

Portland Industrial

Market Forecast

	Current / Projection	
Vacancy Rate	4.5%	↓
Availability Rate	6.1%	↓
Construction	2.4M sf	↑
Net Absorption	358,605 sf	↓

Market Highlights

Asking rates increased to a record high at \$0.51/s.f.

The vacancy rate is the lowest in at least 10 years at 4.5%

Sales volume remains strong ■

Notable Lease Transactions

Tenant: Bunzl

Property: 205 Logistics Center
190,600 s.f.

Tenant: LINC

Property: Gateway Corporate Center
105,538 s.f.

Tenant: Kellogg Sales Company

Property: Prologis Riverside Parkway
95,452 s.f.

The Portland industrial market started the year where it left off, with strong fundamentals coupled with a shortening supply of industrial space. Demand remains high but, with vacancy at 4.5% and limited new construction, overall absorption will be less than 2015. A lack of options can force tenants into situations that are not ideal or, in some cases, be a reason to leave the market. Although rental rates continue to climb, tenant's businesses are usually strong enough to absorb the increase in rates. New companies continue to enter the market and existing tenants are growing. Building sales volumes remain strong, along with an increasing average sales price per square foot. There are no signs that the market is going to slow down for the remainder of the year and into 2017. As supply is constrained, we expect landlords to continue to push rents and limit concessions. Additionally, with the increased rental rates on new product achieving shell rates of \$.50 or greater, it may become economically feasible to construct new smaller projects providing spaces under 20,000 s.f., providing one can find the land, which is also in short supply.

Vacancy, Availability, and Net Absorption

The vacancy rate within the Portland market was 4.5% during the first quarter, down from 4.7% during the end of 2015, marking the lowest rate within the Portland market in at least 10 years. The amount of available space ticked up slightly to 6.1%, up 20 basis points from 5.9% last quarter. The availability rate tracks product on the market for lease whether the space is physically vacant or not. Net absorption was relatively low at 358,608 s.f. The leading cause for this "lower" absorption is the limited supply of available space. We are not going to keep up with historical absorption unless we continue to deliver new space on the market. With only 245,532 s.f. delivered in the first quarter, absorption should continue to remain moderate until more of the construction is delivered.

→ Continued, page 2

Area Review

Portland Industrial Market Statistics

Period	Inventory		Vacancy Rate	Availability Rate	Net Absorption	Buildings Delivered	NRA Deliveries	Buildings U/C	NRA U/C	Avg Asking Rate/NNN
	Buildings	NRA								
2016 Q1	5,738	194,406,483	4.50%	6.40%	358,608	5	245,532	16	2,114,175	\$6.06
2015 Q4	5,744	194,494,912	4.70%	6.20%	1,261,501	8	897,745	17	1,795,923	\$5.77
2015 Q3	5,742	193,976,101	5.10%	6.80%	313,427	10	1,063,875	23	2,329,306	\$5.74
2015 Q2	5,737	192,991,471	4.80%	6.80%	-164,726	2	97,000	19	1,964,912	\$5.79
2015 Q1	5,742	193,150,251	4.80%	7.30%	1,095,533	5	575,980	14	1,790,797	\$5.57
2014 Q4	5,740	192,612,874	5.10%	7.40%	712,911	5	534,200	14	1,761,696	\$5.47
2014 Q3	5,741	192,231,271	5.30%	7.80%	855,188	1	27,500	14	1,227,680	\$5.42
2014 Q2	5,742	192,242,633	5.70%	8.20%	532,606	6	557,963	12	942,930	\$5.31
2014 Q1	5,754	192,075,469	5.90%	8.60%	-240,690	1	11,675	15	1,229,163	\$5.31
2013 Q4	5,764	192,199,274	5.90%	8.20%	774,344	2	64,320	7	569,638	\$5.25
2013 Q3	5,765	192,202,954	6.30%	8.60%	588,202	4	70,500	7	232,088	\$5.31
2013 Q2	5,769	192,261,474	6.60%	9.20%	-745,296	2	142,008	8	190,585	\$5.30

