's "Future of Workforce Pulse Report". (Upwork, December 2020)
- NREI put forward the estimate that office workers will eventually work from home 60-80% of the time, spending 20-30% of their time in co-working or flex space, and visiting HQ or a main office only for meetings, events, and trainings.
- In Oregon, the pandemic accelerated a trend toward working from home; it's estimated that nearly 15% of the state workforce will be working from home at least part-time by 2025 (compared to 7% in 2019). (See chart below)

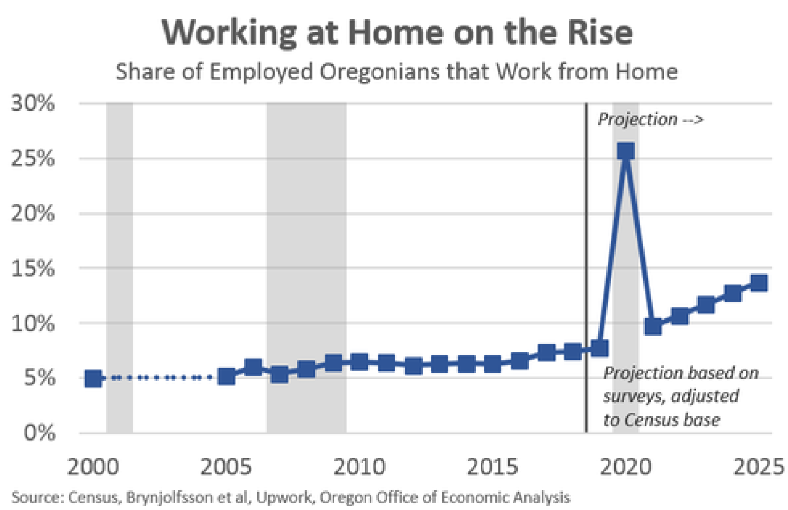


Exhibit 6: Forecasts of Long Term COVID Impacts on Office Spaces and Working

Forecasts of Long Term COVID Impacts on Offices				
Source	*Structural Shifts*	*What's in?*	*What's out?*	*Opportunities*
McKinsey & Company	Changing attitudes about the purpose of office space in modern work culture	- Flexibility - Seamless technology, like virtual whiteboards		Redesign for purpose (Ex: Collaboration or Quiet Spaces?)
National Real Estate Investor	Rise of technology and ease of connectivity; Employee autonomy is more acceptable	Autonomy and choice	The need to "manage" workers visually, in person	- Suburban flexible office space near retail community - Repurposed or recycled spaces (old department stores) - Re-building community, appreciation for community
Pricewaterhouse Coopers	Health and safety are top of mind	- People first, mental health, empathetic policies and culture	One-size-fits-all norms	- Automation, digital adoption to continue to find ways to make employees' lives easier - Re-evaluate real estate footprint
CBRE	Employees feel more empowered by not being bound by physical walls of one workplace. Many Millennials shifting to suburbs and away from urban centers	- A fluid, adaptable workplace - Larger residential spaces (to accommodate working from home); green energy (to help keep at-home costs down); smart homes (with good technology)	- Expecting everyone to come to the office every day - Smaller apartments for permanent WFH employees	- Opportunity to recruit and engage with workers who work remotely (Re: Zoom 'community' development) - Opportunities to deliver housing options for the remote worker
Cushman & Wakefield	Office-based job losses from pandemic result in higher vacancies, downward pressure on rental rates to fill them	- Creative retooling of office space to allow for social distancing and other safety measures; rotating shifts	- Dense, crowded office spaces	- Economic growth, population growth and office-based job rebounding will bring back demand for office space over 10-year horizon

Appendix A – Most Active Buildings in Lake Oswego

Most Active Buildings in Lake Oswego (Past 12 Months) 2020						
Property Name/Address	Rating (Stars)	Leasable SF	Deals	Leased SF	12 Mo Vacancy	12 Mo Net Absorp SF
Kruse Oaks III 5500 Meadows Rd	4	108,454	3	13,246	15.3%	10,245
Kruse Oaks II 5400 Meadows Rd	4	104,000	1	2,172	13.8%	6,637
Five Centerpointe 5 Centerpointe Dr	4	114,281	2	5,456	13.6%	(1,198)
One Centerpointe 1 Centerpointe Dr	4	95,003	2	5,911	17.7%	(3,175)
Kruse Woods V 5885 Meadows Rd	4	183,734	1	10,055	19.5%	(10,227)
Two Centerpointe 2 Centerpointe Dr	4	117,283	4	14,303	17.9%	(11,772)
4949 Meadows Building 4949 Meadows Rd	4	125,522	2	5,601	20.8%	(12,862)
4000 Building III 4000 Kruse Way Pl	3	41,537	2	9,710	43.6%	6,753
AAA Centerpointe 6 Centerpointe Dr	3	48,284	1	810	3.6%	1,462
4900 Meadows Building 4900 Meadows Rd	3	58,420	1	2,283	9.4%	(1,414)
Kruse Woods I 5285 Meadows Rd	3	119,122	3	4,795	22.6%	(7,286)
4004 Kruse Way Place 4004 Kruse Way Pl	3	58,002	1	994	41.5%	(8,403)
Kruse Woods II 5335 Meadows Rd	3	124,902	2	4,123	16.8%	(12,830)
Beacon Lake Oswego B Ave	4	50,000	1	2,170	12.6%	43,680
Boones Ferry Crossing 17040 Pilkington Rd	3	30,000	2	6,980	28.2%	4,247
Oswego Pointe 1 300 Oswego Pointe Dr	3	13.504	1	2,126	0%	0
Oswego Pioneer Plaza 155 B Ave	3	18,000	4	5,121	6.4%	(2,890)

Appendix B – Local Interviews Conducted

Amy Jauron, Greater Portland Inc.

Karen Jacobson, Ivey, Jacobson & Company, LLC

Ashley Connor, CBRE, Portland

Scott Buth, HMS Realty

John Burton, Emerald Employment

Kim Gach, General Manager, Kruse Woods Corporate Park (TBD)

Erik Knoder, Oregon Employment Department

Sue Vlite, Meadows Executive Suite

Joe Kappler, Macadam Forbes

Appendix C – Percent Able to Work Remotely by Industry

Percent Able to Work Remotely by Industry 2020	
Industry	Percent share of employed able to telework (April 2020)
Financial Activities	81%
Information	80%
Profession and Business Services	72%
Public Administration	57%
Education and Health Services	48%
Manufacturing	41%
Mining, Quarrying, Oil and Gas Extraction	40%
Other Services	40%
Transportation and Utilities	33%
Wholesale and Retail Trade	27%
Construction	21%
Leisure and Hospitality	20%
Agriculture, Forestry, Fishing and Hunting	8%
Total	46%

Source: BLS, April 2020