

Real Estate Market Review

# Portland Industrial

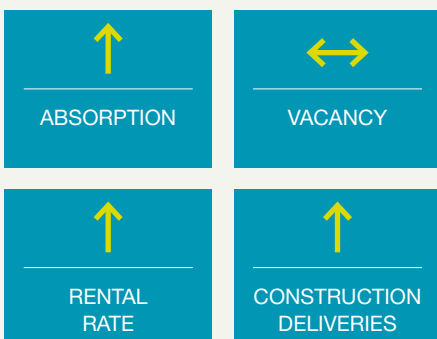
Portland industrial real estate (excluding flex) landlords continued to benefit from strong demand during the third quarter, as vacancies remained at or near cycle lows and rental rates rose to new highs. The past three months saw 790,563 s.f. of positive net absorption, pushing metro Portland’s year-to-date increase in occupied industrial space to 2.36 million s.f., ahead of the market’s 2.07 million s.f. of new deliveries in that span. With demand for space still ahead of supply, rental rates ticked up to \$0.63/s.f. on a blended triple-net basis. Continued rent growth and low vacancies contributed to robust investment sale activity, as higher-end assets traded for well over \$100/s.f. and at cap rates below 5%. More than 3.3 million s.f. of industrial space was under construction at the end of the quarter, reflecting developers’ confidence in the strength of the market for quarters to come.

Industrial vacancies in metro Portland held at 3.4% this quarter, as construction deliveries began catching up to users’ demand for space. Of the market’s core industrial areas, Sunset Corridor/Hillsboro was the tightest, at just 1.0% vacancy, while Northeast Portland had the highest share of empty space, at 5.1%. Properties smaller than 200,000 s.f., which represent 76% of the market’s inventory, reported a 2.7% vacancy rate for the second consecutive quarter. Large buildings above that size threshold have seen their vacancies fall 160 basis points since the start of 2017, from 5.8% to 4.2%, a three-year low. Southeast Portland, a 30.6 million s.f. submarket cluster, has seen its

vacancy rate cut in half, from 3.4% to 1.7%, since the second quarter of 2016. Only 255,120 s.f. of industrial space has been delivered in that area over the past four years.

The Portland market recorded 790,563 s.f. of positive net absorption during the third quarter, bringing the year-to-date gain in occupied industrial space to 2.36 million s.f. I-5 Corridor properties accounted for nearly 47% of the occupancy gains over the past three months, at 370,097 s.f., as Lam Research Corporation moved into 201,300 s.f. of distribution space at 21000 SW 115th Avenue in Tualatin. Up

### Market Forecast Trends



### Notable Lease Transactions

- Unknown Tenant**  
26440 SW Parkway Avenue, Wilsonville  
102,390 s.f. leased
- DHL**  
15509-15613 NE Airport Way, Portland  
80,850 s.f. leased (renewal)
- Union Wine Company**  
20700 SW 115th Avenue, Tualatin  
42,500 s.f. leased

### Notable Sale Transactions

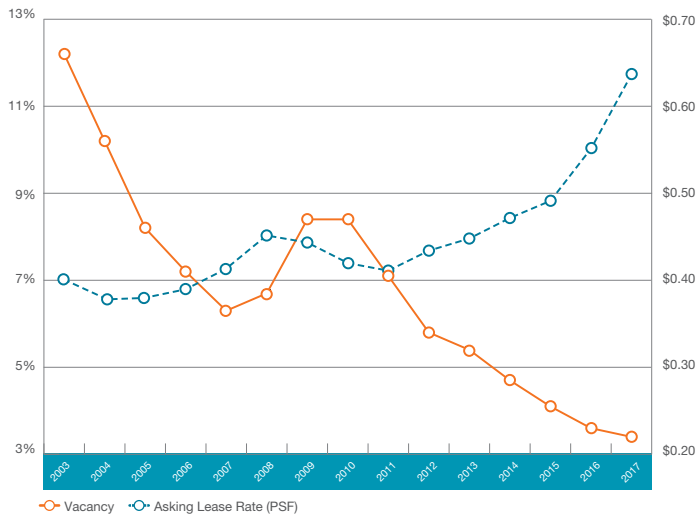
- WPT Industrial REIT**  
Interstate Crossroads Distribution Center  
(16441 NE Cameron Boulevard), Portland  
492,554 s.f. | \$56M or \$114/s.f. (4.8% cap)
- Ivanhoe Cambridge Inc.**  
Wilsonville Corporate Center  
(26100-26300 SW 95th Avenue), Wilsonville  
202,000 s.f. | \$26.7M or \$132/s.f. (portfolio)
- Lithia Motors**  
Terminal 1 (2400 NW Front Avenue), Portland  
96,158 s.f. | \$11.125M or \$116/s.f.