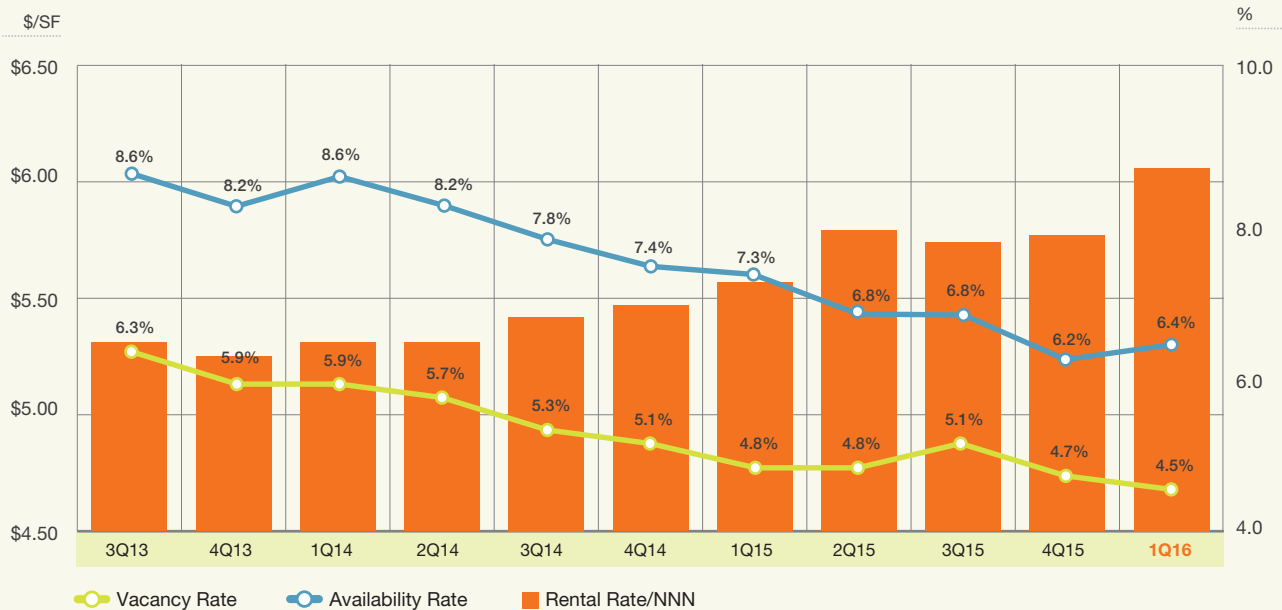
Leasing Activity

Rental rates continued to climb during the first quarter, increasing to \$0.51/s.f. on a shell basis, a record high within the Portland market. Asking rent has increased 8.8% from one year ago when the rate was \$0.46/s.f. Current asking shell rates range from \$0.34 to \$0.38/s.f. for Class C properties, \$0.39 to \$0.45/s.f. for Class B properties, and \$0.45 to \$0.55/s.f. for Class A properties.

There were some notable lease signings in the first quarter that solidified the strength of the market. Bunzl, located in Clackamas, grew out of their existing 127,000 s.f. space into 190,600 s.f. at the

newly constructed 205 Logistics Center. LINC signed a new lease in January for 105,538 s.f. at the Gateway Corporate Center. The shell rate was \$0.46/s.f., setting the high water mark for rent on a warehouse over 100,000 s.f. Kellogg Sales Company signed a seven year lease of 95,452 s.f. in a two tenant building at Prologis Riverside Parkway in the Airport Way submarket. The initial blended base rent was \$0.46/s.f. (\$0.42/\$0.85). Other notable leases included Bell-Carter Packaging (91,200 s.f.- Rivergate), Amazon (89,481 s.f.- Guilds Lake), Sysco Guest Supply (66,250 s.f.- Rivergate), GELS Logistics (55,117 s.f.- Rivergate), and Lippman Company (44,854 s.f.- Airport Way).

