

Real Estate Market Review

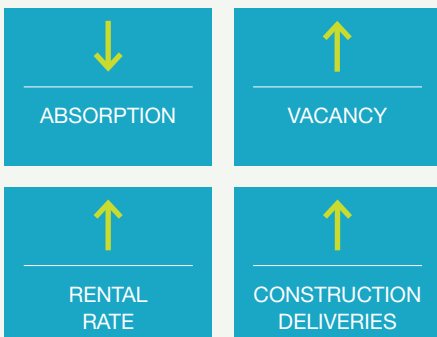
Portland Industrial

The Portland industrial real estate (excluding flex) market stayed strong in the fourth quarter of 2017, reporting a 3.6% vacancy rate across the metro area. Despite 164,363 square feet of negative net absorption over the past three months, Portland industrial properties gained more than 2.74 million square feet of occupied space in 2017. Availabilities in choice submarkets remain limited, and strong demand from a variety of users is keeping rents on an upward trajectory. Asking rental rates averaged in the mid- $\$0.60$ s NNN on a blended triple-net basis to end the year. Investors continued to trade metro Portland industrial assets at cap rates in the 5-6% range, and construction activity of nearly 3.3 million square feet indicated developer optimism about the strength of the market heading into 2018.

Industrial vacancies in metro Portland have come in between 3% and 3.7% in each of the last seven quarters, reflecting the market's stability and the improved balance between supply and demand. The slightly negative absorption this quarter put the year-end vacancy rate on the high end of the range, at 3.6%, but early-2018 occupancies are likely to bring it back toward 3% in the coming quarters. Of Portland's core industrial submarket clusters, the I-5 Corridor was the tightest, finishing 2017 at 2.1%, while Clark County had the highest share of empty space, at 5.4%. Small and midsize spaces below 50,000 square feet continued to report sub-3% vacancies, while the 100,000-199,000 square foot range was relatively less constrained, with 6% vacancy, one-tenth of which is space being marketed for sublease. Industrial business parks showed 7.4% vacancy marketwide to close the year.

Despite 164,363 square feet of negative net absorption in the fourth quarter, the Portland industrial market gained 2,744,109 square feet of occupied space in 2017, its seventh consecutive annual gain since the great recession. The I-5 Corridor was the best-performing submarket cluster over the past three months, reporting 243,112 square feet of positive net absorption, as Javelin Logistics moved into a 100,000 square foot warehouse at 20495 SW Teton Avenue in Tualatin. Meanwhile, the East Columbia Corridor gained 153,390 square feet, driving 107,744 square feet of positive net absorption in Northeast Portland, following Anixster's occupancy at 19501 NE Riverside Parkway. Clark County endured the biggest losses in the fourth quarter, showing 288,912 square feet of negative net absorption, and Southeast Portland dropped 141,864 square feet. Nonetheless, all of Portland's

Market Forecast Trends



Notable Lease Transactions

Amazon
1250 NW Swigert Way, Troutdale
857,379 s.f. leased

Lam Research Corporation
21000 SW 115th Avenue, Tualatin
201,300 s.f. leased

WSI Supply Chain Solutions
14300-14340 N Lombard Street, Portland
135,660 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)

Forum Clackamas Campus LLC
16800 SE Evelyn St & 9800 SE Mangan Dr,
Clackamas
861,548 s.f. | \$49M or \$57/s.f.

