

Real Estate Market Review

# Portland Industrial

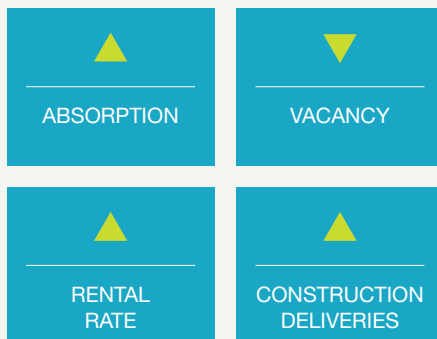
Q2 was an excellent quarter for the Portland industrial market. All the primary indicators of market strength and health were fundamentally strong at mid-year 2018. At 3.7%, market-wide direct vacancies dropped more than 30 basis points from last quarter, while rental rates climbed to an average of \$0.64 NNN per square foot, a 6.67% hike from a year ago. Leasing activity, both for the quarter and year to date was extremely strong, exceeding 1.8 million square feet for the quarter and 5.3 million square feet for the year. Moreover, both developers and investors remain bullish about the near-term prospects of the Portland industrial market, with 2.65 million square feet under construction at quarter’s end, and cap rates on investment sales in the range of 5-6%.

Occupier demand was robust in the quarter. Industrial properties sustained occupancy gains over 944,851 square feet of positive net absorption in Q2. Clark County Portland picked up 273,145 square feet of occupied industrial space, and coming in close behind was the East Columbia submarket at 238,410 square feet. Year to date, the aforementioned submarkets have achieved the highest occupancy gains at 228,350 and 324,831 square feet respectively. On the other hand, the Oregon City submarket withstood the biggest loss, ceding 60,802 square feet in the second quarter. At 3.7% market wide direct vacancies are down 33 basis points from last quarter, though up 30% from a year ago when the benchmark stood at 2.84%. Similarly, availabilities inched up slightly from 5.30% in Q1 to 5.40% in Q2.

As already mentioned, compared to a year ago, both industrial vacancies and availability rates increased by 30% and 10% respectively in metro Portland. This is due to the fact that multiple speculative developments were delivered while still awaiting their first tenants. During the second quarter 2018, nine buildings totaling 552,369 square feet were completed in the Portland market. These deliveries are in addition to the 15 buildings totaling 1,745,378 square feet that were completed in the first quarter 2018. In Q2 the largest deliveries occurred in Clark County and Northeast Portland. In the latter submarket, Capstone Partners completed the 122, 747 SF PDX Logistics Center III. The largest projects underway at the end

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**Georgia Pacific Corp**  
Rivergate Corporate Center 2, Portland  
607,000 s.f.

