

Portland Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

City of Portland
1001 SW 5th Avenue, Portland
67,438 s.f. leased

Cloudability
334 NW 11th Avenue, Portland
22,591 s.f. leased

Approved
1414 NW Northrup Street, Portland
19,258 s.f. leased

Notable Sale Transactions

Zeller Realty Group
Umpqua Bank Plaza
1 SW Columbia Street, Portland
276,676 s.f. purchased for \$90M (\$325/s.f.)

American Realty Advisors
Congress Center
1001 SW 5th Avenue, Portland
384,951 s.f. purchased for \$85.12M (\$221/s.f.)

ScanlanKemperBard Companies
510 & 5550 Macadam Avenue, Portland
142,298 s.f. purchased for \$27.5M (\$193/s.f.)

Towman LLC
One Embassy Centre
9020 SW Washington Square Road, Tigard
86,706 s.f. purchased for \$16.75M (\$193/s.f.)

Steady leasing activity, rising rental rates, and increasing demand from technology sector companies reaffirmed the strength of the Portland office market during the first quarter of 2017. Vacancies ticked up to 8.2% marketwide, following 74,977 s.f. of negative net absorption, but landlords marketing creative office spaces were able to quickly secure replacement tenants. The Pearl District continues to attract an array of tech-sector firms, and a pair of cloud-based software firms landed there this quarter on leases of about 20,000 s.f. each. Portland office assets retained their appeal to national investors, drawing buyers from Southern California and Chicago this quarter, as the average price per square foot climbed to \$252. Nearly 2.5 million s.f. of future office space was under construction at quarter's end, from CBD high-rises to the Nike North Expansion in Beaverton, as developers anticipate further demand growth in the coming year.

After adding 1,346,218 s.f. of occupied office space in 2016, the Portland market gave back 74,977 s.f. during the first quarter, its first negative-absorption period since the second quarter of 2015. Downtown submarkets were virtually even on balance, with 52,665 s.f. vacated in the CBD area and 51,924 s.f. newly occupied in Pearl District/Chinatown. Among the suburban submarkets, Airport Way enjoyed 29,693 s.f. of positive net absorption, the SE Close-In area tacked on 24,056 s.f., and Johns Landing picked up 21,649 s.f. of occupied office space. The Lloyd District saw 39,708 s.f. of negative net absorption in the first quarter, the most of any suburban submarket. Across Metro Portland, Class A properties endured 89,987 s.f. of negative net absorption, most of which should be regained as new tenants move in during the coming months.

Overall vacancies inched up from 8.1% to 8.2% over the first three months of 2017, with most submarkets reporting little or no change from the fourth quarter. The Downtown Portland area reported a 10.1% vacancy rate while the suburban submarkets came in at 7.3%. Among the core office submarkets, Gateway remained the tightest, at 1.5% vacancy; 217 Corridor/Beaverton was Metro Portland's loosest submarket, at 17.3%. Overall, office vacancies in Greater Portland are at or near cycle lows, after peaking at approximately 11.2% in the second quarter of 2012. The Pearl District/Chinatown submarket, a popular destination for tech firms, has tightened rapidly in recent quarters, registering a 560-basis-point year-over-year plunge in vacancy to 6.6%.

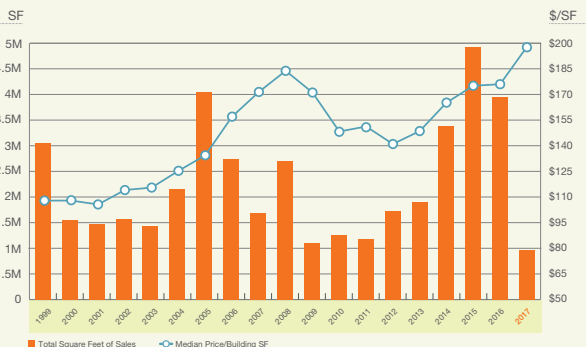
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Area Review