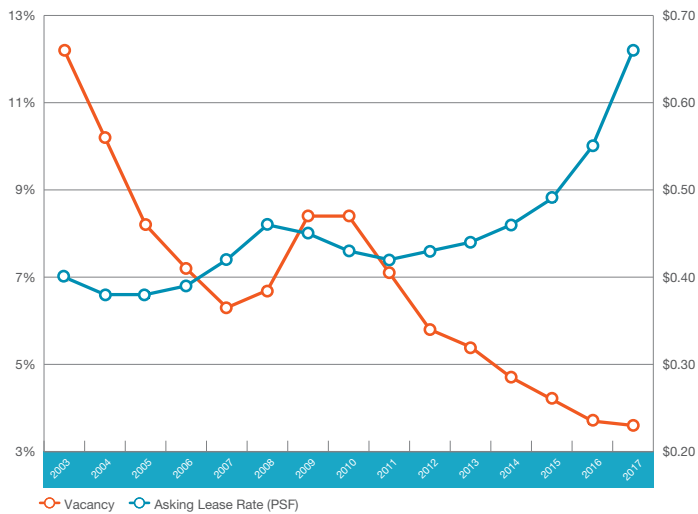
Meriwether Partners, Nortek Air Solutions
19855-19866 SW 124th Ave, Tualatin
329,474 s.f. | \$26.5M or \$80/s.f.

