

# Portland Industrial

## Market Forecast

	Current / Projection	
Vacancy Rate	4.2%	↓
Availability Rate	5.9%	↓
Construction	2.4M sf	↔
Net Absorption	754,921 sf	↑

## Market Highlights

Asking rates increased to a record high at \$0.53/s.f.

Vacancy and availability rates are the lowest in over 10 years at 4.2% and 5.9%, respectively.

Sales volume remains strong. ■

The Portland industrial real estate market saw a continuation of recent trends during the second quarter of 2016. Strong absorption, low vacancy, and increasing rents are never boring, but the second quarter vacancy was no different than the previous eight. Demand is still strong and has outpaced supply, as shown by the decreasing vacancy, and there is still trepidation that the vacancy level is below a “healthy” amount. For 10,000-20,000 square foot users, it can be nearly impossible to find space.

## Vacancy, Availability, and Net Absorption

The vacancy rate within the Portland market dropped 20 basis points during the second quarter to 4.2% from 4.4% during the first quarter. At the same time, the amount of available space decreased 50 basis points to 5.9% from 6.4% at the end of the first quarter, marking the lowest availability rate in at least 10 years. The availability rate tracks product on the market for lease whether the space is physically vacant or not. Net absorption was a positive 754,921 square feet, up from 411,698 square feet during the first quarter, primarily because of the high volume of new deliveries. There were 428,988 square feet delivered during the second quarter, compared to only 245,532 square feet delivered in the first quarter.

## Leasing Activity

Rental rates in the Portland market are still climbing, reaching a record high of \$0.53 per square foot on a shell basis. The average asking rental rate increased 4.5% over last quarter, and 9.3% from one year ago when the rate was \$0.48 per square foot. Current asking shell rates range from \$0.34 to \$0.38 per square foot for Class C properties, \$0.39 to \$0.45 per square foot for Class B properties, and \$0.45 to \$0.55 per square foot for Class A properties.

There were several large leases signed during the second quarter, including United Parcel Service’s lease of 234,960 square feet at PDX Logistics Center, Wymore Transfer Co.’s lease of 175,100 square feet at Chirgwin Distribution Center, and Cummins, Inc.’s

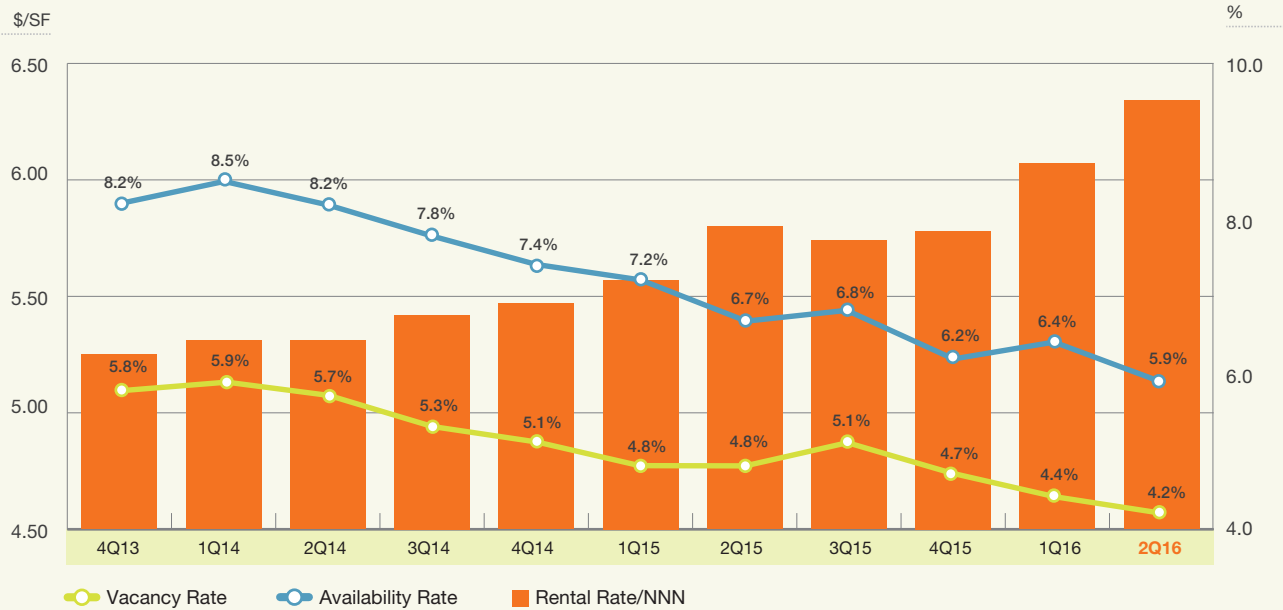
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# Area Review

