

Portland Office

Market Forecast

	Current / Projection	
Vacancy Rate	7.6%	↔
Availability Rate	9.5%	↑
Construction	1.3M sf	↓
Net Absorption	552,050 sf	↑

Market Highlights

- Sales activity is very strong.
- Portland's largest tower was delivered during the second quarter.
- Rents continue to climb to all-time highs. ■

The Portland office real estate market picked up where it left off during the second quarter of 2016, with decreasing availability, asking rental rates at all-time highs, very strong sales volume, and over 740,000 s.f. of new deliveries to the market. Rental rates for Class A office space continue to reach levels never seen before in the Portland office market. Recent sales, such as Pioneer Tower and the Commonwealth Building, pending sales, including the Board of Trade Building, Concord Building, RiverSide Centre, 5550 Building, and the PacWest Centre, and a significant wave of marketed investments will provide a substantial sample of Central City asset values and an indication of investor confidence in the long-term viability of the Portland market.

Vacancy, Availability, and Net Absorption

The vacancy rate for the second quarter remained unchanged from the previous quarter at 7.6%. The current vacancy rate reflects a 110 basis point decrease from the second quarter of 2015 when the rate was 8.7%. The amount of available space decreased 30 basis points from 9.8% to 9.5%. Total net absorption was reported at 552,050 s.f. following 301,719 s.f. the previous quarter, and 557,257 s.f. in the fourth quarter of 2015. Net absorption has been positive for four consecutive quarters totaling more than 1.54 million s.f. For the first time in four quarters, market-wide new deliveries exceeded net absorption, with 741,070 s.f. delivered during the second quarter.

Leasing Activity

Rental rates continued to climb during the second quarter to levels never seen before in the Portland market. The two largest leases of the quarter were the Elemental Technologies and D+H leases within the former Oregonian Newspaper

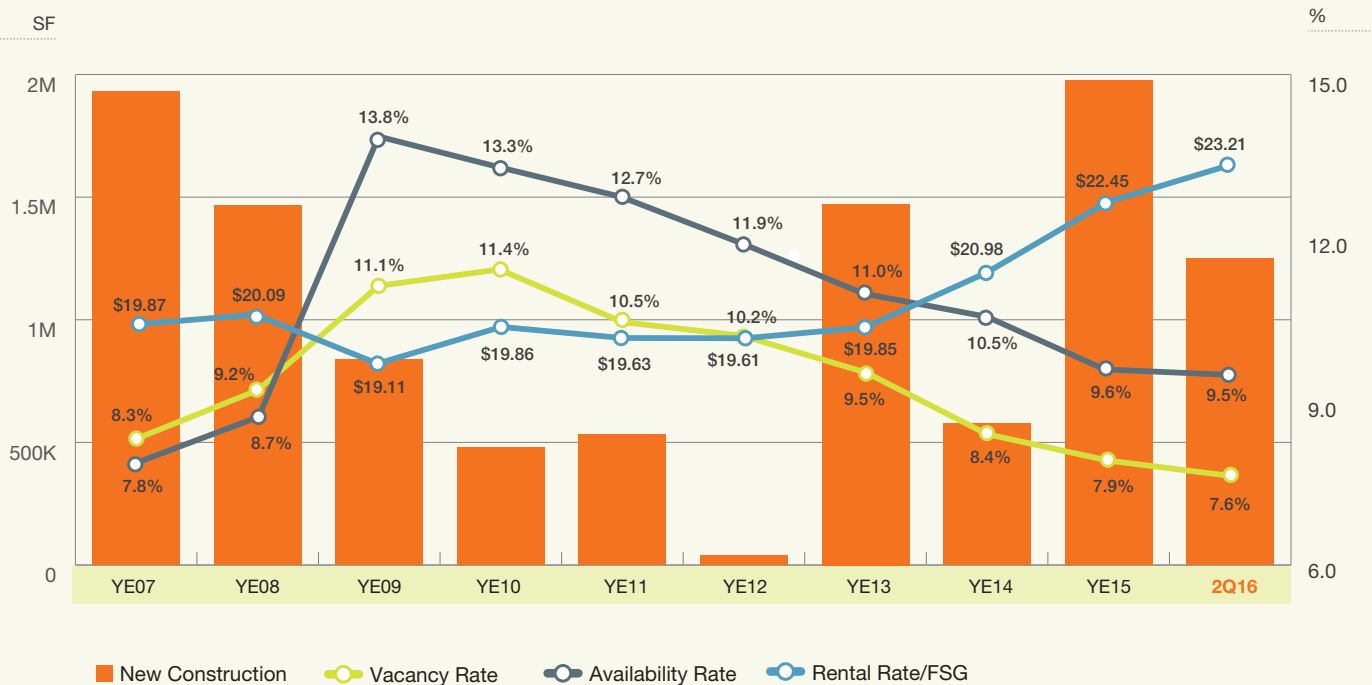
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Area Review