Area Review

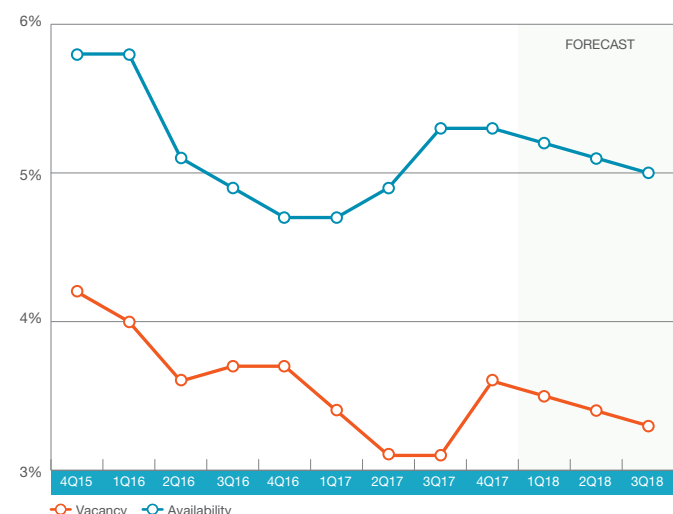
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q4 Net Absorption	YTD Net Absorption	Q4 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Lloyd District	1,927,891	0.40%	0.40%	3,583	(1,469)	1,625	10,077	\$1.04
Northeast	73,052,485	4.50%	4.60%	107,744	776,780	1,323,882	3,670,347	\$0.60
NE Columbia Blvd/PDX	14,720,418	3.10%	3.50%	32,660	(108,945)	104,104	479,111	\$0.67
East Columbia Corridor	25,463,289	7.90%	8.00%	153,390	581,691	179,732	1,671,006	\$0.55
Gateway	2,796,286	6.60%	6.60%	(48,833)	(101,419)	111,045	77,026	\$0.74
Gresham	1,120,010	0.40%	0.40%	(1,370)	26,696	8,550	49,886	\$0.84
Hayden Isl/Swan Isl	9,716,350	0.30%	0.30%	(11,819)	(25,255)	27,670	81,128	\$0.59
NE Close-In	4,051,074	1.70%	1.70%	(26,172)	20,626	11,781	41,984	\$1.00
Rivergate	15,185,058	3.40%	3.80%	(13,173)	360,325	981,000	1,270,206	\$0.45
Northwest	14,281,590	2.90%	2.90%	(1,073)	(23,096)	85,087	439,082	\$0.93
Guilds Lake	884,433	7.20%	7.20%	(10,000)	15,880	0	10,000	\$0.75
NW Close-In	12,567,676	2.70%	2.80%	(11,286)	(60,122)	84,487	424,082	\$1.06
Southeast	30,624,309	2.10%	2.20%	(141,864)	194,431	155,556	688,016	\$0.80
Clackamas/Milwaukie	23,035,591	1.80%	1.90%	11,416	334,721	118,042	557,340	\$0.78
Mall 205	377,904	0.00%	0.00%	0	(24,928)	0	0	N/A
Oregon City	1,137,376	1.30%	1.30%	1,500	0	0	23,668	\$0.98
SE Close-In	6,073,438	3.60%	3.60%	(154,780)	(115,362)	33,514	107,008	\$0.88
Southwest	6,799,435	3.50%	3.60%	(20,547)	(2,422)	4,200	236,126	\$0.56
217 Corridor/Beaverton	4,362,499	4.90%	5.10%	(8,547)	8,458	4,200	191,474	\$0.50
Barbur Blvd/Capitol Hwy	131,743	0.00%	0.00%	0	5,000	0	10,000	\$0.70
North Beaverton	1,797,267	0.00%	0.00%	0	0	0	5,944	\$1.50
SW Close-In	205,379	0.00%	0.00%	0	0	0	0	N/A
Sunset Corridor/Hillsboro	14,250,575	2.50%	2.50%	(66,406)	388,263	143,600	369,667	\$0.75
I-5 Corridor	26,487,967	2.10%	2.10%	243,112	817,155	248,074	1,237,473	\$0.61
Clark County	19,047,458	5.20%	5.40%	(288,912)	594,507	126,160	759,943	\$0.56
Camas/Washougal	1,225,241	3.60%	3.60%	(13,960)	(4,960)	0	0	\$0.45
Cascade Park/Orchards/Van. Mall	4,977,162	2.80%	3.00%	143,241	222,625	67,907	286,827	\$0.66
CBD/West Vancouver	5,343,032	1.50%	1.50%	8,499	658,646	1,250	182,602	\$0.49
Hazel Dell/Salmon Creek	1,387,850	1.00%	1.00%	34,872	76,487	42,353	102,911	\$0.65
St. Johns/Central Vancouver	6,114,173	11.70%	12.20%	(461,564)	(358,291)	14,650	187,603	\$0.56
TOTAL	186,489,214	3.50%	3.60%	(164,363)	2,744,109	2,084,184	7,410,731	\$0.66
Building Size								
0 - 9,999 SF	9,758,227	1.50%	1.60%	15,609	(43,481)	77,438	228,507	\$1.02
10,000 - 24,999 SF	25,467,173	2.40%	2.40%	(97,888)	(58,852)	194,144	683,221	\$0.86
25,000 - 49,999 SF	33,882,000	2.40%	2.50%	(8,057)	303,965	301,436	1,413,616	\$0.68
50,000 - 99,999 SF	40,270,363	3.70%	3.80%	(14,347)	421,973	385,458	1,349,760	\$0.56
100,000 - 199,999 SF	32,919,358	5.40%	6.00%	(121,933)	291,775	348,955	1,401,549	\$0.62
200,000+ SF	44,168,074	3.60%	3.60%	62,253	1,796,076	948,316	2,530,902	\$0.63
Business Parks								
10,000 - 49,999 SF	9,332,146	3.40%	3.50%	8,133	33,357	231,440	804,316	\$0.64
50,000 - 149,999 SF	16,924,807	7.90%	8.30%	(163,034)	(35,112)	154,479	1,289,628	\$0.54
150,000+ SF	12,111,514	9.30%	9.30%	43,348	604,432	114,457	699,650	\$0.46
Business Parks Total	38,460,106	7.30%	7.40%	(112,553)	594,813	500,376	2,793,594	\$0.54