# Area Review

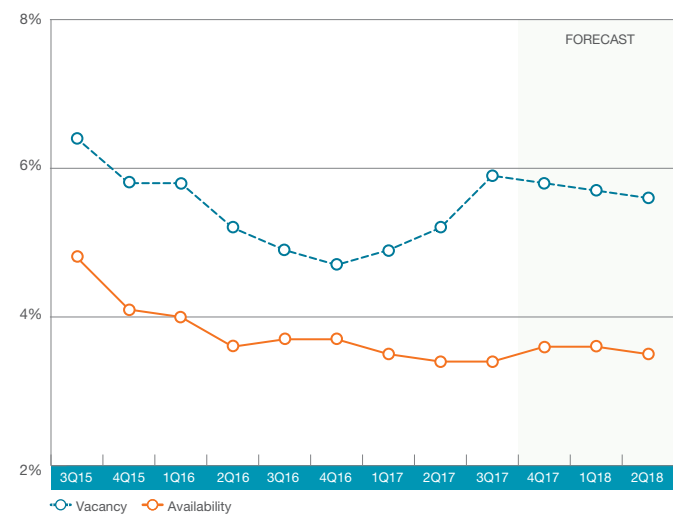
## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q3 Net Absorption	YTD Net Absorption	Q3 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
<b>Lloyd District</b>	<b>1,943,522</b>	<b>1.40%</b>	<b>1.40%</b>	<b>(7,050)</b>	<b>(20,052)</b>	<b>5,052</b>	<b>8,452</b>	<b>\$1.04</b>
<b>Northeast</b>	<b>72,493,009</b>	<b>4.30%</b>	<b>5.10%</b>	<b>129,827</b>	<b>220,379</b>	<b>384,257</b>	<b>2,384,420</b>	<b>\$0.59</b>
NE Columbia Blvd/PDX	14,574,540	2.90%	2.90%	(31,654)	(148,675)	104,643	332,462	\$0.67
East Columbia Corridor	25,053,548	8.00%	9.50%	(160,140)	60,601	258,493	1,568,274	\$0.55
Gateway	2,785,953	5.40%	5.40%	(25,328)	(28,316)	4,590	65,981	\$0.74
Gresham	1,120,010	0.30%	0.30%	(1,210)	28,066	0	41,336	\$0.85
Hayden Isl/Swan Isl	9,716,350	0.20%	0.20%	3,280	(13,436)	9,263	53,458	\$0.60
NE Close-In	14,574,540	2.90%	2.90%	(31,654)	(148,675)	84,643	312,462	\$0.67
Rivergate	15,183,034	3.30%	4.30%	266,076	288,498	5,250	289,206	\$0.45
<b>Northwest</b>	<b>13,374,355</b>	<b>2.70%</b>	<b>2.70%</b>	<b>(67,993)</b>	<b>(59,422)</b>	<b>84,692</b>	<b>393,995</b>	<b>\$0.73</b>
Guilds Lake	12,548,674	2.70%	2.70%	(63,967)	(63,996)	80,292	389,595	\$0.72
NW Close-In	825,681	2.20%	2.20%	(4,026)	4,574	4,400	4,400	\$0.90
<b>Southeast</b>	<b>30,618,259</b>	<b>1.70%</b>	<b>1.70%</b>	<b>(55,697)</b>	<b>345,763</b>	<b>158,077</b>	<b>588,566</b>	<b>\$0.78</b>
Clackamas/Milwaukie	23,026,841	1.80%	1.80%	(86,019)	344,261	121,526	477,404	\$0.74
Mall 205	377,904	0.00%	0.00%	0	(24,928)	0	0	N/A
Oregon City	1,137,376	1.50%	1.50%	4,500	(1,500)	4,500	23,668	\$0.71
SE Close-In	6,076,138	1.60%	1.60%	25,822	27,930	32,051	87,494	\$0.91
<b>Southwest</b>	<b>7,706,236</b>	<b>3.60%</b>	<b>3.60%</b>	<b>81,127</b>	<b>49,005</b>	<b>70,068</b>	<b>291,926</b>	<b>\$0.60</b>
217 Corridor/Beaverton	4,364,363	4.90%	4.90%	81,127	17,005	70,068	237,274	\$0.57
Barbur Blvd/Capitol Hwy	136,743	0.00%	0.00%	0	10,000	0	10,000	\$0.70
