

# Portland Industrial

## Market Forecast

		Trends
Net Absorption	508K+ sf	↑
Vacancy	3.5%	↓
Rental Rates	\$0.55 NNN	↔
Construction	495K+ sf	↑

## Notable 2017 Lease Transactions

**Lam Research Corporation**  
2100 SW 115th Avenue, Tualatin  
201,300 s.f. Leased

**Unknown Tenant**  
14300-14340 N Lombard Street, Portland  
135,660 s.f. Leased

**Rosendin Electric**  
4830-5434 NW Brookwood Pkwy, Hillsboro  
91,650 s.f. Leased

## Notable 2017 Sale Transactions

**CBRE Global Investors**  
Cameron Distribution Center  
16913 NE Cameron Blvd, Portland  
320,795 s.f.  
Purchased for \$28,040,000 or \$87/s.f.

**Oger International**  
1300 NE 25th Avenue, Hillsboro  
112,500 s.f.  
Purchased for \$8,100,000 or \$72/s.f.

**Daves Killer Bread, Inc.**  
5209 SE International Way, Milwaukie  
49,079 s.f.  
Purchased for \$5,200,000 or \$106/s.f.

The Portland industrial real estate (excluding flex) market continued to grow during the first quarter of 2017, with 508,474 square feet of positive net absorption inching the total vacancy rate down to 3.5%, despite 496,567 square feet of new construction deliveries. Asking rental rates steadied at \$0.55 on a blended triple-net basis, varying by size, quality, and location of product, with superior offerings seeing 12% year-over-year rent growth and others closer to 5%. Leasing and investment activity both dipped from last year's quarterly totals, but demand remains strong, keeping vacancies low as new product is quickly absorbed and vacated spaces are backfilled. Developers are betting on stable or increasing demand for industrial space in metro Portland, with 18 projects totaling more than 2.1 million square feet under construction at quarter's end, and investor confidence in the market's sustained strength was reflected in sales underwritten at sub-6% cap rates.

The marketwide overall total vacancy rate ticked down to 3.5% during the first quarter, matching metro Portland's 15-year low, though vacancies varied by building size, product quality, and location. Properties smaller than 200,000 square feet, which account for 76% of the market's stock, reported just 2.7% vacancy at quarter's end, while bulk larger than 200,000 square feet were at 5.9%. Of the area's core industrial submarkets, Sunset Corridor/Hillsboro (1.3%) and Northwest Portland (1.9%) were the tightest, while the I-5 Corridor had the highest share of vacant space (4.5%). The Rivergate submarket has tightened rapidly over the past 18 months, registering a 410 basis point plunge in vacancy, from 9.3% to 5.2%. Northwest Portland vacancies have also fallen quickly, going from 4.1% to 1.9% year-over-year.

This quarter's strongest absorption gains were concentrated in the Clark County and Sunset Corridor/Hillsboro submarkets, which together gained 608,742 square feet of occupied industrial space, more than the market's 508,474 square feet of positive net absorption. In Clark County, the market leader with 369,214 square feet added this quarter, the logistics and shipping company OnTrac moved into 162,240 square feet at 3665 NW 32nd Avenue in Vancouver, a newly delivered building. The Rivergate submarket in Northeast Portland saw