Vacancy, Availability & Rental Rates



Vacancy Rate by Submarket

Submarket Cluster	4Q12	4Q13	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
CBD	5.6%	2.9%	3.0%	2.7%	2.70%	2.90%	3.8%	5.9%
Clark County	5.7%	5.6%	3.7%	4.1%	4.10%	4.30%	8.2%	7.4%
I-5 Corridor	6.0%	5.6%	5.3%	3.7%	4.20%	4.10%	5.1%	5.4%
Kruse Way	3.7%	0	0	0	0	0	0	1.9%
Lake Oswego/West Linn	5.4%	5.3%	4.0%	4.0%	13.7%	8.8%	8.5%	2.8%
Tigard	6.0%	4.8%	3.8%	2.5%	3.6%	3.5%	4.6%	4.6%
Tualatin	3.8%	5.8%	6.2%	4.8%	4.5%	4.2%	6.4%	6.3%
Sherwood	2.9%	4.1%	3.5%	2.4%	1.4%	1.5%	2.2%	1.2%
Wilsonville	9.9%	6.7%	3.3%	2.5%	2.9%	3.9%	4.2%	6.8%
Lloyd District	3.7%	4.4%	0.9%	0.9%	0.6%	0.5%	1.6%	1.6%
Northeast	6.3%	5.9%	5.7%	5.5%	5.2%	5.7%	4.7%	4.5%
Airport Way	5.1%	4.8%	5.1%	5.2%	4.4%	4.4%	1.5%	1.9%
East Columbia Corridor	7.2%	5.1%	5.5%	5.6%	5.3%	6.6%	6.3%	6.4%
Hayden Island/Swan Island	7.2%	5.6%	4.5%	3.8%	3.9%	3.3%	2.0%	1.8%
NE Close In	2.2%	0.6%	0.7%	0.6%	0.8%	0.7%	0.8%	1.1%
Rivergate	8.0%	10.9%	9.9%	8.0%	9.1%	9.7%	9.3%	7.8%
Northwest	3.0%	3.7%	4.7%	3.2%	4.8%	3.4%	3.6%	4.0%
Guilds Lake	3.1%	3.7%	3.3%	3.3%	3.4%	3.5%	3.5%	4.0%
NW Close In	1.7%	4.4%	2.7%	2.0%	2.0%	2.6%	4.9%	6.4%
Southeast	5.3%	4.7%	4.4%	4.3%	4.6%	4.6%	3.9%	3.9%
SE Close In	3.3%	3.0%	2.3%	0.8%	1.3%	1.7%	1.9%	1.0%
Clackamas/Milwaukie	6.0%	5.2%	4.8%	5.4%	5.5%	5.4%	4.6%	4.9%
Oregon City	1.8%	3.2%	1.6%	1.6%	1.6%	1.6%	0.7%	1.5%
Southwest	12.0%	8.3%	7.0%	5.6%	5.3%	5.3%	7.1%	4.6%
217 Corridor/Beaverton	12.9%	11.0%	8.2%	7.1%	6.6%	6.6%	8.9%	8.5%
North Beaverton	11.2%	1.5%	1.2%	1.2%	1.0%	1.0%	0.8%	2.9%
Westside	3.6%	4.6%	5.6%	4.6%	4.1%	4.0%	3.2%	3.0%
Sunset Corridor/Hillsboro	3.6%	4.6%	4.6%	4.6%	2.7%	2.6%	3.2%	3.0%

Investment Activity

Total sales volume was \$124.46 million in the first quarter, compared to \$174.39 million during the fourth quarter of 2015. The largest sale of the quarter was the 423,300 s.f. I-84 Industrial Center, which sold for \$22.3 million, or \$53/s.f. The property would be considered Class B/C distribution space with lower in-place rental rates. It was 100% leased at the time of the sale and purchased by a new to market buyer, DRA Advisors out of New York, NY. Other notable investment sales include Pacific Northwest Properties purchasing the fully stabilized 9700 SW Harvest Court for \$7,407,431 (\$96.83/s.f.) and Prologis purchasing the 131,037 s.f. Allegro building at 19786 NE San Rafael for \$11,250,000 (\$85.85/s.f.). According to the first quarter 2016 PwC Real Estate Investor Survey, strong investment interest from foreign and domestic sources in the Pacific region is pushing pricing above replacement cost.

Prices for warehouse properties in the Pacific region (which includes Oregon, Washington and California), range from 80% to 110% of replacement cost, with an average of 99.6%.

For the industrial sales over the \$1,000,000 mark, the first quarter saw \$98 million dollars worth of sales with an average sale price of \$75/s.f. The median sale price was \$100/s.f.

New Deliveries & Under Construction

There are over two million square feet of industrial property under construction in the Portland market as of the first quarter of 2016, including the 600,000 s.f. Subaru Distribution Center, 355,200 s.f. at PDX Logistics, and Majestic Brookwood Business Park's 303,360 s.f. Building 3. A 105,905 s.f. Class A warehouse at the Gateway Corporate Center was also delivered at the end of the quarter.