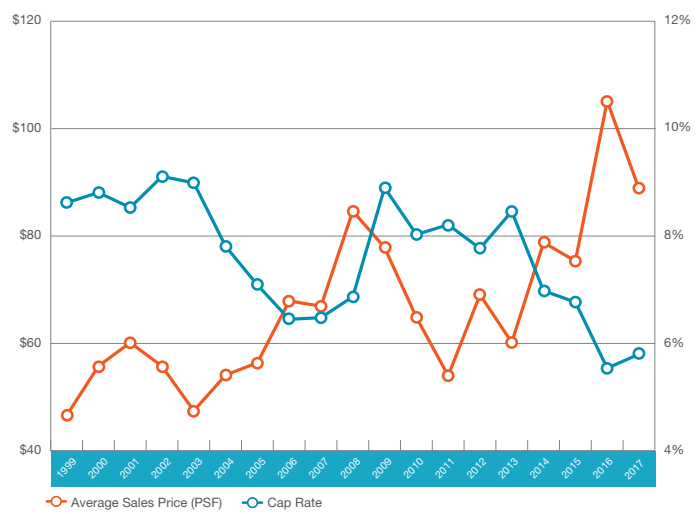
VACANCY VS ASKING LEASE RATE



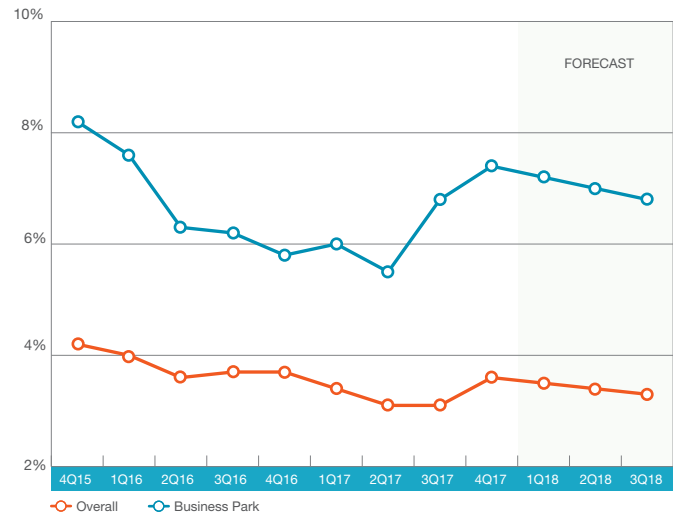
VACANCY VS AVAILABILITY



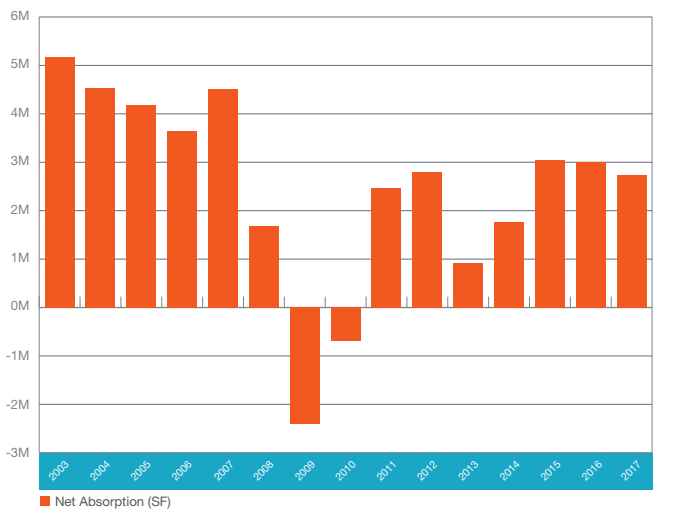
AVERAGE SALES PRICE & CAPITALIZATION RATES



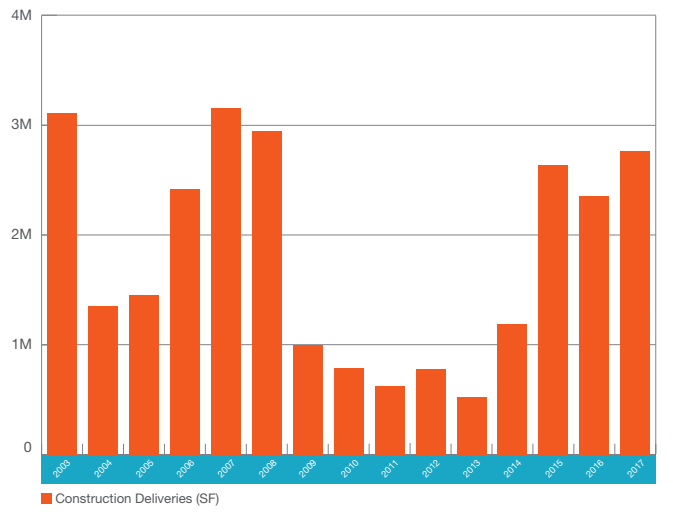
BUSINESS PARK VACANCY VS OVERALL VACANCY



