

Real Estate Market Review

Portland Industrial

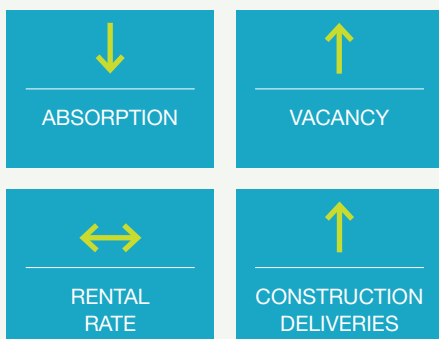
The Portland industrial real estate market (excluding flex) held its own in the first quarter of 2018, setting the stage for gains later in the year. While vacancies marketwide rose 70 basis points over the past three months, to 4.2%, the hike was largely attributable to the delivery of speculative developments rather than to givebacks from tenants in the area. Overall, metro Portland industrial properties saw 27,998 s.f. of negative net absorption in the quarter, and demand for functionally superior distribution space remains robust. Asking rental rates were essentially unchanged from the end of 2017, holding in the mid-\$0.60s NNN on a blended triple-net basis marketwide, with desirable Class B industrial parks reporting asking shell rents in the high-\$0.50s NNN. Both developers and investors remain bullish about the near-term prospects of the Portland industrial market, with 2.65 million s.f. under construction at quarter’s end, and cap rates on investment sales in the range of 5-6%.

Industrial vacancies in metro Portland increased to 4.2% in the first quarter, as multiple speculative developments were delivered while still awaiting their first tenants. The largest increase occurred in the East Columbia Corridor, where the 504,528 s.f., three-building Glisan Corporate Park was completed by Trammell Crow Company. While the vacancy rate there jumped to 9.9% this quarter, it is likely to fall sharply once the new development is leased. Of metro Portland’s core industrial submarket clusters, Sunset Corridor/Hillsboro and the I-5 Corridor were the tightest,

at 2.2% vacancy, while Clark County had the most vacant space, at 6.0%. Marketwide, vacancies are up 90 basis points year over year, but strong demand is likely to pull the rate back below 4.0% by midyear.

Following about 2.77 million s.f. of positive net absorption in 2017, the Portland industrial market gave back just 27,998 s.f. in the first quarter, and recently completed speculative developments portend significant gains in the quarters to come. Southeast

Market Forecast Trends



Notable Lease Transactions

AANW Holdings
16250 SE Evelyn Street, Clackamas
99,950 s.f. leased

Lane Co.
8823 N Harbortgate Street, Portland
70,000 s.f. leased

Perfect Vision
16785 NE Mason Street, Portland
65,056 s.f. leased

Notable Sale Transactions

S.J. Distributors
7098 N Marine Drive, Portland
92,160 s.f.
Purchased for \$10.15M or \$110/s.f.

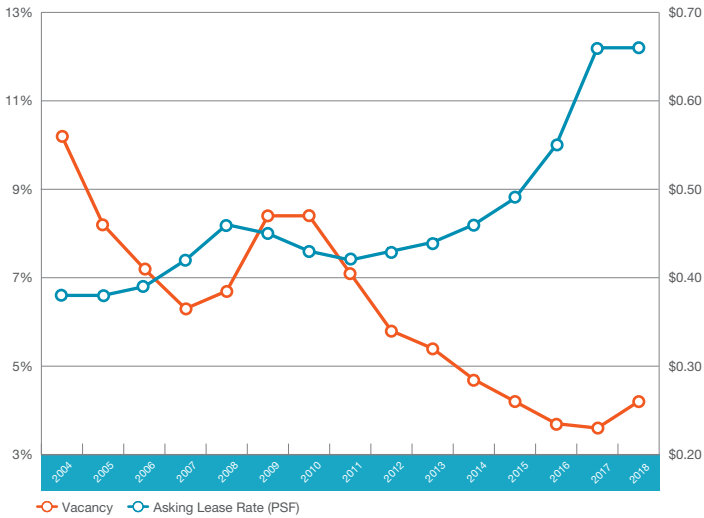
Stafford DC LLC
Ridder Road Portfolio
9325-9685 SW Ridder Road, Wilsonville
291,936 s.f.
Purchased for \$28.15M or \$96/s.f.