Offices

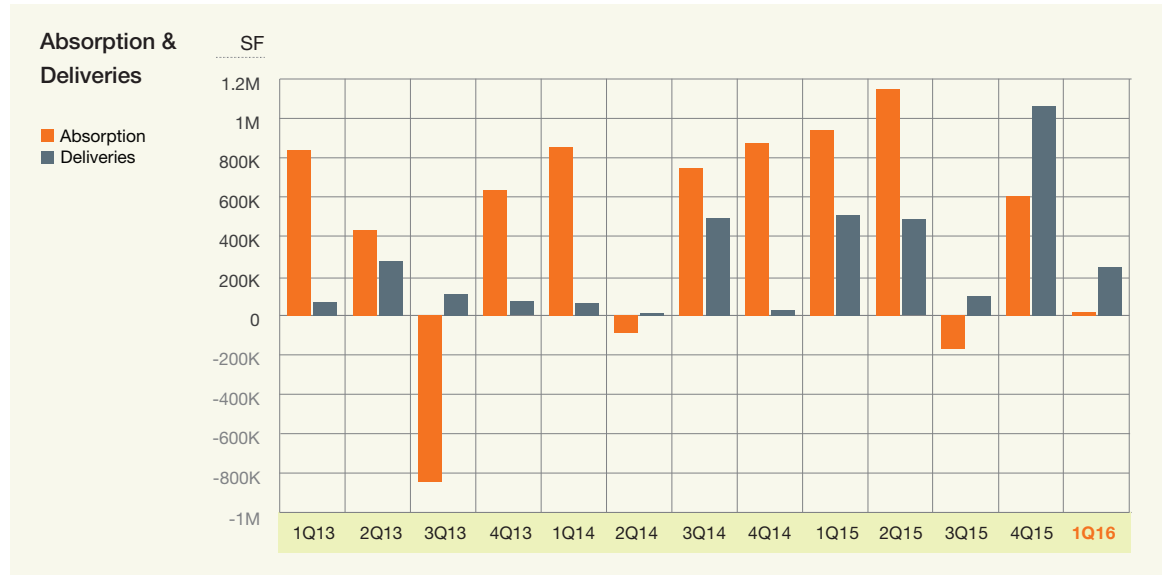
- Seattle
206.296.9600
- Bellevue
425.454.7040
- South Seattle
206.248.7300
- Tacoma
253.722.1400
- Olympia
360.705.2800
- Portland
503.221.9900
- San Francisco
415.229.8888
- Redwood Shores
650.769.3600
- Silicon Valley
408.970.9400
- Sacramento
916.751.3600
- Reno
775.301.1300
- Orange County
949.557.5000
- San Diego
858.509.1200
- Phoenix
602.513.5200

Contact

Jeffrey S. Lyon, CCIM, SIOR
Chairman and CEO
206.296.9600
jlyon@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

Ariel Gallagher
503.721.2718
arielg@kiddermathews.com



Deliveries to the market during the first quarter totaled 245,532 s.f. New land sites for construction remain constrained which will continue to put pressure on new supply

Summary

The Portland industrial market continues to strengthen. The supply of rental space is getting so thin that tenants have struggled to find the right space, and in some instances, have been forced out of the market. Rental rates continue to increase, vacancy is the lowest it has been in nearly a decade, and development is strong. The biggest development constraint going forward is the ability to find land and develop that land for a reasonable cost allowing a project to pencil. There is a severe shortage of the 5,000 to 20,000 s.f. spaces in the market which is typically the “bread and butter” size range for Portland industrial tenants. New projects have focused on larger format buildings (for lesser cost PSF) so there have been hardly any new

projects delivered or planned to target tenants in this size range. As a result, existing product (new and old) has seen increasing rates and shortage in inventory. Rental rates are almost high enough to justify new construction of smaller format buildings for these smaller tenants, but with demising walls, multiple restrooms and storefronts, these are very expensive buildings to construct and would require \$0.55 to \$0.65/s.f. on the shell rate. Absorption for 2016 will not be as high as previous years, but that is a factor of supply, not demand. The inventory that is available for sale continues to remain low, and the buildings that are selling continue to see strong pricing, with significant value increases year-over-year. Overall, the Portland industrial market is expected to remain strong through 2016 with increasing rates across all submarkets.

Data Source: CoStar

Recent Sale Activity of Note

Property Address	Location	Bldg SF	Price/SF	Sale Date	Sale Price
18285-18557 NE Halsey St.	Portland	423,300	\$52.68	3/17/2016	\$22,300,000
19786 NE San Rafael	Portland	131,037	\$85.85	2/12/2016	\$11,250,000
9700 SW Harvest Ct.	Beaverton	76,500	\$96.83	1/8/2016	\$7,407,431
7440 SW Bonita Rd.	Tigard	49,950	\$90.09	1/6/2016	\$4,500,000
4644 SE 17th Ave.	Portland	33,800	\$110.95	3/22/2016	\$3,750,000

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.