North Beaverton	1,797,267	0.00%	0.00%	0	0	0	5,944	\$1.50
SW Close-In	1,407,863	4.60%	4.60%	0	22,000	0	38,708	\$0.68
<b>Sunset Corridor/Hillsboro</b>	<b>14,115,895</b>	<b>0.90%</b>	<b>1.00%</b>	<b>146,393</b>	<b>455,340</b>	<b>57,658</b>	<b>206,800</b>	<b>\$0.78</b>
<b>I-5 Corridor</b>	<b>26,447,431</b>	<b>2.60%</b>	<b>2.70%</b>	<b>370,097</b>	<b>581,166</b>	<b>122,712</b>	<b>800,551</b>	<b>\$0.57</b>
<b>Clark County</b>	<b>18,876,069</b>	<b>3.40%</b>	<b>3.50%</b>	<b>193,859</b>	<b>782,828</b>	<b>119,321</b>	<b>589,023</b>	<b>\$0.55</b>
Camas/Washougal	1,217,881	2.50%	2.50%	0	3,600	0	0	\$0.45
Cascade Park/Orchards/Van. Mall	4,935,328	4.60%	4.80%	(20,974)	65,281	19,047	186,160	\$0.66
CBD/West Vancouver	5,279,693	1.60%	1.60%	190,302	592,559	49,250	181,352	\$0.49
Hazel Dell/Salmon Creek	1,367,894	2.10%	2.10%	6,034	41,615	2,240	60,558	\$0.66
St. Johns/Central Vancouver	6,075,273	4.60%	4.60%	18,497	79,773	48,784	160,953	\$0.54
<b>TOTAL</b>	<b>185,574,776</b>	<b>3.10%</b>	<b>3.40%</b>	<b>790,563</b>	<b>2,355,007</b>	<b>1,001,837</b>	<b>5,263,733</b>	<b>\$0.63</b>
<b>Building Size</b>								
0 - 9,999 SF	9,768,685	1.80%	1.80%	7,983	(72,119)	56,133	161,969	\$1.07
10,000 - 24,999 SF	25,387,805	2.00%	2.00%	29,986	22,326	191,563	535,385	\$0.82
25,000 - 49,999 SF	33,772,277	2.20%	2.20%	155,372	304,828	336,812	1,179,773	\$0.68
50,000 - 99,999 SF	40,249,639	3.70%	3.80%	320,112	391,803	241,447	1,001,238	\$0.55
100,000 - 199,999 SF	32,163,260	4.00%	4.80%	(398,880)	182,546	129,109	905,172	\$0.60
200,000+ SF	44,233,110	3.60%	4.20%	675,990	1,525,623	46,773	1,480,196	\$0.47
<b>Business Parks</b>								
10,000 - 49,999 SF	9,293,326	3.00%	3.30%	94,945	17,517	148,087	576,097	\$0.68
50,000 - 149,999 SF	16,790,367	6.30%	6.40%	45,840	159,355	395,426	1,196,623	\$0.54
150,000+ SF	11,958,282	9.30%	10.10%	163,842	376,175	50,000	635,193	\$0.46
<b>Business Parks Total</b>	<b>38,133,614</b>	<b>6.40%</b>	<b>6.80%</b>	<b>296,763</b>	<b>545,183</b>	<b>543,513</b>	<b>2,357,913</b>	<b>\$0.57</b>

