

Portland Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Construction Deliveries



Under Construction



Notable Lease Transactions

KLA Tencor

2430 NW 206th Avenue, Beaverton
20,988 s.f. leased

Perry Ellis International

401-411 NE 19th Avenue, Portland
18,760 s.f. leased (renewal)

M.J. Murdock Charitable Trust

605 W Columbia Way, Vancouver
18,000 s.f. leased

WE Worldwide

1115-1139 NW Couch Street, Portland
16,394 s.f. leased

Notable Sale Transactions

Lincoln Realty Company

Fremont Place I and II
1650-1750 NW Naito Parkway, Portland
121,500 s.f. purchased for \$31.5M (\$259/s.f.)

KM Paige Associates LLC

Beaverton Creek Business Park Building F
15550 SW Millikan Way, Beaverton
33,765 s.f. purchased for \$9.5M (\$281/s.f.)

Pope Investments LLC

Twin Oaks Executive Center
1865 NW 169th Place, Beaverton
14,244 s.f. purchased for \$2.56M (\$180/s.f.)

The Portland office real estate market stayed hot in the third quarter of 2016, amid strong economic conditions, high tenant demand, and an appealing environment for investors and developers. Overall, metro Portland saw 381,915 square feet of positive net absorption, the market's sixth straight quarter in the black. Vacancies declined to 7.6%, down a full percentage point from this time last year, to their lowest point in this cycle. Rental rates continued to rise, to a marketwide average of \$24.16, fully serviced, as high-floor spaces in the downtown's trophy buildings commanded outlays in the mid-to-high \$30s triple-net. Office investments were largely confined to smaller assets during the third quarter, as cap rates slipped toward 5% after several signature properties traded earlier in the year. New construction projects continued to sprout, with 16 office developments underway in the Portland market at quarter's end, including a future addition to the city's growing skyline.

Vacancy, Availability, and Net Absorption

This quarter's 381,915 square feet of positive net absorption brought the market's year-to-date gain in occupied office space to 1,426,502 square feet. Downtown submarkets accounted for 53,828 square feet of this quarter's gains, as the Department of Justice moved into a 58,524-square-foot space on the fourth through seventh floors of The 100 at Park Square and Google opened its second Portland office on the seventh floor of 308 SW 2nd Avenue. The Gateway submarket led all other areas with 113,715 square feet of positive net absorption, the majority of which stemmed from the Oregon Department of Human Services' move into 117,500 square feet at 11826 NE Glisan Street. Beaverton saw the most private-sector move-in activity, as DAT Solutions occupied the first two floors of 8405 SW Nimbus Avenue. The Kruse Way submarket in Lake Oswego was among the handful of suburban submarkets in the red, shedding 40,338 square feet. About one-third of that negative absorption came at Three Centerpointe, where WE Worldwide (formerly Waggenger Edstrom) is preparing to relocate into Portland CBD.

Vacancies approached or set new cycle lows throughout the Portland market. Downtown submarkets reported 8.3% direct vacancy, with the CBD at 9.0% and the Pearl District/Chinatown area virtually full at just 0.4%. Of the core suburban submarkets, Gateway (1.5%)

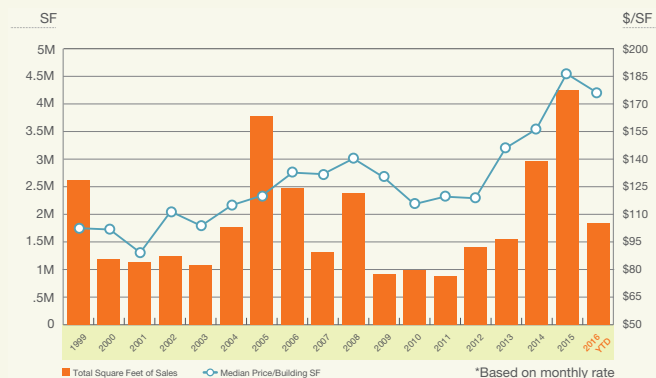
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Area Review