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

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	2017	2016	2015	Annual % Change
Vacancy Rate	3.60%	3.70%	4.20%	-2.7%
Availability Rate	5.30%	4.70%	5.80%	12.8%
Asking Lease Rate	\$0.66	\$0.55	\$0.49	20.0%
Leased SF	7,410,731	12,048,859	11,037,879	-38.5%
Sold SF	6,734,077	8,877,095	14,427,405	-24.1%
Net Absorption	-164,363	890,949	933,414	N/A

core industrial areas reported positive net absorption for the year, and no submarket cluster was more than 23,096 square feet in the red.

Leasing activity this quarter totaled 139 transactions for 2,084,184 square feet, after a quiet third quarter that saw only 956,177 square feet come off the market. Midsize users between 50,000-100,000 square feet accounted for the bulk of the fourth-quarter transactions. Javelin Logistics took 100,000 square feet at 20495 SW Teton Avenue in Tualatin, Spicers Paper renewed its 89,457 square feet at 4131-4293 NE 189th Avenue in Northeast Portland, and R&H Construction picked up 51,796 square feet at 2000 NW Wilson Street in Northwest Portland. Availabilities will increase only modestly as a result of active construction projects in the market, as only about 850,000 square feet (25%) of the 3.29 million square feet being built was listed for lease at year's end. The Troutdale Logistics Center, an 857,379 square foot facility to be delivered in the fall of 2018, was fully pre-leased to Amazon. On the other hand, the three-building Glisan Corporate Park, which totals 504,528 square feet, was wholly available at the close of 2017.

Marketwide industrial asking rents climbed to \$0.66/s.f. on a blended triple-net basis, or approximately \$0.63/s.f. on the shell and \$0.95/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 \$0.63-\$0.68/s.f. on the shell with \$0.95 office surcharges, while larger spaces over 100,000 s.f. are achieving \$0.54-\$0.58/s.f. shell rents. As demand for functionally and logistically superior product remains strong, rates have increased by approximately 20% year over year, and by 11% over the past six months. Class B industrial business park spaces are averaging \$0.55-\$0.58/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 have declined dramatically, leading to a 10% year over year rise in rents.

Fifty-seven metro Portland industrial assets traded in investment and owner-user sales this quarter, amassing \$128 million in dollar volume for 2,792,341 s.f., as the median price per s.f. rose to \$107. After a relatively quiet first three quarters, sale activity intensified toward the end of the year, bringing dollar volume to nearly \$400 million, comparable to levels recorded in 2014, prior to the spike to almost \$900 million in 2016. Cap rates on investment sales continued to hover between 5-6%, depending on the location, quality, and age of the assets in question. The largest fourth-quarter sale involved two properties at 16800 SE Evelyn Street and 9800 SE Mangan Drive in Clackamas, which went from Safeway (their owner-user) to Forum Clackamas Campus LLC for about \$41.3 million or \$57/s.f. In Tualatin, Portland-based Meriwether Partners acquired the Nortek Air Solutions campus from Huntair Properties for \$26.5 million or \$80/s.f. Finally, Pacific NW Properties bought the I-84 Corporate Center in Troutdale from the Goodman Family Trust for \$9.9 million or \$73/s.f. as part of a 1031 exchange.

Data Source: CoStar