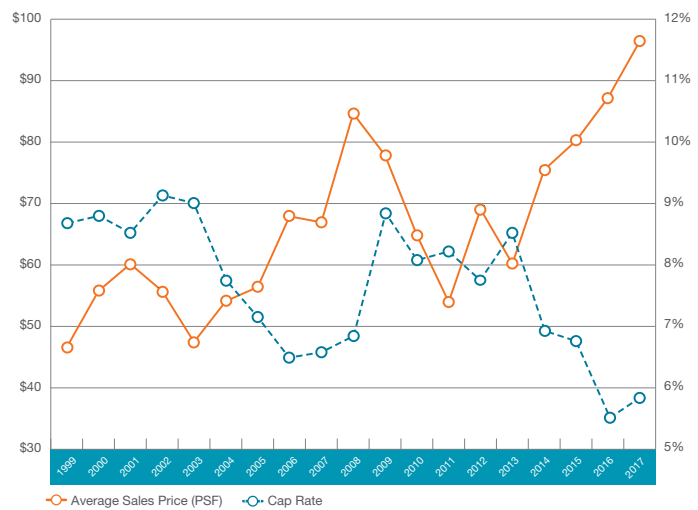
### VACANCY VS ASKING LEASE RATE



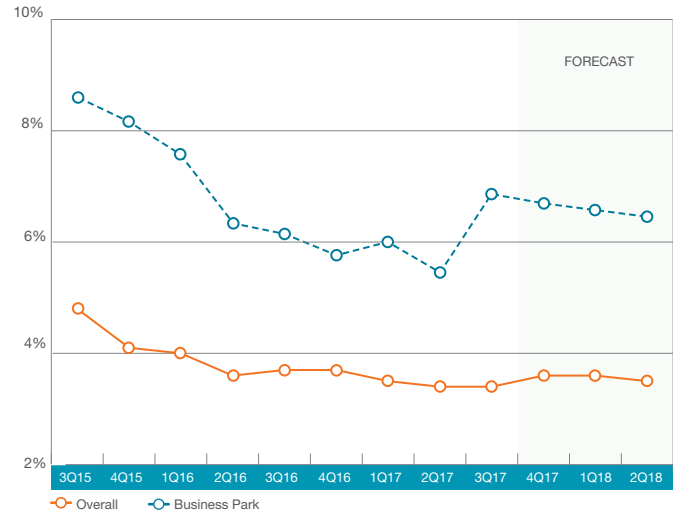
### VACANCY VS AVAILABILITY



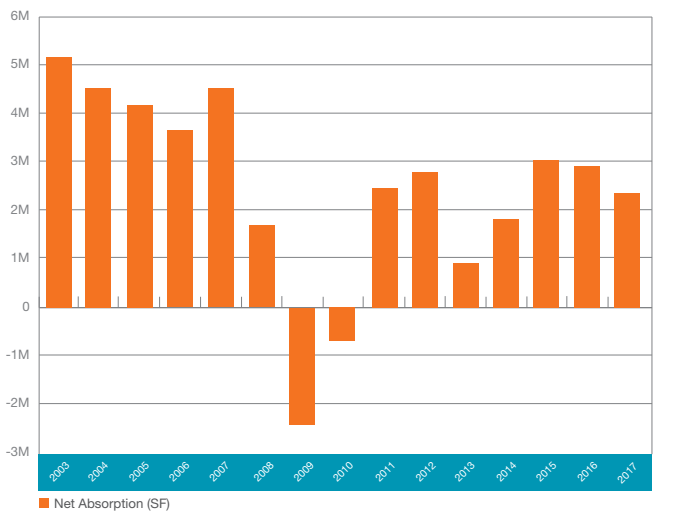
### AVERAGE SALES PRICE & CAPITALIZATION RATES



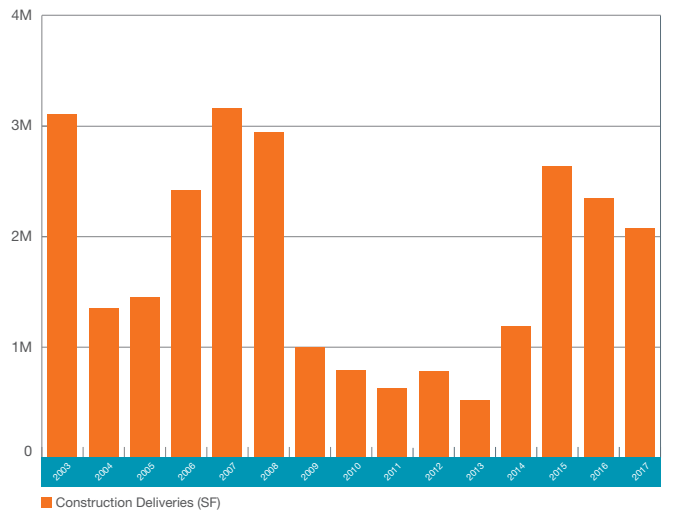
### BUSINESS PARK VACANCY VS OVERALL VACANCY