→ Continued, page 4

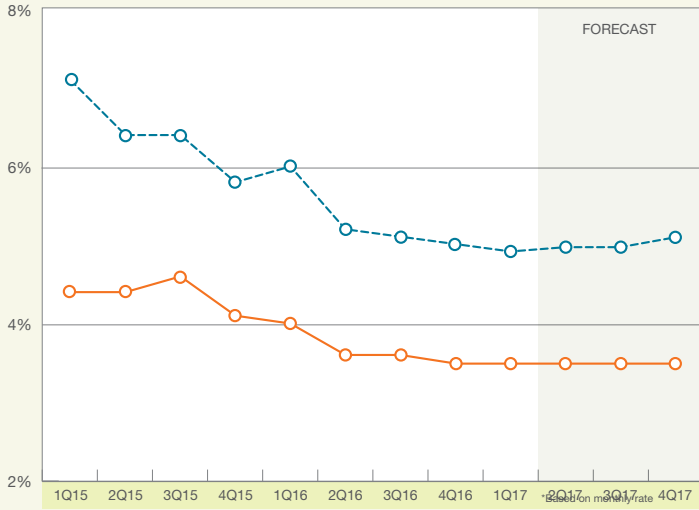
# Area Review

## Portland Industrial Market Statistics

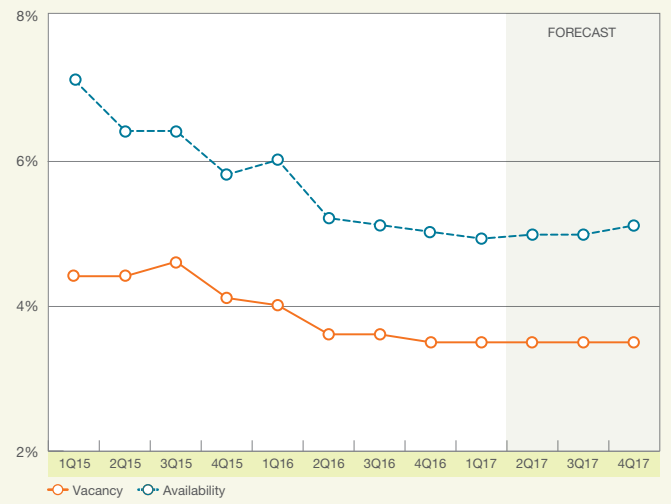
Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q1 Net Absorption	YTD Net Absorption	Q1 Leasing Activity	YTD Leasing Activity	Rental Rate
<b>Lloyd District</b>	<b>1,943,522</b>	<b>0.80%</b>	<b>0.80%</b>	<b>3.00%</b>	<b>(8,350)</b>	<b>(8,350)</b>	<b>0</b>	<b>0</b>	<b>\$1.00</b>
<b>Northeast</b>	<b>71,395,853</b>	<b>3.80%</b>	<b>4.20%</b>	<b>4.70%</b>	<b>(141,380)</b>	<b>(141,380)</b>	<b>630,328</b>	<b>630,328</b>	<b>\$0.52</b>
NE Columbia Blvd/PDX	14,519,815	1.80%	1.80%	3.20%	13,349	13,349	130,555	130,555	\$0.58
East Columbia Corridor	24,057,197	6.10%	7.30%	7.40%	(318,282)	(318,282)	184,606	184,606	\$0.54
Gateway	2,771,822	2.30%	2.30%	3.00%	19,081	19,081	45,991	45,991	\$0.73
Gresham	1,118,310	2.60%	2.60%	2.30%	2,176	2,176	12,336	12,336	\$0.78
Hayden Isl/Swan Isl	9,708,099	0.20%	0.20%	1.00%	1,981	1,981	15,990	15,990	\$0.45
NE Close-In	4,039,403	2.50%	2.50%	3.50%	(14,785)	(14,785)	4,200	4,200	\$1.10
Rivergate	15,181,207	5.00%	5.20%	5.00%	155,100	155,100	236,650	236,650	\$0.42
<b>Northwest</b>	<b>13,397,646</b>	<b>0.80%</b>	<b>1.90%</b>	<b>3.50%</b>	<b>76,593</b>	<b>76,593</b>	<b>72,895</b>	<b>72,895</b>	<b>\$0.65</b>
Guilms Lake	12,571,965	0.70%	1.90%	3.40%	76,593	76,593	72,895	72,895	\$0.56
NW Close-In	825,681	2.80%	2.80%	4.60%	0	0	0	0	\$1.51
<b>Southeast</b>	<b>30,321,147</b>	<b>3.00%</b>	<b>2.80%</b>	<b>3.30%</b>	<b>42,581</b>	<b>42,581</b>	<b>309,470</b>	<b>309,470</b>	<b>\$0.64</b>
Clackamas/Milwaukie	22,866,848	3.20%	3.00%	3.30%	80,122	80,122	214,100	214,100	\$0.51
Mall 205	402,832	0.00%	0.00%	0.00%	0	0	0	0	\$0.78
Oregon City	1,127,313	2.50%	2.50%	1.70%	(12,880)	(12,880)	8,380	8,380	\$0.68
SE Close-In	5,924,154	2.10%	2.20%	3.60%	(24,661)	(24,661)	46,990	46,990	\$1.06
<b>Southwest</b>	<b>7,706,889</b>	<b>4.60%</b>	<b>5.10%</b>	<b>7.30%</b>	<b>(75,758)</b>	<b>(75,758)</b>	<b>98,161</b>	<b>98,161</b>	<b>\$0.62</b>
217 Corridor/Beaverton	4,366,493	6.40%	7.30%	9.70%	(95,694)	(95,694)	78,161	78,161	\$0.58
Barbur Blvd/Capitol Hwy	136,743	0.00%	0.00%	0.00%	10,000	10,000	10,000	10,000	\$0.69
North Beaverton	1,797,267	0.30%	0.30%	3.70%	(5,944)	(5,944)	0	0	\$0.81
SW Close-In	1,406,386	5.00%	5.00%	5.30%	15,880	15,880	10,000	10,000	\$0.68
<b>Sunset Corridor/Hillsboro</b>	<b>13,960,810</b>	<b>1.30%</b>	<b>1.30%</b>	<b>2.50%</b>	<b>239,528</b>	<b>239,528</b>	<b>100,100</b>	<b>100,100</b>	<b>\$0.67</b>
<b>I-5 Corridor</b>	<b>26,318,500</b>	<b>4.50%</b>	<b>4.50%</b>	<b>5.30%</b>	<b>6,046</b>	<b>6,046</b>	<b>330,941</b>	<b>330,941</b>	<b>\$0.59</b>
<b>Clark County</b>	<b>18,387,782</b>	<b>2.80%</b>	<b>3.30%</b>	<b>4.40%</b>	<b>369,214</b>	<b>369,214</b>	<b>115,227</b>	<b>115,227</b>	<b>\$0.57</b>
Camas/Washougal	1,283,561	2.30%	2.30%	2.70%	2,000	2,000	0	0	\$0.37
Cascade Park/Orchards/Van. Mall	4,704,545	3.50%	3.50%	4.90%	(6,635)	(6,635)	101,851	101,851	\$0.58
CBD/West Vancouver	4,958,702	0.40%	0.40%	1.70%	352,874	352,874	50,000	50,000	\$0.75
Hazel Dell/Salmon Creek	1,339,529	2.40%	4.20%	6.60%	(4,790)	(4,790)	0	0	\$0.66
St. Johns/Central Vancouver	6,101,445	4.40%	5.50%	6.20%	25,765	25,765	63,376	63,376	\$0.58
<b>Total</b>	<b>183,432,149</b>	<b>3.20%</b>	<b>3.50%</b>	<b>4.40%</b>	<b>508,474</b>	<b>508,474</b>	<b>1,617,122</b>	<b>1,617,122</b>	<b>\$0.55</b>