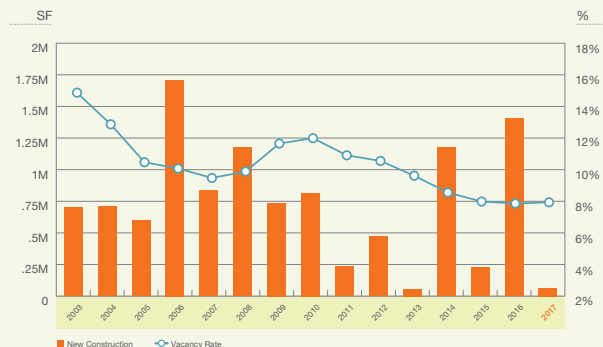
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
CBD	26,004,037	9.80%	10.50%	14.10%	(52,665)	(52,665)	433,019	433,019	\$29.28
Pearl District/Chinatown	2,486,094	6.60%	6.60%	11.00%	51,924	51,924	50,000	50,000	\$30.99
Downtown Total	28,490,131	9.50%	10.10%	13.90%	(741)	(741)	483,019	483,019	\$29.35
217 Corridor/Beaverton	3,484,954	16.40%	17.30%	19.10%	3,248	3,248	44,480	44,480	\$19.57
Airport Way	1,061,980	9.50%	9.90%	13.80%	29,693	29,693	18,899	18,899	\$14.84
Barbur Blvd/Capitol Hwy	880,108	6.30%	6.60%	7.10%	8,740	8,740	21,126	21,126	\$17.07
Camas/Washougal	525,149	3.90%	3.90%	4.00%	0	0	0	0	\$20.86
Cascade Park	2,745,253	8.90%	8.90%	11.20%	(17,885)	(17,885)	35,948	35,948	\$21.54
CBD/West Vancouver	2,331,385	8.90%	9.00%	9.10%	(16,823)	(16,823)	36,752	36,752	\$22.62
Clackamas/Milwaukie	2,333,462	6.00%	6.00%	6.30%	(7,070)	(7,070)	31,423	31,423	\$21.52
East Columbia Corridor	684,947	1.80%	1.80%	1.80%	0	0	0	0	\$17.65
Gateway	2,087,142	1.50%	1.50%	9.40%	(1,352)	(1,352)	7,251	7,251	\$19.21
Gresham	834,196	8.80%	9.10%	9.10%	(10,565)	(10,565)	442	442	\$17.65
Guilds Lake	563,047	11.00%	11.00%	42.30%	2,282	2,282	2,282	2,282	\$20.62
Hayden Isl/Swan Isl	1,192,159	1.00%	1.00%	1.20%	5,281	5,281	2,883	2,883	\$13.00
Hazel Dell/Salmon Creek	723,116	4.30%	4.30%	11.20%	720	720	7,901	7,901	\$24.70
Johns Landing	1,846,934	4.30%	4.80%	6.10%	21,649	21,649	19,626	19,626	\$24.05
Kruse Way	2,753,194	11.00%	11.60%	15.60%	(25,894)	(25,894)	55,030	55,030	\$29.02
Lake Oswego/West Linn	668,538	4.90%	4.90%	5.70%	15,832	15,832	19,897	19,897	\$25.78
Lloyd District	4,685,254	4.10%	4.20%	8.00%	(39,708)	(39,708)	10,944	10,944	\$27.08
Mall 205	612,651	6.80%	6.80%	7.00%	14,359	14,359	1,906	1,906	\$15.55
NE Close-In	1,140,727	4.70%	4.70%	2.80%	(3,532)	(3,532)	22,142	22,142	\$24.87
North Beaverton	2,771,989	5.00%	5.60%	5.80%	(3,175)	(3,175)	26,008	26,008	\$24.96
Orchards	476,473	13.40%	13.40%	13.20%	2,733	2,733	1,198	1,198	\$18.91
Oregon City	633,499	4.10%	4.10%	4.30%	(288)	(288)	6,632	6,632	\$17.17
Rivergate	48,123	0.00%	0.00%	0.00%	0	0	0	0	-
SE Close-In	2,646,446	4.20%	4.30%	5.80%	24,056	24,056	24,091	24,091	\$25.32
Sherwood	131,702	15.70%	15.70%	15.70%	0	0	0	0	\$26.00
St. Johns/Central Vancouver	1,262,619	12.80%	12.80%	17.70%	(21,131)	(21,131)	0	0	\$22.97
Sunset Corridor/Hillsboro	11,971,848	4.70%	5.20%	6.60%	(5,118)	(5,118)	32,959	32,959	\$21.10
SW Close-In	418,028	3.20%	3.20%	8.20%	(6,920)	(6,920)	0	0	\$20.87
Sylvan/Hillsdale	604,434	13.00%	13.00%	12.30%	(12,347)	(12,347)	9,797	9,797	\$20.26
Tigard	2,809,262	11.80%	12.90%	15.50%	(35,637)	(35,637)	69,422	69,422	\$21.43
Tualatin	1,127,126	16.60%	17.80%	17.60%	(15,506)	(15,506)	10,195	10,195	\$23.65
Vancouver Mall	798,517	4.30%	4.30%	4.50%	1,561	1,561	7,576	7,576	\$16.88
Wilsonville	1,108,389	2.40%	2.40%	8.30%	18,561	18,561	9,495	9,495	\$20.83
Suburban Total	57,962,651	6.90%	7.30%	9.60%	(79,356)	(79,356)	536,305	536,305	\$22.17
Class A	29,756,606	8.40%	9.40%	12.00%	(89,987)	(89,987)	466,116	466,116	\$28.13
Class B	42,860,308	8.10%	8.30%	11.30%	(3,516)	(3,516)	452,543	452,543	\$23.43
Class C	13,795,766	5.40%	5.40%	7.70%	18,526	18,526	100,665	100,665	\$19.07
Portland Total	86,452,782	7.80%	8.20%	11.00%	(74,977)	(74,977)	1,019,324	1,019,324	\$24.67