**Hawthorne Hydroponics**  
Centennial Industrial Park, Vancouver  
124,768 s.f.

**Eoff Electric Company**  
Rockwood Corporate Center, Portland  
101,815 s.f.

### Notable Sale Transactions

**WPT Industrial Reit**  
Interstate Crossroads Distribution, Portland  
492,554 s.f. | \$56M or \$113.69/s.f.

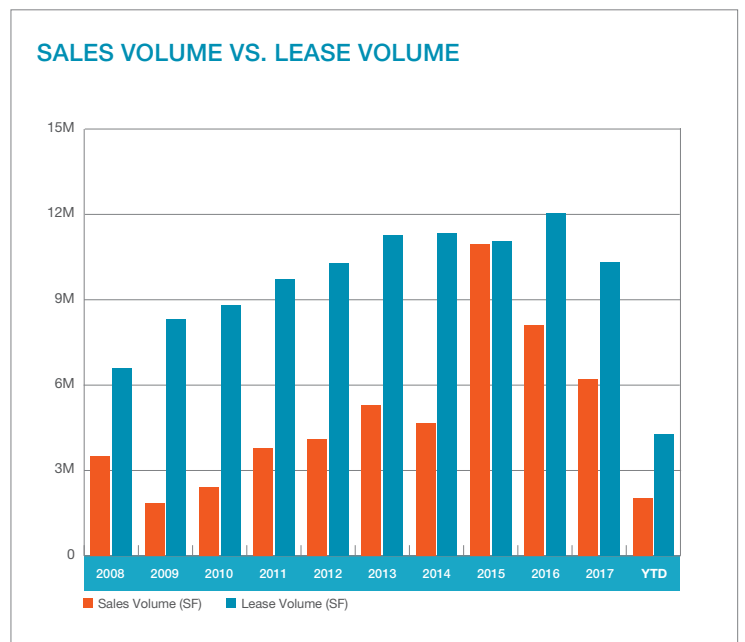
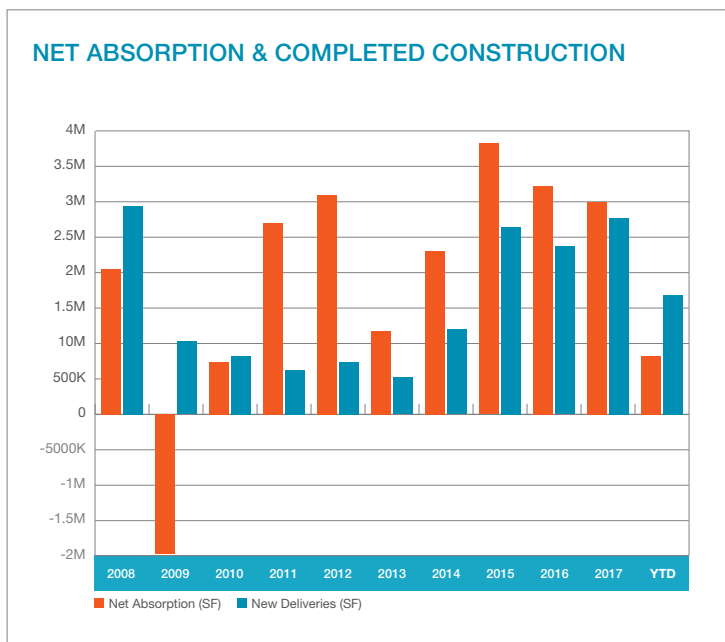
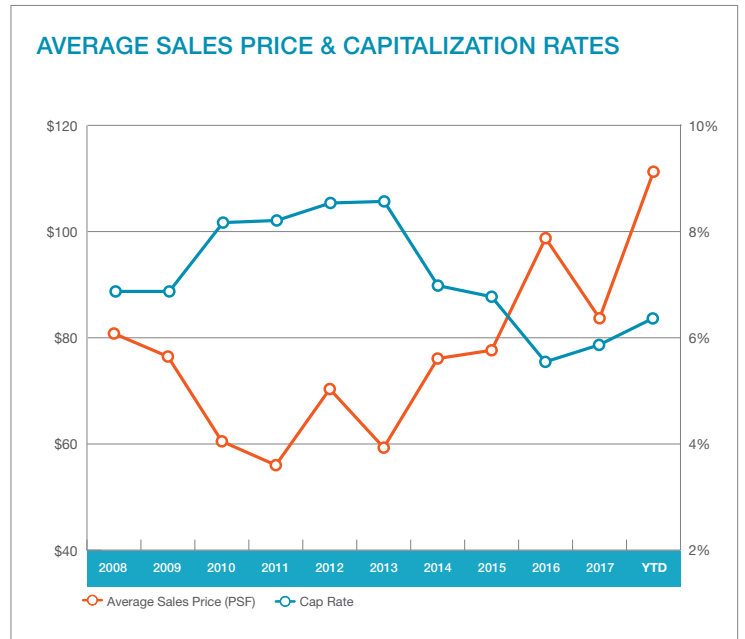
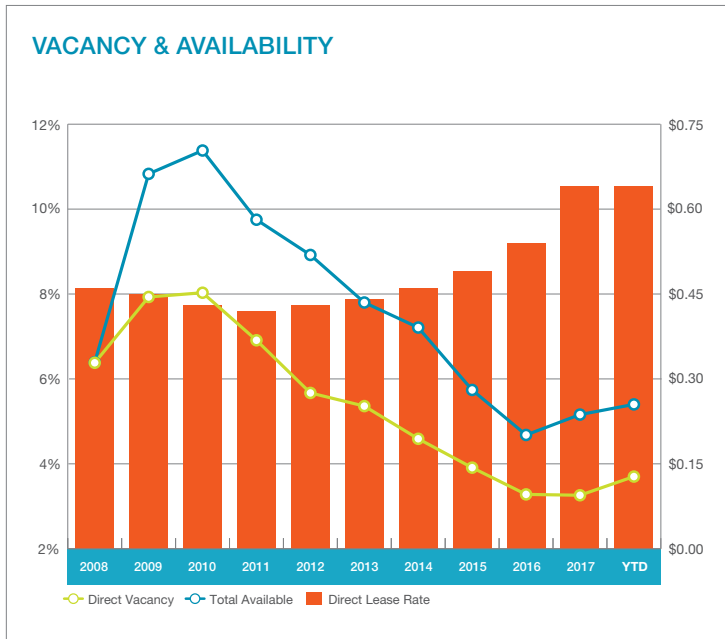
**Maletis Real Estate Holdings, LLC**  
16800 SE Evelyn Street, Clackamas  
861,753 s.f. | \$49M or \$56.86/s.f.