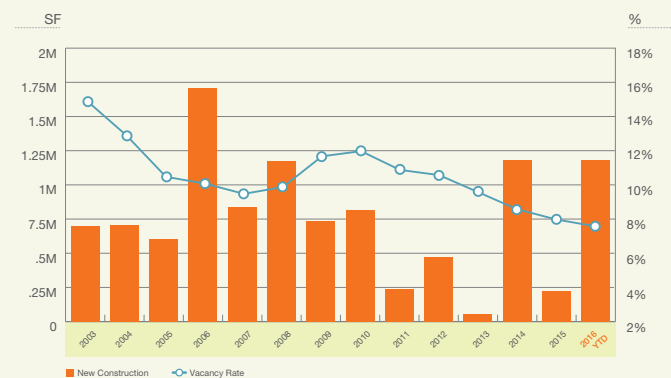
Portland Office Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
CBD	25,765,964	9.00%	9.30%	12.10%	56,940	254,321	141,333	909,327	\$29.08
Pearl District/Chinatown	2,294,529	0.40%	0.40%	6.80%	2,419	42,643	19,212	38,012	\$25.25
Downtown Total	28,060,493	8.30%	8.60%	11.80%	53,828	291,433	161,581	948,375	\$28.85
217 Corridor/Beaverton	3,494,391	14.40%	15.20%	19.10%	63,389	122,975	31,315	209,046	\$19.10
Airport Way	1,038,317	6.10%	6.80%	7.40%	(1,791)	5,630	2,515	17,930	\$16.32
Barbur Blvd/Capitol Hwy	879,271	8.40%	8.70%	10.20%	(9,596)	11,381	9,276	66,618	\$18.08
Camas/Washougal	525,149	3.30%	3.30%	3.30%	0	50,188	10,225	20,129	\$21.02
Cascade Park	2,745,253	6.70%	7.20%	9.30%	(19,229)	220,153	19,045	57,272	\$18.93
CBD/West Vancouver	2,366,559	7.90%	8.10%	9.60%	(3,370)	71,509	31,333	124,385	\$20.56
Clackamas/Milwaukie	2,333,462	6.70%	6.70%	6.90%	25,375	64,155	33,406	100,090	\$20.38
East Columbia Corridor	684,947	2.80%	2.80%	2.30%	893	(7)	3,882	4,775	\$17.13
Gateway	2,087,142	1.50%	1.70%	9.70%	113,715	102,126	7,871	21,305	\$18.52
Gresham	822,744	7.40%	7.70%	9.30%	(6,476)	23,507	394	34,159	\$18.33
Guilds Lake	563,047	10.10%	10.10%	12.80%	1,895	14,500	1,438	16,592	\$20.56
Hayden Isl/Swan Isl	1,192,159	2.10%	2.10%	2.10%	0	265,000	0	0	\$13.00
Hazel Dell/Salmon Creek	740,308	5.90%	5.90%	6.30%	7,996	22,506	11,602	37,326	\$20.82
Johns Landing	1,846,934	5.90%	6.20%	5.60%	(41,574)	(40,628)	21,690	59,170	\$23.23
Kruse Way	2,752,096	11.80%	12.30%	14.60%	(40,338)	(52,147)	53,674	86,119	\$28.52
Lake Oswego/West Linn	667,113	6.70%	6.70%	9.50%	(2,143)	2,653	2,749	25,088	\$26.33
Lloyd District	4,580,779	3.40%	3.40%	3.70%	87,972	73,680	38,330	120,370	\$22.94
Mall 205	601,651	7.70%	7.70%	7.60%	11,537	(13,174)	10,394	23,957	\$14.78
NE Close-In	1,136,246	5.10%	5.80%	5.70%	5,162	5,677	8,016	20,369	\$21.63
North Beaverton	2,750,980	5.20%	6.10%	5.40%	25,484	8,328	26,087	59,590	\$25.90
Orchards	501,573	14.00%	14.00%	13.60%	266	(37,011)	3,193	3,823	\$18.87
Oregon City	633,499	5.80%	5.80%	6.40%	17,443	27,073	7,488	20,468	\$16.78
Rivergate	48,123	0.00%	0.00%	0.00%	0	0	0	0	-
SE Close-In	2,535,922	3.30%	3.30%	3.10%	7,060	66,030	20,412	53,808	\$25.52
Sherwood	131,702	15.70%	15.70%	15.70%	0	0	0	110	\$23.20
St. Johns/Central Vancouver	1,212,619	15.50%	15.50%	13.70%	1,592	12,592	7,695	10,095	\$14.37
Sunset Corridor/Hillsboro	11,833,445	4.80%	5.20%	8.20%	73,006	90,660	77,192	142,418	\$21.71
SW Close-In	418,028	2.80%	2.80%	5.30%	1,878	23,930	6,014	29,083	\$18.75
Sylvan/Hillsdale	597,017	12.40%	13.90%	17.20%	(13,495)	8,842	21,319	62,845	\$19.44
Tigard	2,845,157	9.90%	10.50%	14.10%	10,765	(47,690)	59,536	303,578	\$21.55
Tualatin	1,127,126	16.20%	16.20%	17.50%	2,541	9,992	11,409	39,716	\$23.91
Vancouver Mall	798,519	4.60%	4.60%	4.60%	(6,242)	25,856	7,730	33,295	\$17.68
Wilsonville	1,108,389	4.10%	4.10%	2.60%	8,841	(8,748)	1,308	4,567	\$22.46
Suburban Total	56,914,720	6.80%	7.10%	8.80%	350,026	1,137,908	557,626	1,818,291	\$21.39
Class A	29,589,521	7.60%	8.10%	10.30%	133,397	946,501	221,422	882,710	\$28.17
Class B	42,236,745	7.60%	7.90%	10.10%	197,048	335,642	388,343	1,415,159	\$21.89
Class C	13,823,162	5.50%	5.50%	7.20%	51,470	144,359	97,318	457,566	\$17.89
Portland Total	85,660,160	7.30%	7.60%	9.70%	381,915	1,426,502	707,083	2,755,435	\$24.16