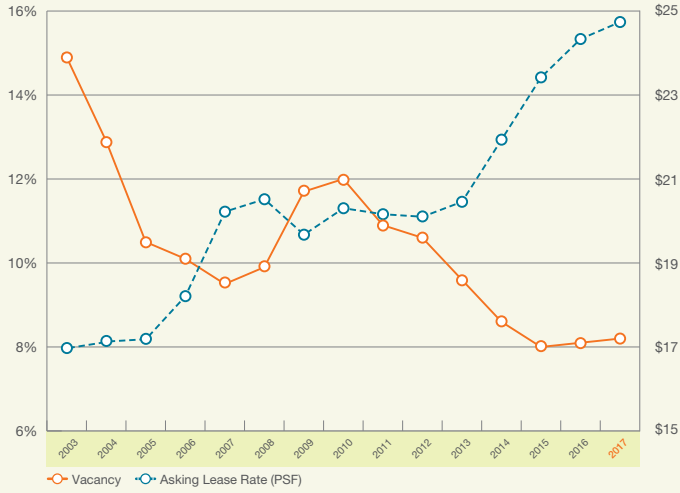
HISTORICAL SALES SF & MEDIAN SALE PRICE



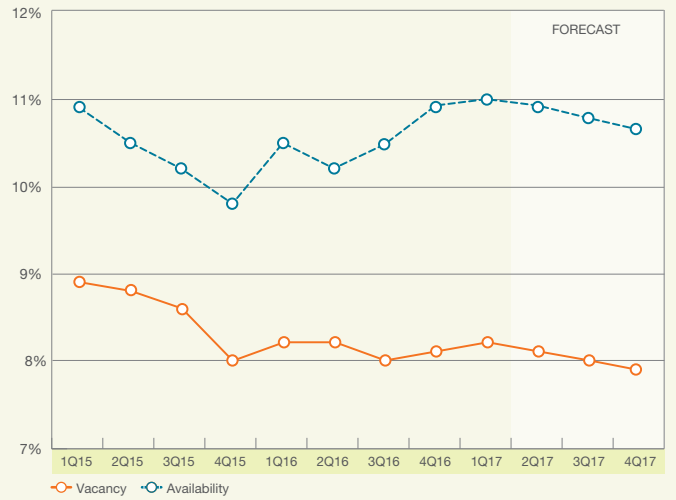
HISTORICAL NEW CONSTRUCTION & VACANCY RATE