Portland Office Market Statistics

Period	Inventory		Vacancy Rate	Availability Rate	Net Absorption	# Delivered	RBA Delivered	UC Inventory		Average Asking Rate (FSG)
	# Bldgs	Total RBA						# Bldgs	RBA	
2016 Q2	5,720	101,421,899	7.6%	9.5%	552,050	6	741,070	14	1,250,651	\$23.21
2016 Q1	5,718	100,850,104	7.6%	9.8%	301,719	4	125,219	20	1,991,721	\$23.24
2015 Q4	5,719	100,855,835	7.9%	9.6%	557,257	5	83,249	20	1,974,106	\$22.45
2015 Q3	5,720	100,799,198	8.4%	10.1%	129,155	2	32,960	19	1,449,910	\$22.22
2015 Q2	5,725	100,941,190	8.7%	10.3%	-12,911	2	40,242	20	1,466,150	\$21.62
2015 Q1	5,726	100,907,848	8.7%	10.7%	-200,574	2	93,348	15	1,090,813	\$21.61
2014 Q4	5,728	100,832,988	8.4%	10.5%	1,463,352	7	1,155,691	9	578,771	\$20.98
2014 Q3	5,727	99,727,584	8.8%	10.3%	213,371	4	17,244	13	1,545,841	\$20.86
2014 Q2	5,727	99,872,359	9.2%	10.5%	87,519	9	36,455	13	1,479,572	\$20.60
2014 Q1	5,729	99,948,039	9.3%	10.9%	81,483	3	45,521	20	1,494,641	\$20.44
2013 Q4	5,733	100,001,297	9.5%	11.0%	65,684	0	0	18	1,472,071	\$19.85
2013 Q3	5,738	100,042,969	9.6%	11.2%	-124,596	1	20,000	11	1,073,272	\$19.79
2013 Q2	5,739	100,033,885	9.4%	11.6%	191,869	1	10,916	4	60,794	\$19.86
2013 Q1	5,744	100,123,685	9.7%	11.7%	504,398	2	8,938	2	30,916	\$19.72
2012 Q4	5,745	100,152,125	10.2%	11.9%	305,142	4	100,083	4	39,854	\$19.61

Under Construction, Vacancy, Availability & Rental Rates



Headquarters building, now known as 1320 Broadway. The 164,874 s.f. building is currently under renovation and is a notable success story that has reinvigorated demand in the traditionally robust south CBD micromarket. Elemental Technologies will occupy floors three, four, and five for a total of 101,400 s.f., and D+H will occupy the first two floors for a total of 45,617 s.f.

The average asking rental rate for all office properties within the Portland MSA dropped slightly during the second quarter to \$23.21/s.f., full service gross, compared to \$23.24/s.f. during the first quarter of the year; however, the current average asking rental rate reflects a 7.4% increase over the second quarter of 2015 when the rate was \$21.62/s.f.

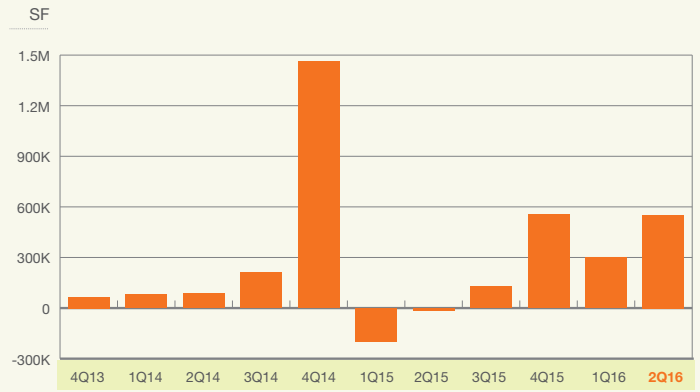
Concessions

As asking rents continue to climb prior to sale offerings and following closed investment sales, tenant lease concessions are reducing in the central city. The focus of tenants continues to be on finding viable space options and paying up to secure them rather than loading up on concessions and excessive tenant improvement contributions from Portland building owners.