## Portland Industrial Market Statistics

Period	Inventory		Vacancy Rate	Availability Rate	Net Absorption	Buildings Delivered	NRA Deliveries	Buildings U/C	NRA U/C	Avg Annual Asking Rate
	Buildings	NRA								
2016 Q2	5,746	195,070,437	4.2%	5.9%	754,921	5	428,988	22	2,433,813	\$6.34
2016 Q1	5,742	194,666,879	4.4%	6.4%	411,698	5	245,532	22	2,168,013	\$6.07
2015 Q4	5,751	194,787,344	4.7%	6.2%	1,303,718	9	909,582	23	1,847,761	\$5.78
2015 Q3	5,748	194,256,696	5.1%	6.8%	288,305	10	1,063,875	28	2,382,181	\$5.74
2015 Q2	5,743	193,272,066	4.8%	6.7%	-128,726	2	97,000	24	2,016,799	\$5.80
2015 Q1	5,748	193,430,846	4.8%	7.2%	1,121,233	5	575,980	14	1,790,797	\$5.57
2014 Q4	5,746	192,893,469	5.1%	7.4%	687,111	5	534,200	14	1,761,696	\$5.47
2014 Q3	5,747	192,511,866	5.3%	7.8%	831,392	1	27,500	14	1,227,680	\$5.42
2014 Q2	5,748	192,523,228	5.7%	8.2%	530,559	6	557,963	12	942,930	\$5.31
2014 Q1	5,760	192,356,064	5.9%	8.5%	-227,740	2	22,275	15	1,229,163	\$5.31
2013 Q4	5,769	192,469,269	5.8%	8.2%	790,164	2	64,320	8	580,238	\$5.25
2013 Q3	5,770	192,472,949	6.2%	8.3%	589,376	4	70,500	8	242,688	\$5.31
2013 Q2	5,774	192,531,469	6.6%	8.7%	-731,138	2	142,008	8	190,585	\$5.29
2013 Q1	5,778	192,452,351	6.2%	8.8%	296,428	4	276,430	9	323,793	\$5.23
2012 Q4	5,777	192,261,686	6.2%	8.8%	972,965	2	67,365	9	468,935	\$5.17

### Vacancy, Availability & Rental Rates



## Vacancy Rate by Submarket

Submarket Cluster	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
<b>CBD</b>	2.9%	3.0%	2.7%	2.7%	2.9%	3.8%	5.9%	5.9%
<b>Clark County</b>	5.6%	3.7%	4.1%	4.1%	4.3%	8.2%	7.4%	5.9%
<b>I-5 Corridor</b>	5.6%	5.3%	3.7%	4.2%	4.1%	5.1%	5.4%	4.5%
Kruse Way	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	1.9%
Lake Oswego/West Linn	5.3%	4.0%	4.0%	13.7%	8.8%	8.5%	2.8%	4.3%
Tigard	4.8%	3.8%	2.5%	3.6%	3.5%	4.6%	4.6%	1.2%
Tualatin	5.8%	6.2%	4.8%	4.5%	4.2%	6.4%	6.3%	6.0%
Sherwood	4.1%	3.5%	2.4%	1.4%	1.5%	2.2%	1.2%	1.2%
Wilsonville	6.7%	3.3%	2.5%	2.9%	3.9%	4.2%	6.8%	6.0%
<b>Lloyd District</b>	4.4%	0.9%	0.9%	0.6%	0.5%	1.6%	1.6%	1.8%
<b>Northeast</b>	5.9%	5.7%	5.5%	5.2%	5.7%	4.7%	4.5%	4.2%
Airport Way	4.8%	5.1%	5.2%	4.4%	4.4%	1.5%	1.9%	4.1%
East Columbia Corridor	5.1%	5.5%	5.6%	5.3%	6.6%	6.3%	6.4%	4.3%
Hayden Island/Swan Island	5.6%	4.5%	3.8%	3.9%	3.3%	2.0%	1.8%	1.8%
NE Close In	0.6%	0.7%	0.6%	0.8%	0.7%	0.8%	1.1%	1.7%
Rivergate	10.9%	9.9%	8.0%	9.1%	9.7%	9.3%	7.8%	7.6%
<b>Northwest</b>	3.7%	4.7%	3.2%	4.8%	3.4%	3.6%	4.0%	3.3%
Guilds Lake	3.7%	3.3%	3.3%	3.4%	3.5%	3.5%	4.0%	3.0%
NW Close In	4.4%	2.7%	2.0%	2.0%	2.6%	4.9%	6.4%	7.4%
<b>Southeast</b>	4.7%	4.4%	4.3%	4.6%	4.6%	3.9%	3.9%	4.2%
SE Close In	3.0%	2.3%	0.8%	1.3%	1.7%	1.9%	1.0%	1.4%
Clackamas/Milwaukie	5.2%	4.8%	5.4%	5.5%	5.4%	4.6%	4.9%	5.3%
Oregon City	3.2%	1.6%	1.6%	1.6%	1.6%	0.7%	1.5%	1.0%
<b>Southwest</b>	8.3%	7.0%	5.6%	5.3%	5.3%	7.1%	4.6%	5.3%
217 Corridor/Beaverton	11.0%	8.2%	7.1%	6.6%	6.6%	8.9%	8.5%	6.4%
North Beaverton	1.5%	1.2%	1.2%	1.0%	1.0%	0.8%	2.9%	2.9%
<b>Westside</b>	4.6%	5.6%	4.6%	4.1%	4.0%	3.2%	3.0%	3.0%
Sunset Corridor/Hillsboro	4.6%	4.6%	4.6%	2.7%	2.6%	3.2%	3.0%	3.0%