Building Size									
0-9,999 SF	9,727,571	1.30%	1.30%	2.00%	(18,094)	(18,094)	21,880	21,880	\$0.95
10,000-24,999 SF	25,100,793	1.60%	1.60%	2.50%	24,917	24,917	140,537	140,537	\$0.83
25,000-49,999 SF	33,431,665	2.90%	3.00%	4.40%	(62,816)	(62,816)	304,980	304,980	\$0.63
50,000-99,999 SF	39,987,908	3.10%	3.60%	5.10%	141,591	141,591	127,970	127,970	\$0.53
100,000-199,999 SF	31,751,695	2.50%	3.00%	4.70%	407,278	407,278	109,205	109,205	\$0.50
200,000+ SF	43,432,517	5.60%	5.90%	5.00%	15,598	15,598	212,550	212,550	\$0.43
Business Parks									
10,000-49,999 SF	9,284,575	4.10%	4.10%	5.70%	(55,724)	(55,724)	201,639	201,639	\$0.66
50,000-149,999 SF	16,321,296	3.50%	4.20%	9.60%	80,449	80,449	257,580	257,580	\$0.54
150,000+ SF	11,463,818	9.20%	9.90%	13.30%	(50,554)	(50,554)	312,550	312,550	\$0.42
<b>Business Parks Total</b>	<b>37,161,328</b>	<b>5.40%</b>	<b>5.90%</b>	<b>9.80%</b>	<b>(25,829)</b>	<b>(25,829)</b>	<b>771,769</b>	<b>771,769</b>	<b>\$0.54</b>