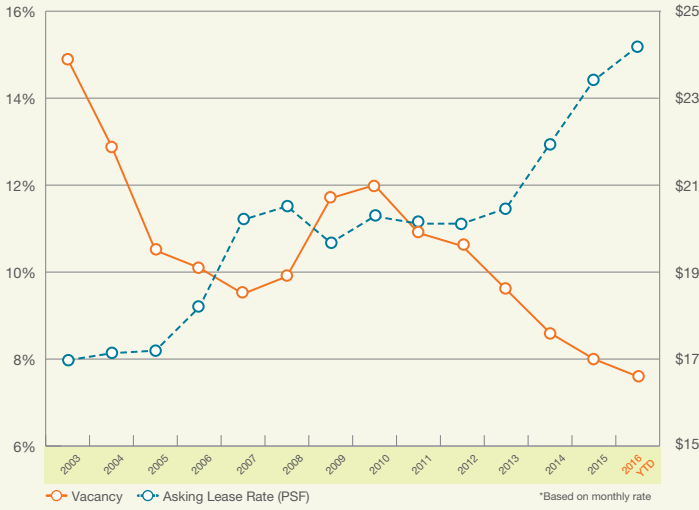
HISTORICAL SALES SF & MEDIAN SALE PRICE



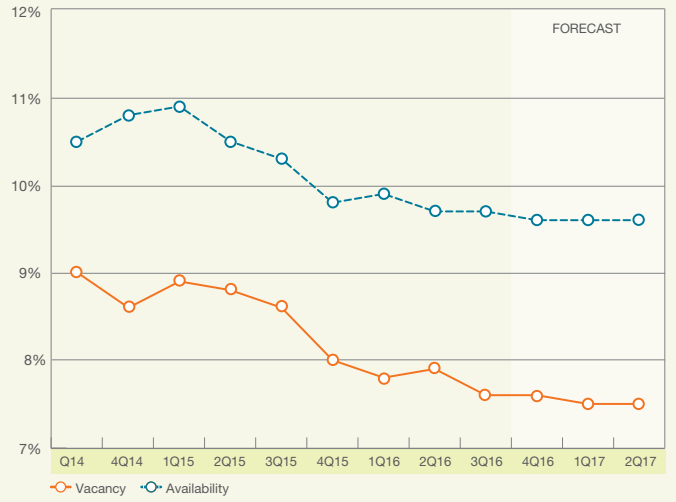
HISTORICAL NEW CONSTRUCTION & VACANCY RATE