**Vista Investments Group, LLC**  
Nimbus Oaks, Beaverton  
171,828 s.f. | \$29M or \$170.52/s.f.

## Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Direct Vacancy Rate	3.70%	4.03%	2.84%	30.28%
Availability Rate	5.40%	5.30%	4.87%	10.88%
Asking Lease Rate	\$0.64	\$0.62	\$0.60	6.67%
Leased SF	1,860,586	2,425,498	2,659,383	-30.04%
Sold SF	758,202	1,226,028	1,296,651	-41.53%
Net Absorption	944,851	-70,210	1,024,435	N/A

## Portland Industrial Charts



## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q2 Net Absorption	YTD Net Absorption	Q2 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
<b>Lloyd District</b>	<b>1,992,725</b>	<b>4.30%</b>	<b>4.30%</b>	<b>5.50%</b>	<b>0</b>	<b>(1,531)</b>	<b>0</b>	<b>0</b>	<b>\$1.04</b>
NE Columbia Blvd/PDX	15,684,191	2.30%	2.80%	53.60%	178,137	950,883	120,291	1,211,704	\$0.65
East Columbia Corridor	26,090,983	8.70%	8.70%	10.20%	238,410	324,831	328,234	1,039,770	\$0.79
Gateway	2,793,692	5.00%	5.00%	5.40%	49,443	84,786	250	13,088	\$0.79
Gresham	1,117,990	0.80%	0.80%	2.60%	(6,376)	(4,708)	4,200	12,680	\$0.72
Hayden Isl/Swan Isl	9,878,082	0.30%	0.30%	0.60%	9,931	5,442	36,184	86,079	\$0.62
NE Close-In	3,987,534	2.10%	2.60%	3.00%	(19,427)	(68,088)	25,689	64,378	\$0.94
Rivergate	15,185,136	2.10%	2.60%	6.70%	23,441	107,706	672,099	890,639	\$0.38
<b>Northeast</b>	<b>74,737,608</b>	<b>4.30%</b>	<b>4.50%</b>	<b>6.60%</b>	<b>473,559</b>	<b>1,400,852</b>	<b>1,189,197</b>	<b>3,318,338</b>	<b>\$0.59</b>
CBD	884,433	6.80%	6.80%	6.80%	(30,000)	4,020	0	0	\$0.70
Guilds Lake	12,574,877	2.20%	2.20%	3.80%	55,999	58,750	44,543	137,711	\$0.72
NW Close-In	806,581	1.40%	1.40%	6.40%	(8,010)	(9,722)	0	0	\$0.92
<b>CBD/Northwest</b>	<b>14,284,838</b>	<b>2.60%</b>	<b>2.20%</b>	<b>3.50%</b>	<b>47,989</b>	<b>49,028</b>	<b>44,543</b>	<b>137,711</b>	<b>\$0.74</b>
Clackamas/Milwaukie	23,178,051	4.50%	4.60%	5.80%	65,386	(719,081)	42,265	325,085	\$0.82
Mall 205	382,904	4.50%	4.60%	5.80%	0	0	0	0	\$0.72
Oregon City	1,154,159	6.20%	6.20%	6.20%	(60,802)	(56,302)	0	0	\$0.99
SE Close-In	5,998,341	2.80%	2.80%	5.80%	44,925	34,979	22,610	103,253	\$0.80
<b>Southeast</b>	<b>30,713,455</b>	<b>4.20%</b>	<b>4.20%</b>	<b>5.80%</b>	<b>49,509</b>	<b>(740,404)</b>	<b>64,875</b>	<b>428,338</b>	<b>\$0.81</b>
217 Corridor/Beaverton	4,343,364	4.20%	4.60%	5.70%	(14,725)	22,358	23,242	66,477	\$0.50
Barbur Blvd/Capitol Hwy	131,743	0.00%	0.00%	0.00%	0	0	0	0	\$0.00
Johns Landing	302,547	6.60%	6.60%	6.60%	14,500	2,000	0	14,500	\$1.09