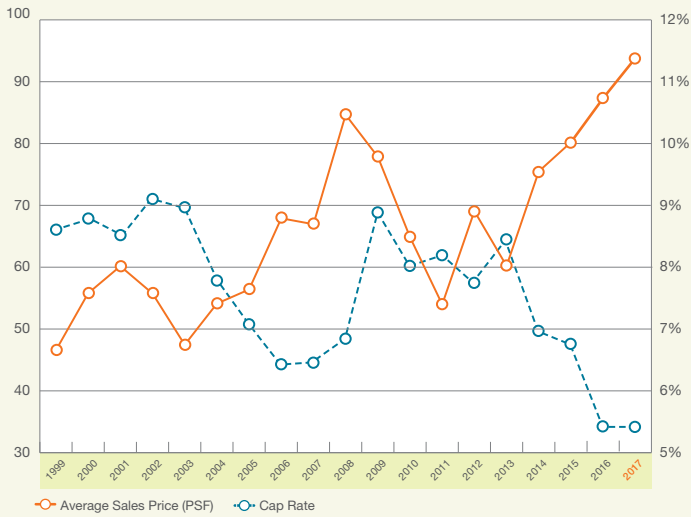
### VACANCY VS BLENDED ASKING LEASE RATE\*



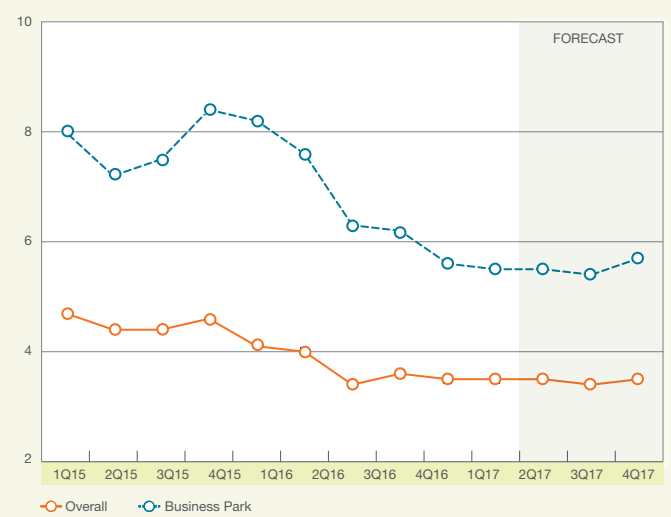
### VACANCY VS AVAILABILITY



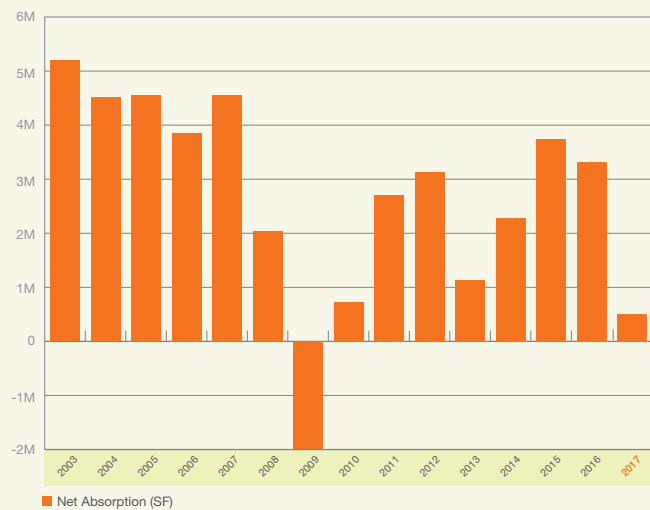
### AVERAGE SALES PRICE & CAPITALIZATION RATES



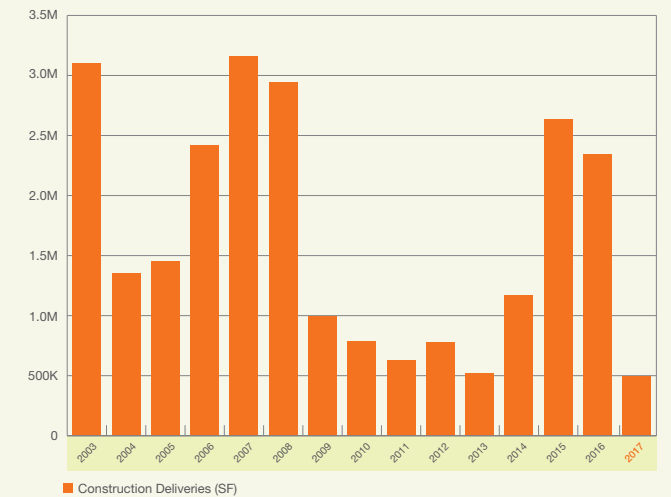
### VACANCY IN BUSINESS PARKS VS OVERALL