Area Review

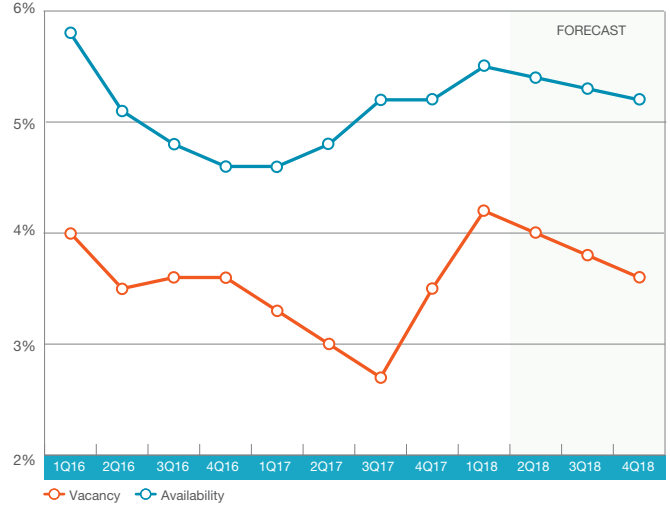
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q1 Net Absorption	YTD Net Absorption	Q1 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Lloyd District	1,941,292	0.50%	0.50%	(1,531)	(1,531)	0	0	\$1.04
Northeast	74,470,172	4.90%	5.20%	785,907	785,907	1,475,652	1,475,652	\$0.61
NE Columbia Blvd/PDX	15,479,332	2.70%	3.40%	778,396	778,396	971,122	971,122	\$0.69
East Columbia Corridor	25,983,369	9.80%	9.90%	(38,367)	(38,367)	320,098	320,098	\$0.58
Gateway	2,799,436	7.50%	7.50%	13,095	13,095	0	0	\$0.79
Gresham	1,120,010	0.20%	0.20%	1,668	1,668	4,280	4,280	\$0.86
Hayden Isl/Swan Isl	9,870,900	0.40%	0.40%	(4,489)	(4,489)	13,711	13,711	\$0.60
NE Close-In	4,032,067	1.40%	2.10%	(48,661)	(48,661)	13,000	13,000	\$0.98
Rivergate	15,185,058	2.30%	2.70%	84,265	84,265	153,441	153,441	\$0.38
CBD/Northwest	14,284,838	2.60%	2.70%	35,059	35,059	8,000	8,000	\$0.73
CBD	884,433	3.40%	3.40%	34,020	34,020	0	0	\$0.70
Guilds Lake	12,570,924	2.70%	2.80%	2,751	2,751	8,000	8,000	\$0.72
NW Close-In	829,481	0.40%	0.40%	(1,712)	(1,712)	0	0	\$1.05
Southeast	30,681,765	4.80%	4.80%	(825,080)	(825,080)	288,314	288,314	\$0.83
Clackamas/Milwaukie	23,174,862	5.20%	5.30%	(797,407)	(797,407)	223,433	223,433	\$0.82
Mall 205	382,904	1.30%	1.30%	0	0	0	0	\$0.72
Oregon City	1,137,376	0.90%	0.90%	4,500	4,500	0	0	\$0.99
SE Close-In	5,986,623	3.90%	3.90%	(32,173)	(32,173)	64,881	64,881	\$0.85
Southwest	6,819,454	3.10%	3.20%	24,583	24,583	34,493	34,493	\$0.63
217 Corridor/Beaverton	4,365,014	4.10%	4.30%	37,083	37,083	19,993	19,993	\$0.53
Barbur Blvd/Capitol Hwy	131,743	0.00%	0.00%	0	0	0	0	N/A
Johns Landing	302,547	11.40%	11.40%	(12,500)	(12,500)	14,500	14,500	\$1.24
North Beaverton	1,797,267	0.00%	0.00%	0	0	0	0	\$1.04
SW Close-In	205,379	0.00%	0.00%	0	0	0	0	N/A
Sunset Corridor/Hillsboro	14,349,214	2.20%	2.20%	36,353	36,353	23,556	23,556	\$0.75
I-5 Corridor	26,524,994	2.20%	2.20%	(52,913)	(52,913)	101,653	101,653	\$0.56
Clark County	19,236,618	5.90%	6.00%	(62,462)	(62,463)	302,084	302,084	\$0.54
Camas/Washougal	1,230,641	3.10%	3.10%	11,760	11,760	0	0	\$0.45
Cascade Park/Orchards/Van. Mall	5,024,352	3.10%	3.30%	834	834	111,778	111,778	\$0.62
CBD/West Vancouver	5,480,177	4.80%	4.80%	(57,712)	(57,712)	22,800	22,800	\$0.48
Hazel Dell/Salmon Creek	1,385,925	1.60%	1.60%	(7,950)	(7,950)	25,484	25,484	\$0.68
St. Johns/Central Vancouver	6,115,523	10.80%	10.80%	(9,395)	(9,395)	142,022	142,022	\$0.65
TOTAL	188,308,348	4.10%	4.20%	(27,998)	(27,998)	2,233,752	2,233,752	\$0.66
Building Size								
0-9,999SF	9,815,903	1.20%	1.40%	25,174	25,274	33,031	33,031	\$1.03
10,000-24,999 SF	25,541,003	2.50%	2.60%	(82,634)	(82,634)	158,646	158,646	\$0.86
25,000-49,999 SF	33,928,284	2.70%	2.70%	11,317	11,317	329,643	329,643	\$0.67
50,000-99,999 SF	40,411,796	4.30%	4.40%	(373,884)	(373,884)	584,835	584,835	\$0.58
100,000-199,999 SF	32,995,992	5.30%	5.80%	(7,252)	(7,252)	249,597	249,597	\$0.63
200,000+ SF	45,186,775	4.70%	4.70%	399,281	399,281	878,000	878,000	\$0.55
Business Parks								
10,000-49,999 SF	9,332,146	3.20%	3.30%	(5,112)	(5,112)	180,653	180,653	\$0.67
50,000-149,999 SF	16,924,807	8.10%	8.40%	(26,519)	(26,519)	447,650	447,650	\$0.54
150,000+ SF	12,111,514	8.90%	9.20%	54,000	54,000	60,000	60,000	\$0.49
BUSINESS PARKS TOTAL	38,460,106	7.20%	7.40%	22,369	22,369	696,103	696,103	\$0.57