North Beaverton	1,797,267	0.30%	1.70%	10.30%	(30,862)	(30,862)	0	0	\$0.81
SW Close-In	205,379	0.00%	0.00%	29.50%	0	0	0	0	\$0.00
<b>Southwest</b>	<b>6,797,804</b>	<b>3.00%</b>	<b>3.70%</b>	<b>7.60%</b>	<b>(31,087)</b>	<b>(6,504)</b>	<b>23,242</b>	<b>80,977</b>	<b>\$0.59</b>
<b>Sunset Corridor/Hillsboro</b>	<b>14,376,653</b>	<b>1.90%</b>	<b>1.90%</b>	<b>1.80%</b>	<b>38,310</b>	<b>(3,187)</b>	<b>96,967</b>	<b>238,224</b>	<b>\$0.91</b>
<b>I-5 Corridor</b>	<b>26,528,910</b>	<b>2.20%</b>	<b>2.30%</b>	<b>3.90%</b>	<b>123,426</b>	<b>(71,666)</b>	<b>202,593</b>	<b>508,215</b>	<b>\$0.62</b>
Camas/Washougal	1,286,641	3.30%	3.30%	1.70%	36,800	48,260	0	30,000	\$0.45
Cascade Park	198,728	0.00%	0.00%	10.10%	18,900	18,900	0	18,900	\$0.30
Orchards	4,767,113	1.80%	2.00%	3.80%	(36,581)	(17,844)	16,006	60,716	\$0.63
Vancouver Mall	19,533	4.20%	4.20%	4.20%	0	7,040	0	0	\$0.00
CBD/West Vancouver	5,480,177	4.80%	4.80%	6.50%	124,596	66,884	124,768	147,568	\$0.47
Hazel Dell/Salmon Creek	1,385,925	0.60%	0.60%	1.40%	14,083	5,633	10,690	59,724	\$0.71
St. Johns/Central Vancouver	6,174,275	8.60%	9.10%	9.90%	115,347	99,477	87,705	368,064	\$0.53
<b>Clark County</b>	<b>19,337,212</b>	<b>4.90%</b>	<b>5.10%</b>	<b>5.10%</b>	<b>273,145</b>	<b>228,350</b>	<b>239,169</b>	<b>684,972</b>	<b>\$0.52</b>
<b>Portland Total</b>	<b>188,750,653</b>	<b>3.70%</b>	<b>3.80%</b>	<b>5.40%</b>	<b>944,851</b>	<b>858,958</b>	<b>1,860,586</b>	<b>5,396,775</b>	<b>\$0.64</b>
<b>Building Size</b>									
0-9,999SF	9,797,697	1.10%	1.30%	2.00%	(24,798)	17,918	74,367	183,701	\$0.97
10,000-24,999 SF	25,583,044	1.70%	1.80%	2.80%	159,372	100,254	106,582	396,221	\$0.76
25,000-49,999 SF	34,045,652	2.30%	2.40%	4.10%	64,664	86,601	234,861	807,250	\$0.67
50,000-99,999 SF	40,589,678	4.00%	4.10%	4.70%	293,449	(58,952)	374,484	1,453,375	\$0.56
100,000-199,999 SF	33,547,334	5.90%	6.40%	8.90%	450,069	311,741	354,709	834,247	\$0.64
200,000+ SF	45,186,853	4.50%	4.50%	6.70%	2,115	401,396	715,583	1,721,981	\$0.51
<b>Business Parks</b>									
10,000-49,999 SF	9,335,291	2.80%	3.10%	4.60%	18,220	15,227	194,214	570,881	\$0.69
50,000-149,999 SF	17,043,996	6.60%	7.00%	10.60%	317,904	312,868	155,275	800,110	\$0.54
150,000+ SF	12,111,592	10.30%	10.30%	16.40%	(9,992)	(121,806)	776,300	1,005,600	\$0.63
<b>Business Parks Total</b>	<b>38,582,518</b>	<b>6.90%</b>	<b>7.10%</b>	<b>11.00%</b>	<b>326,132</b>	<b>206,289</b>	<b>1,125,789</b>	<b>2,384,391</b>	<b>\$0.60</b>