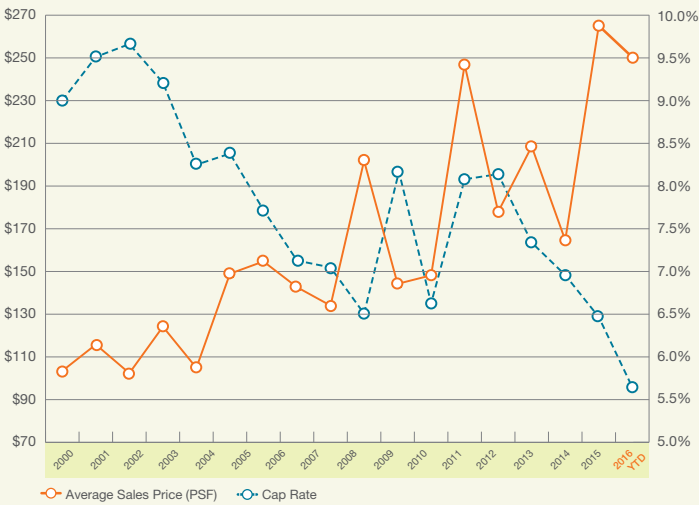
VACANCY VS ASKING LEASE RATE*



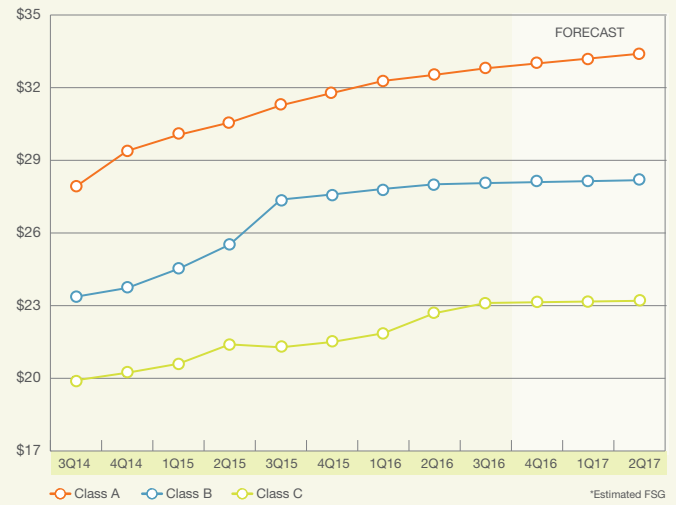
VACANCY VS AVAILABILITY



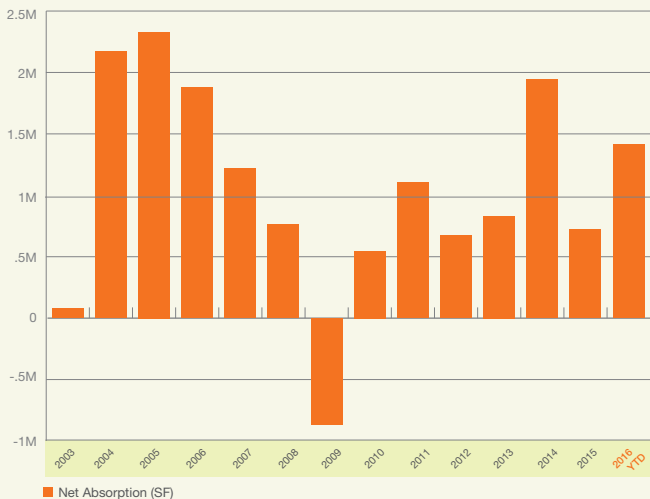
AVERAGE SALES PRICE & CAPITALIZATION RATES



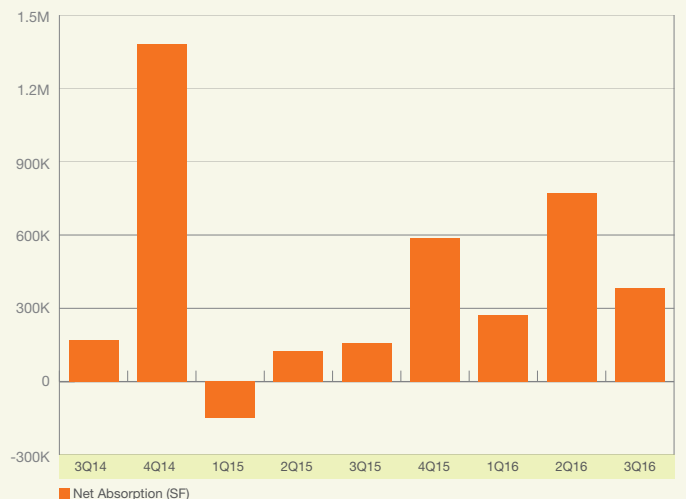
DOWNTOWN AREA ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