### NET ABSORPTION - HISTORICAL



### NEW CONSTRUCTION - HISTORICAL



**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  
916.970.9700

Roseville  
916.751.3600

Los Angeles  
213.880.5250

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

**Brian Hatcher**  
Executive VP, Brokerage  
Pacific Northwest  
206.296.9600  
bhatcher@kiddermathews.com

**Market Breakdown**

	Q1 2017	Q4 2016	Q1 2016	Annual % Change
Vacancy Rate	3.5%	3.6%	3.9%	-10.3%
Availability Rate	4.4%	4.6%	5.8%	-24.1%
Asking Lease Rate	\$0.55	\$0.55	\$0.50	10.0%
Leased SF	1,617,122	2,862,951	2,672,007	-39.5%
Sold SF	741,350	1,510,586	1,329,202	-44.2%
Net Absorption	508,474	893,835	421,866	N/A

155,100 square feet of positive net absorption despite zero building deliveries, as Malarkey Roofing Co. occupied 65,369 square feet at 10603 N Lombard Street. In aggregate, Northeast Portland submarkets endured the most negative net absorption during the first quarter, as the area ceded 141,380 square feet. Those losses were almost entirely in the East Columbia Corridor, which had 318,282 square feet of negative net absorption but should recover much of that loss when new tenants move in next quarter. CTDI signed a 210,000 square foot sublease at 22638 NE Townsend Way in Fairview last September and is expected to move into that building in April.

Leasing activity during the first quarter totaled 117 transactions covering 1,617,122 square feet. Northeast Portland submarkets led the way with 630,328 square feet leased and are poised to recoup the first quarter's 141,380 square feet of negative net absorption. Deal volume in the I-5 Corridor totaled 330,941 square feet, including the quarter's largest single transaction, a 201,300 square foot pact signed by Lam Research Corporation at 2100 SW 115th Avenue in Tualatin. In Hillsboro, Rosendin Electric committed to take 91,650 square feet in Building 3 of the Majestic Brookwood Business Park, a speculative development by Majestic Realty that is set to begin construction early in the second quarter. Overall, industrial business parks saw 771,769 square feet of leasing activity in the first quarter, accounting for about 48% of all industrial space taken marketwide over the first three months of 2017.

Marketwide industrial asking rents held steady at \$0.55 on a blended triple-net basis, or approximately \$0.47/s.f. on the shell and \$0.85/s.f. on the office, assuming a 10% office average. Actual deal rents vary by size, age, and location, but newer Class A industrial product asking rates for spaces under 100,000 square feet are between \$0.45-0.50/s.f. on the shell with \$0.85

office surcharges, while larger spaces over 100,000 square feet are achieving \$0.45-0.50/s.f. shell rents. As demand for functionally and logistically superior product remains strong, rates have increased by approximately 12% year-over-year, and by 5% over the past six months. Class B industrial business park spaces are averaging \$0.47-0.55/s.f. shell rates for smaller spaces or superior locations, and \$0.43-0.45/s.f. shell rates for spaces in older buildings or in less desirable areas. The highest rents are being achieved in the I-5 Corridor submarkets (Tigard, Tualatin, Wilsonville), as most availabilities there are likely in newer buildings. Conversely, Rivergate offers the most economical Class A industrial spaces, averaging \$0.42/s.f. on the shell, but vacancies there are down 220 basis points year-over-year, and the rapid tightening will soon put upward pressure on rents.

Thirty-one Portland-area industrial assets traded during the first quarter, totaling 741,350 square feet and \$62.6 million in dollar volume, for an average price tag of \$96/s.f., excluding outliers. In the quarter's largest investment sale, Los Angeles-based CBRE Global Investors acquired the Cameron Distribution Center at 16913 NE Cameron Blvd in the East Columbia Corridor from Denver-based Amstar Group. The Cameron Distribution Center was just over 53% occupied at sale, anchored by Ashley Furniture, and the \$28.04 million sale price came out to \$87/s.f., underwritten at a 5.5% cap rate. In the quarter's largest owner-user buy, the French construction and engineering firm Oger International bought 1300 NE 25th Avenue in Hillsboro, a 112,500 square foot manufacturing property, for \$8.1 million or \$72/s.f. Finally, Dave's Killer Bread, which previously leased its food processing space at 5209 SE International Way in Milwaukie, obtained the building from its former landlord, Seattle's Ederer Investment Company, for \$5.2 million or \$106/s.f.

*Data Source: CoStar*