of second quarter 2018 were Mill Creek Corporate Center Phase 1 a 1,018,020 square foot building with 100% of its space preleased, and Amazon, a 918,400 square foot facility that is 100% pre-leased. Of metro Portland's core industrial submarket clusters, Sunset Corridor/Hillsboro and the I-5 Corridor were the tightest, at 1.9% and 2.2% vacancy, respectively, while Clark County had the most vacant space, at 4.9%. Although market wide direct vacancies are up year over year, strong occupier demand kept the benchmark at sub 4% vacancy rates. Expect similarly robust demand throughout the rest of 2018.

Approximately 1.86 million square feet 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. Year to date, over 5.3 million square feet of industrial space has been leased. Georgia Pacific Corp struck the quarter's largest lease deal, taking 607,000 square feet at Rivergate Corporate Center in the Rivergate submarket. Similarly, Hawthorne Hydroponics at Centennial Industrial Park in Clark County and Eoff Electric Company at Rockwood Corporate Center in Northeast Portland, respectively, took down 124,768 and 101,815 square feet. Availabilities were at 5.4% at the end of the Q2, 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 rose to \$0.64/sf on a blended triple-net basis. 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/sf on the shell with \$0.95 office surcharges, while larger spaces over 100,000 s.f. are achieving \$0.54-\$0.58/sf shell

rents. As demand for functionally and logistically superior product remains strong, rates have increased by approximately 6.67% year over year. Class B industrial business park spaces are averaging \$0.56-\$0.59/sf shell rates for smaller spaces or superior locations, and \$0.47-0.50/sf 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/sf on the shell, but vacancies there have declined dramatically over the past several quarters.

Industrial sale volume this quarter totaled 37 transactions and 758,202 square feet, amassing \$66.0 million in dollar volume. The average price per square foot rose to \$113.59 while the average cap rate continued to hover between 5-6%. The largest sale of the second quarter was WPT Industrial's purchase cum investment of Interstate Crossroads in Portland. The Canadian based REIT made the purchase on a 4.8% cap rate and spent \$113.69 per square foot totaling \$56,000,000. As WPT Industrial's purchase evinces, there are no indications of waning investor interest in the Portland market. Indeed, tight vacancies and rising rental rates continue to make Portland-area industrial assets attractive to both investors and developers throughout the West Coast.

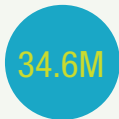
Source: CoStar

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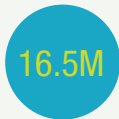
#### COMMERCIAL BROKERAGE



ANNUAL TRANSACTION VOLUME



ANNUAL LEASING SF



ANNUAL SALES SF



# BROKERS

#### PROPERTY MANAGEMENT

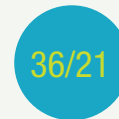


MANAGEMENT PORTFOLIO

#### VALUATION ADVISORY



APPRAISALS ANNUALLY



TOTAL # APPRAISERS/MAI'S

#### Contact

**Jerry Holdner**  
Director of Research  
949.557.5050  
jholdner@kiddermathews.com

**Brian Hatcher**  
Executive VP, Brokerage  
Pacific Northwest  
503.221.9900  
bhatcher@kiddermathews.com

Designated Broker  
Brian Hatcher

[kiddermathews.com](http://kiddermathews.com)



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