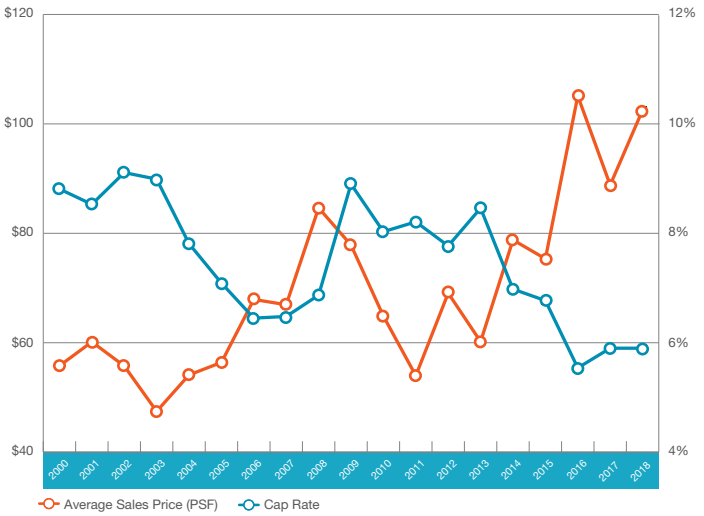
VACANCY VS ASKING LEASE RATE



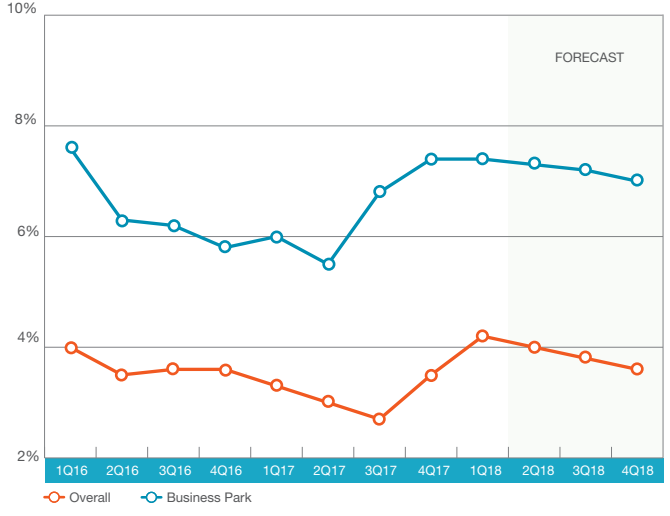
VACANCY VS AVAILABILITY



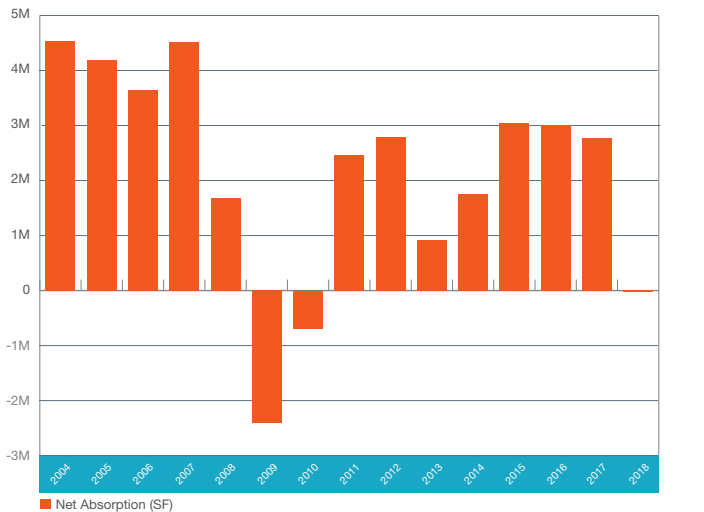
AVERAGE SALES PRICE & CAPITALIZATION RATES