lease of 119,993 square feet also at PDX Logistics Center. Other notable leases include Bay Valley Foods' renewal of 150,000 square feet at Kelly Point Distribution Center, and Kellogg's lease of 95,452 square feet at Riverside Parkway Corporate Center.

### Investment Activity

The total sales volume for the second quarter was nearly \$229 million, a significant increase from the \$124.46 million sold during the first quarter. The average sale price per square foot was \$98. The largest sale of the quarter involved Phase 1 PDX Logistics Center. The leasehold industrial portfolio consists of two buildings constructed in 2014 totaling 491,200 square feet. The property was fully leased at the time of sale and sold for \$46,600,000, or \$94.87 per square foot, with a cap rate of 5.7%. The property

was marketed for less than two weeks. Other notable sales include Dermody Properties Inc.'s acquisition of the 523,934 square foot Rivergate Logistics Center, which was 78% leased at the time of sale and sold for \$36,000,000, or \$68.71 per square foot, and the sale of Clackamas Distribution Center, a 190,600 square foot Class A industrial building constructed in 2016, which sold for \$16,823,000, or \$88.26 per square foot, reflecting a cap rate of 4.7%.

### New Deliveries & Under Construction

There is over 2.4 million square feet of industrial property under construction in the Portland market as of the second quarter of 2016. Deliveries to the market during the second quarter totaled 428,988 square feet including the 190,600 square foot

**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

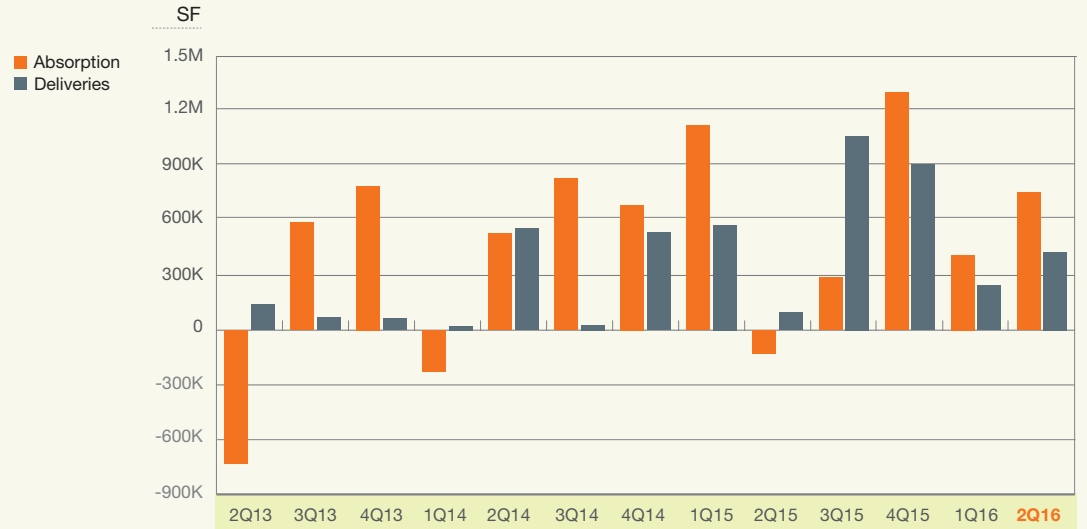
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**Absorption & Deliveries**



Clackamas Distribution Center, which is fully leased to Bunzl and sold during the second quarter. There is limited new land available for development, constraining the market's ability to add new supply.

**Summary**

In the Portland industrial market, the train continues to chug along at a very healthy clip. Rental rates continue to increase while vacancy and availability rates continue to decline. Sales

volume remains strong, and there are several projects under construction. One of the largest challenges for the market is finding available space, particularly for smaller users. Strong market conditions are expected to continue into the second half of 2016.

*Data Source: CoStar*

**Recent Sale Activity of Note**

Property Address	Location	Bldg SF	Price/SF	Sale Date	Sale Price	Cap Rate
9255 & 9555 NE Alderwood Rd	Portland	491,200	\$94.87	Apr-16	\$46,600,000	5.7%
8929 N Ramsey Blvd	Portland	523,934	\$68.71	May-16	\$36,000,000	-
11605 SE Jennifer St	Clackamas	190,600	\$88.26	Apr-16	\$16,823,000	4.7%
16255-16277 SE 130th Ave	Clackamas	157,716	\$73.93	Jun-16	\$11,660,000	7.2%

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