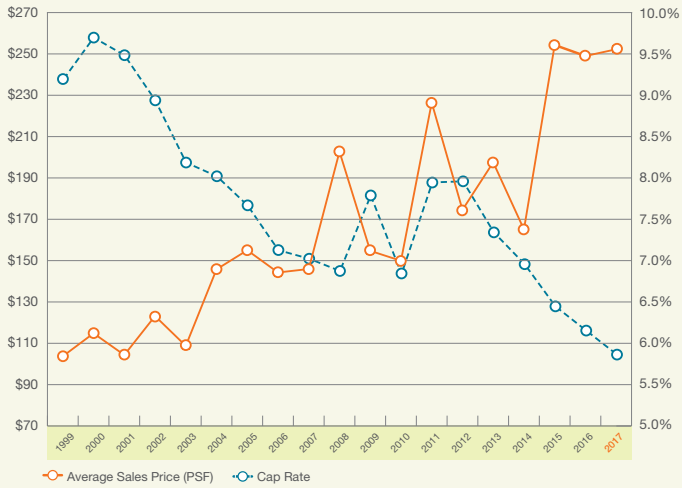
VACANCY VS ASKING LEASE RATE



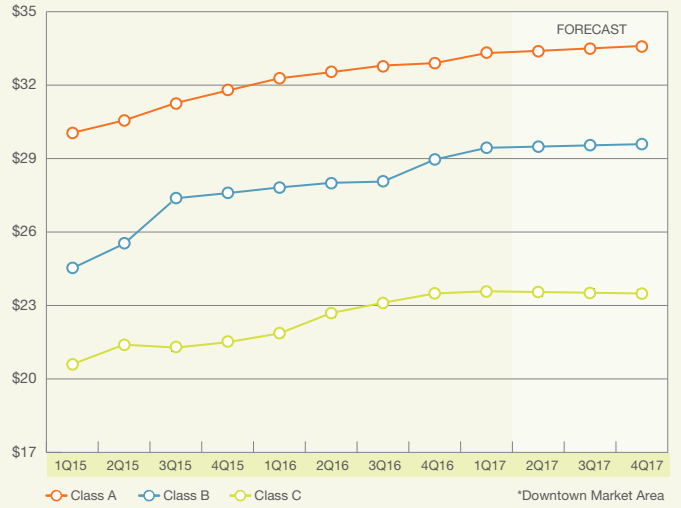
VACANCY VS AVAILABILITY



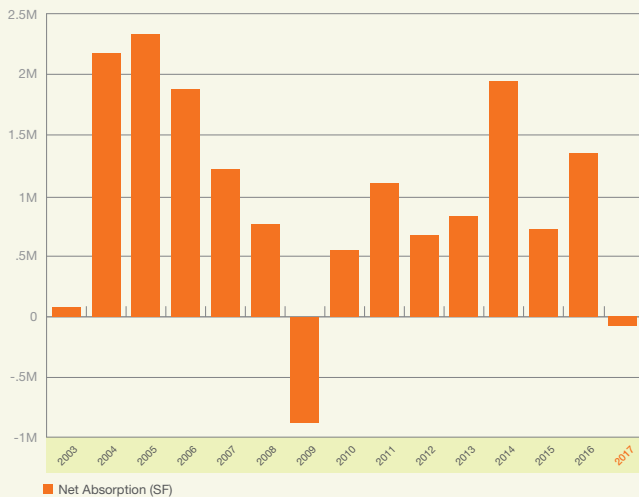
AVERAGE SALES PRICE & CAPITALIZATION RATES



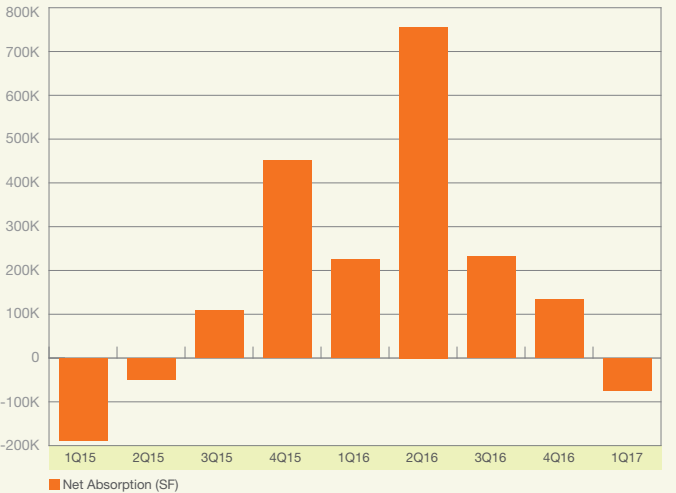
ASKING LEASE RATE (FS)*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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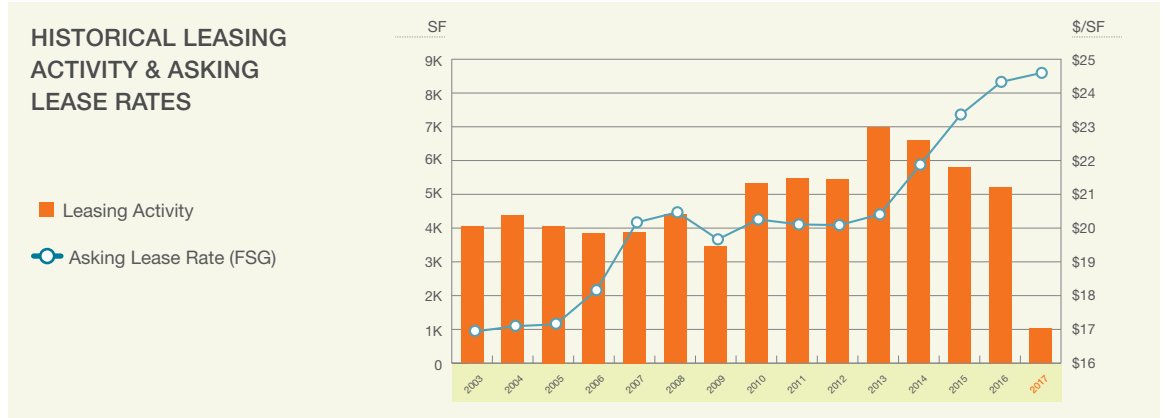
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	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	8.2%	8.1%	8.2%	0.0%
Availability Rate	11.0%	10.9%	10.5%	4.8%
Asking Lease Rate	\$24.85	\$24.67	\$24.05	3.3%
Leased SF	1,019,324	1,210,297	1,380,944	-15.8%
Sold SF	958,586	1,313,813	1,002,304	-4.4%
Net Absorption	-74,977	133,285	224,927	N/A