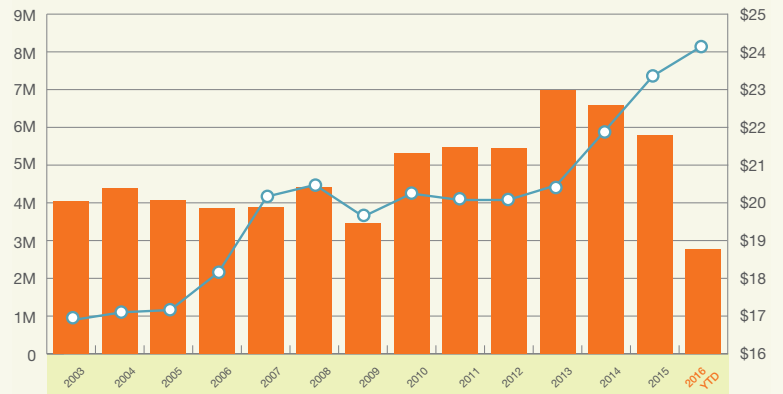
Phoenix
602.513.5200

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HISTORICAL LEASING ACTIVITY & ASKING LEASE RATE

■ Leasing Activity
○ Asking Lease Rate



was the tightest and St. Johns/Central Vancouver (15.5%) had the most vacant office space at the end of the quarter. Overall office vacancy in the Portland market is at its low point in the cycle, down from its 11.2% peak in the second quarter of 2012. While 217 Corridor/Beaverton remains one of the loosest submarkets in metro Portland, it enjoyed the largest year-over-year drop in direct vacancy, plunging 430 basis points, from 18.7% to 14.4%.

Leasing Activity

Leasing activity slowed moderately this quarter to 246 transactions covering 707,083 square feet. Downtown submarkets played host to approximately 22.9% of the square footage leased in the period. The largest new CBD deal was struck by WE Worldwide—a Microsoft-owned public relations firm—which is downsizing, moving out of its Three Centerpointe office in Lake Oswego, and taking 16,394 square feet on the fifth floor of M Financial Plaza. In the suburban submarkets, the most substantial lease transactions were consummated by KLA Tencor, which landed in 20,988 square feet at 2430 NW 206th Avenue in Beaverton, and by the M.J. Murdock Charitable Trust, which grabbed 18,000 square feet at 605 W Columbia Way in Vancouver.

Investment Activity

While the second quarter saw signature assets such as the Pioneer Tower change hands, the third quarter was marked by trading of smaller office properties in the Portland metro market. The largest CBD transaction involved Fremont Place I and II, a two-property waterfront office complex that went from TA Realty to Texas-based Lincoln Property Company for \$31.5 million or \$259.26 per square foot, underwritten at an estimated 5.7% cap rate. That sale followed renovation efforts by the

previous owner to convert the vacant portions of the 111,500-square-foot asset into creative space that would appeal to a greater variety of users. In Beaverton, Pope Investments LLC acquired the Twin Oaks Executive Center from Wing & A Prayer Properties LLC for \$2.56 million or \$179.72 per square foot, and Building F at Beaverton Creek Business Park was sold by SF Beaverton LLC to KM Paige Associates LLC for \$9.5 million or \$281 per square foot. Both properties were 100 percent leased at sale. Cap rates on transactions consummated in the year to date fell to 5.66%, compared to 6.5% on sales in 2015.

Construction Activity

Construction activity continues to boom throughout the Portland metro market, with 16 buildings rising at quarter's end. The lone third-quarter delivery was the DHS Multi-Service Center at 11826 NE Glisan Street in the Gateway submarket, a 117,500-square-foot building fully preleased to DHS. The largest office project underway is the Nike North Expansion at the company's world campus in Beaverton, a 412,000-square-foot Class A facility set for delivery in the summer of 2017. In Portland CBD, BPM Real Estate Group celebrated the groundbreaking of the Broadway Tower at 1455 SW Broadway; when completed, that development will add a 19-story, mixed-use building to the city's skyline, featuring about 175,000 square feet of office space and a 180-room hotel. Nearly all of the office space is available for lease, with asking rents ranging from the low-\$30s on the lower floors to over \$36 toward the top of the tower, both triple-net. Finally, in the Guilds Lake submarket, the two-building Field Office complex—which will total more than 300,000 square feet—is scheduled for delivery in early 2018.

Data Source: CoStar