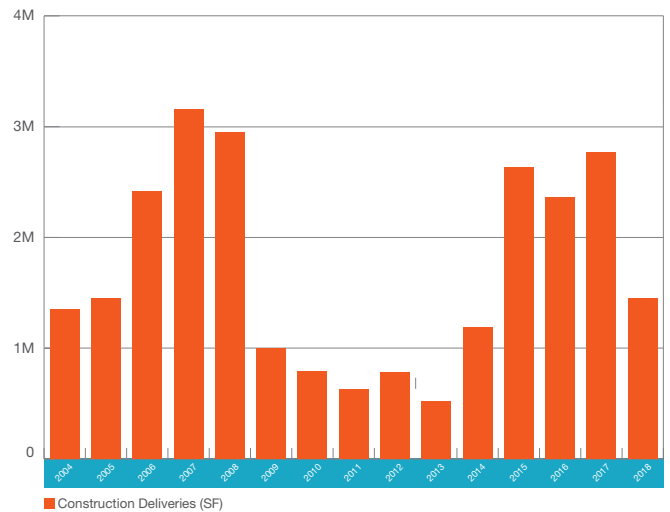
BUSINESS PARK VACANCY VS OVERALL VACANCY



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
El Segundo 310.807.0880
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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	2018 Q1	2017 Q4	2017 Q1	Annual % Change
Vacancy Rate	4.2%	3.5%	3.3%	27.3%
Availability Rate	5.5%	5.2%	4.6%	19.6%
Asking Lease Rate	\$0.66	\$0.66	\$0.57	15.8%
Leased SF	2,233,752	3,598,333	2,528,634	-11.7%
Sold SF	1,248,870	2,288,310	948,141	31.7%
Net Absorption	-27,998	-80,416	1,072,274	N/A

Portland submarket endured the largest loss this period, with 825,080 s.f. of negative net absorption, much of which stemmed from the closure of the Safeway distribution center at 16800 SE Evelyn Street in Clackamas, part of a streamlining plan from Albertsons, which acquired Safeway in 2015. Those move-outs were largely balanced by gains in Northeast Portland, where International Paper moved into 210,900 s.f. at 18285-18557 NE Halsey Street and Pizza Blends occupied 72,225 s.f. at 5409-5479 N Marine Drive, contributing toward 785,907 s.f. of positive net absorption in the submarket cluster. Northeast Portland is poised to see further positive absorption in 2018, when the recently delivered Glisan Corporate Park secures its first tenants.

Approximately 2.23 million s.f. of metro Portland industrial space came off the market in leases signed this quarter, after modest negative absorption in late 2017 created more opportunities for tenants in the market. AANW Holdings struck the quarter's largest lease deal, taking 99,950 s.f. at 16250 SE Evelyn Street in Clackamas. Northeast Portland was the busiest submarket cluster in the first quarter, with nearly 1.5 million s.f. worth of leases signed over the past three months. LaneCo grabbed 70,000 s.f. at 8823 N Harbortgate Street in Rivergate and Perfect Vision signed on for 65,056 s.f. at 16785 NE Mason Street in the East Columbia Corridor. Availabilities were at 5.5% at the end of the first quarter, their highest point in two years, but strong demand suggests that the market will tighten again in the coming months after newly delivered spaces are leased.

Marketwide industrial asking rents held at \$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 16% year over year, and by 6% over the past six months. Class B industrial business park spaces are averaging \$0.56-\$0.59/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 over the past several quarters.

Industrial sale volume this quarter totaled 50 transactions and 1.25 million s.f., amassing \$94.5 million in dollar volume. The average price per square foot rose to \$103 while the average cap rate continued to hover between 5-6%. The largest sale of the first quarter was an owner-user transaction in which S.J. Distributors acquired 7098 N Marine Drive in the Rivergate submarket. A California-based chain restaurant supplier, S.J. Distributors bought the 92,160 s.f. facility for \$10.15 million or \$110/s.f. Stafford DC LLC turned in the period's biggest investment, obtaining a five-building portfolio on Ridder ORad in Wilsonville for \$28.15 million or \$96/s.f. Finally, McLellan Estate Co., out of Ontario, California, bought the six-property Clackamas Business Center, allocating \$19.73 million or \$121/s.f. to the industrial component. Tight vacancies and rising rental rates continue to make Portland-area industrial assets attractive to investors throughout the West Coast.

Data Source: CoStar