Leasing Activity

Marketwide leasing activity during the first quarter was concentrated in Downtown Portland and totaled 296 transactions covering 1,019,324 s.f. of office space. The City of Portland signed three separate pacts for more than 40,000 s.f. apiece, the largest of which was for 67,438 s.f. on the fourth through sixth and 22nd floors of 1001 SW 5th Avenue. Cloud-based software firms turned in some of the largest private-sector leases of the quarter. Cloudability, a cost-management software provider, led the way by taking the full, 22,591 s.f. building at 334 NW 11th Avenue, previously occupied by DeskHub. Zapproved, which makes an e-discovery software for corporate legal departments, followed with 19,258 s.f. on the seventh floor of 1414 NW Northrup Street. Asking rental rates marketwide averaged \$24.67 fully serviced, up 3.3% year over year, and Class A CBD asks were in the low-to-mid \$30s.

Investment Activity

Investment activity this quarter summed to 33 transactions, 958,586 s.f., and \$224.1 million in dollar volume. The average price per s.f. ticked up from \$240 in the fourth quarter of last year to \$252 over the past three months, and the average cap rate dipped to 5.9%. In the highest-value transaction, Chicago-based Zeller Realty Group acquired Umpqua Bank Plaza, a 276,676 s.f. Class A asset at 1 SW Columbia St in Downtown Portland, from Shorenstein Properties for \$90 million. That sale was underwritten at a 5.5% cap rate, and the building was more than 95% leased when it traded in January. Shorenstein also sold the Congress Center building at 1001 SW 5th Avenue this quarter, to American Realty Advisors out of Southern California, for \$85.125 million or \$221/sf, which comes out to a 4% cap rate. The most noteworthy sale outside the Portland city limits involved One Embassy Centre at 9020 SW Washington

Square Road in Tigard, which went from Wyse Real Estate Advisors to Towman LLC for \$16.75 million or \$193/sf. Finally, Swift Real Estate Partners, a San Francisco-based investment firm that has bet big on the Portland market in recent years, sold the 1500 Plaza Building at 1500 NE Irving Street in the Lloyd District to Second City Capital Partners for \$14.575 million or \$201/sf. Swift bought the building for \$10.8 million (\$149/sf) in September of 2014, so it nabbed a 35% return on its purchase price in less than 30 months.

Construction Activity

This quarter's lone construction delivery was The Dairy Building at 2705-2715 SE 8th Avenue in Southeast Portland, a 65,000 s.f. industrial building that was converted into creative office and maker space. The owner, Intrinsic Ventures, was seeking \$24-27 NNN for availabilities between 700 and 15,000sf. Another 15 developments totaling 2.48 million s.f. were under construction at quarter's end, led by the Nike North Expansion at the company's world campus in Beaverton. That project, totaling 1.3 million s.f. of Class A space, accounts for more than half of the market's current office construction volume. The largest Downtown Portland development, The Broadway Tower at 1455 SW Broadway, is a future 19-story mixed-use building with 175,000 s.f. of office space and a 180-room hotel; Downtown Development Group is anticipating a mid-2018 delivery and asking rents are in the low-to-high \$30s NNN. The 9North building, a future 178,000 s.f. Class A property at 1250 NW 9th Street in the Pearl District, is also slated for completion in the second quarter of 2018. Finally, the Towne Storage Building conversion from warehouse to creative office space will add 108,750 s.f. to the Lloyd District inventory by mid-summer, with asking rents around \$32-34 NNN.

Data Source: CoStar