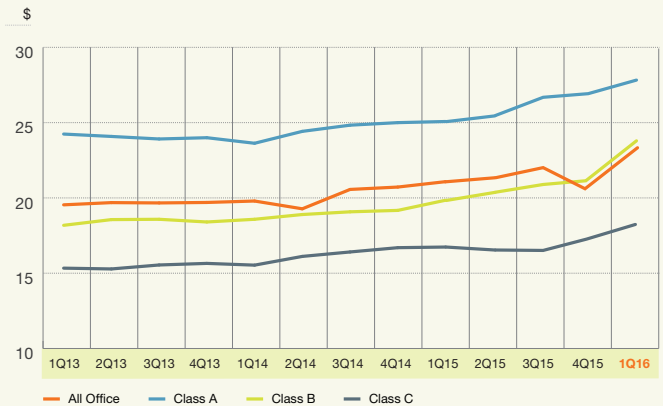
New Construction

Over 741,000 s.f. of office product was delivered during the second quarter. Portland's largest new tower, Park Avenue West, was delivered in April. The 546,000 s.f., 30-story, mixed-use development includes 13 stories of Class A office space totaling 194,799 s.f., 15 stories of apartments, two stories of retail, and six stories of underground parking. The property was delivered 94% leased. Stoel Rives, the largest law firm in Portland, is anchoring the office portion of the property and occupies nine floors. Other notable deliveries include Daimler Trucks' North America Headquarters building on Swan Island. The 265,000 s.f. Class A office building was delivered in June. Clay Creative, a 72,000 s.f. Class B office building, close-in on the eastside, was delivered in May and leased by Simple. There are 14 buildings currently under construction, which will add an additional 1.25 million s.f. of office product to the Portland market over the next year, and with more slated to deliver over the next 24 months, adding long-awaited supply that never materialized during the recession. Until it is all delivered, the supply constraint will drive rental rate growth. Time will tell if increased absorption will stay

Net Absorption



Rental Rates



on track or revert back to historical averages that would indicate minimal rent growth from these “replacement cost rents” and increasing supply.

Investment Activity

Sale volume for the second quarter of the year was \$367 million, more than double the first quarter sales volume of \$175 million. The average sale price/s.f. was \$220, up from \$198 the previous quarter. The two largest sale transactions of the quarter include the sale of the Commonwealth Building, a 216,099 s.f. office building that sold for \$69 million, or \$319/s.f., and the sale of Pioneer Tower, a 296,329 s.f. office building, which sold for \$121,750,000, or \$411/s.f. The reported capitalization rates for the two sales were 5.0% and 4.8%, respectively.

Offices

- Seattle
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- 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
916.751.3600
- Reno
775.301.1300
- Orange County
949.557.5000
- San Diego
858.509.1200
- Phoenix
602.513.5200

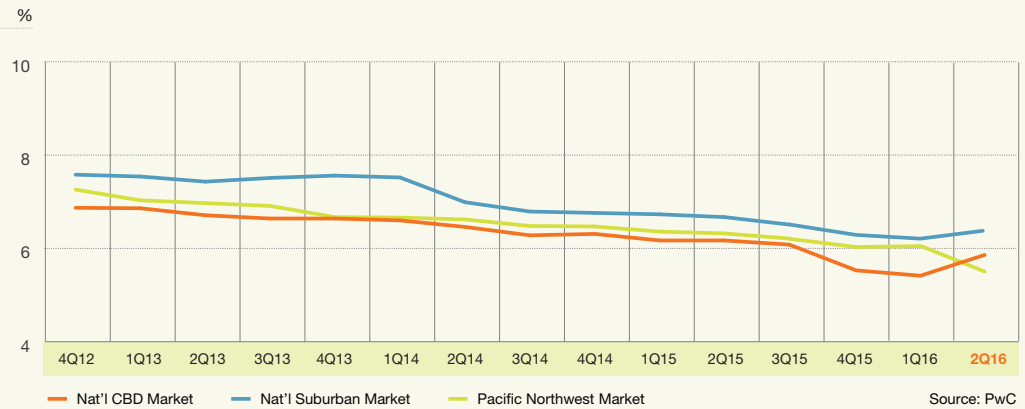
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Average Cap Rates



Recent Sale Activity of Note

Property Name	Location	Bldg SF	Sale Price	Price/SF	Sale Date	Cap Rate
Pioneer Tower	Portland	296,329	\$121,750,000	\$411	Jun-16	4.8%
Commonwealth Building	Portland	219,742	\$69,000,000	\$314	Jun-16	5.0%
Evergreen Corporate Center	Hillsboro	266,841	\$45,500,000	\$171	Jun-16	N/A
Mohawk Corporate Center	Tualatin	342,004	\$44,250,000	\$129	Apr-16	N/A

The average overall capitalization rate increased to 6.2% during the second quarter, compared to 5.3% during the first quarter of 2016. The average rate for the first half of 2016 is 5.6%, compared to an average of 6.6% for 2015 and 7.0% in 2014.

Summary

The Portland office market ended the first half of the year the same way it started, with all-time high rental rates and strong absorption.

For the first time in a year, new deliveries to the market exceeded net absorption, thanks to the delivery of Portland's largest tower, Park Avenue West. Sales activity remains strong, and over 1.25 million s.f. of new product is slated to be delivered in the next year.

Source: CoStar