### NET ABSORPTION - HISTORICAL



### CONSTRUCTION DELIVERIES - HISTORICAL



## Market Breakdown

### 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

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	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	3.4%	3.4%	3.7%	-5.7%
Availability Rate	5.9%	5.2%	4.9%	9.8%
Asking Lease Rate	\$0.63	\$0.61	\$0.54	16.7%
Leased SF	2,037,856	1,539,658	3,514,602	-42.0%
Sold SF	1,308,365	901,477	2,402,982	-45.6%
Net Absorption	827,103	800,928	813,875	N/A

north, Clark County saw 193,859 s.f. of positive net absorption this quarter, with Sunlight Supply occupying 95,369 s.f. at 3665 NW 32nd Avenue in West Vancouver. The East Columbia Corridor endured the quarter's biggest absorption loss, as RR Donnelley officially shuttered its operations at the Halsey Corporate Center (17401 NE Halsey Street), placing the entire 260,000 s.f. building on the market for sublease.

Ninety-four industrial leases were signed in metro Portland this quarter, with 1,001,837 s.f. coming off the market amid the usual summertime slowdown in activity. The utility scale energy storage systems provider ESS Tech, Inc., turned in the largest deal, taking 103,805 s.f. at 26440 SW Parkway Avenue in Wilsonville. ESS's new facility in Building B at the Parkway Woods Business Park features 25,000 s.f. of offices and nearly 80,000 s.f. of climate-controlled manufacturing and lab space. In the biggest transaction within the Portland city limits, DHL retained 80,850 s.f. at 15509-15613 NE Airport Way in the East Columbia Corridor. Strong demand in the market coupled with multiple speculative developments should yield an increasing in leasing activity in the coming months. More than 500,000 s.f. of future space was available at the Glisan Corporate Park in the East Columbia Corridor at quarter's end, and another 229,146 s.f. was on the way at the Majestic Tualatin Business Center. Both projects are expected to deliver in the fourth quarter.

Marketwide industrial asking rents climbed to \$0.63/s.f. on a blended triple-net basis, or approximately \$0.60/s.f. on the shell and \$0.90/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 s.f. are between \$0.60-\$0.65/s.f. on the shell with \$0.90 office surcharges, while larger spaces over 100,000 s.f. are achieving \$0.52-\$0.56/s.f. shell rents. As demand for functionally and logistically

superior product remains strong, rates have increased by approximately 17% year-over-year, and by 10% over the past six months. Class B industrial business park spaces are averaging \$0.52-\$0.55/s.f. shell rates for smaller spaces or superior locations, and \$0.47-0.50/s.f. shell rates for spaces in older buildings or in less desirable areas. The highest rents are being achieved in the Southeast submarkets (Clackamas/Milwaukie, Mall 205, Oregon City, SE Close-In), as most availabilities there are likely in newer buildings. Conversely, Rivergate offers the most affordable Class A industrial spaces, averaging \$0.45/s.f. on the shell, but vacancies there are down 330 basis points year over year, and the rapid tightening has produced a 9% increase in rents since the start of 2017.

Sale activity this quarter summed to 1,308,365 s.f. of industrial real estate and \$137 million in dollar volume, for an average price tag of \$105/s.f. Cap rates on investment sales continue to average between 5-6%, depending on the quality and location of the assets changing hands. In the quarter's largest individual investment transaction, the Toronto-based WPT Industrial REIT acquired the Interstate Crossroads Distribution Center from its developer, locally based Specht Development, for \$56 million or \$114/s.f., underwritten at a 4.8% cap rate. Built in 2015, the 492,554 s.f. property at 16441 NE Cameron Boulevard in the East Columbia Corridor is fully leased to Staples and Keystone Automotive Industries. Another Canadian REIT, Ivanhoe Cambridge out of Montreal, obtained the Wilsonville Corporate Center as part of a 157-property national portfolio; \$26.7 million was allocated for the three buildings at 26100-26300 SW 95th Avenue, which came out to \$132/s.f. Finally, Lithia Motors was the quarter's leading owner/user buyer, spending \$11.125 million or \$116/s.f. on the Terminal 1 building at 2400 NW Front Avenue in Guilds Lake from the City of Portland.

Data Source: CoStar