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# **CENTER FOR REAL ESTATE**

## **Quarterly Report**

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Volume 9, Number 3

Summer 2015

# CENTER FOR REAL ESTATE Quarterly Report

*A publication of*

Portland State University Center for Real Estate  
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Alec Lawrence	

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## SUMMARY AND EDITORIAL

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ERIC FRUITS

Editor and Oregon Association of Realtors Faculty Fellow  
Portland State University

This issue, we welcome Adam Seidman, a candidate for a Master of Real Estate Development. He reports that state economists conclude that the **Oregon economy** is experiencing “full throttle growth” in the face of some national and international challenges. He notes that this growth is showing up in Portland’s **industrial market**, which has seen vacancy rates at historic lows and rental rates on the rise. In addition, he reports on a significant construction pipeline of over 2 million square feet, much of it speculative space, yet industry experts believe that there is demand for all of the space.

We also welcome Alec Lawrence, a student in the Master of Real Estate Development program. He reports that the strength of the Oregon economy is reflected in the Portland **office market** which is experiencing relatively low vacancies and rising rents. He sees similar strength in the retail market, with shrinking vacancy rates and rising rents.

In the **single-family residential market**, Clancy Terry reports a drop-off in permitting activity in the Portland area in statewide Oregon. At the same time, the number of transactions have increased as well as sales prices. He notes a **strong**

■ **Eric Fruits, Ph.D.** is editor of the Center for Real Estate *Quarterly Report* and the Oregon Association of Realtors Faculty Fellow at Portland State University. He is president and chief economist at Economics International Corp., a Portland-based consulting firm. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

**multifamily residential market**—one that has achieved double digit rent growth, placing Portland in fourth place nationally. The bulk of new multifamily construction has been directed at the central city, with deliveries of more than 11,500 units last year.

I hope you enjoy this latest issue of the Center for Real Estate *Quarterly Report* and find it useful. The *Report* is grateful to the Oregon Association of Realtors and RMLS for their continued support. ■

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## THE STATE OF THE ECONOMY

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ADAM SEIDMAN

Portland State University

The Oregon Office of Economic Analysis recently described Oregon’s economy as at “full-throttle growth.” Indeed, employment and population growth in Oregon has been strong and climbing since the end of the Great Recession, and the second quarter continued these trends. The Portland area has similarly seen a growing economy, and job growth in the second quarter led to a 12-month job growth rate of 3.6 percent, a rate higher than all but one of the past 15 years.

Nationally, GDP growth resumed in the second quarter after anemic first quarter growth. All eyes remain on the Federal Reserve, which is expected to raise interest rates by the end of the year.

The second quarter saw volatility on the global stage, with concerns over Greece, China, and Iran taking up the economic headlines and impacting asset markets. The price of oil rose in the second quarter, yet remains significantly below prices from a year ago—as such, U.S. consumers maintained their overall spending. The dollar remained strong as investors clamored for stability, hampering profits from US exporters and companies with significant international sales.

■ Adam Seidman is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

**Table 1: Key Economic Indicators, Portland MSA, Oregon, and US Q2 2015**

	<b>Q2 2015/ June 2015</b>	<b>Q1 2015/ March 2015</b>	<b>Q2 2014/ June 2014</b>
<b>GDP Growth (annualized)</b>			
US	2.3%	0.6%	4.6%
<b>Unemployment Rate</b>			
US	5.3%	5.5%	6.1%
OR	5.5%	5.4%	7.0%
Portland MSA	5.4%	4.9%	6.3%
<b>Job Growth Rate (12-mo growth)</b>			
US	2.1%	2.3%	1.9%
OR	3.0%	3.3%	2.6%
Portland MSA	3.6%	2.9%	2.9%
<b>Inflation (12-mo unadjusted)</b>			
US	0.1%	-0.1%	2.1%
<b>Interest Rates</b>			
Federal Funds Rate	0.1%	0.1%	0.1%
10-Year Treasury	2.4%	2.0%	2.6%

Sources: BEA, BLS, Federal Reserve, Oregon Employment Department

## GLOBAL TRENDS

The International Monetary Fund revised its global growth projection down slightly for 2015 to 3.3 percent, based mostly on weaker activity in North America in the first quarter. However, it notes that the major drivers for economic growth remain intact, namely: easy financial conditions, a more neutral fiscal policy in the Euro zone, lower fuel prices, and improving confidence and labor markets. Growth is expected to be positive in all regions of the world except for Russia and Brazil, which are believed to be in recession.

Growth in China, while still expected to be strong in 2015, looks like it is on a slowing trajectory. The Oregon Office of Economic Analysis notes that with China now a top destination for Oregon exports, the state of the Chinese economy has spillover effects to the local economy. It notes that the slowdown of growth across Asia poses a growing threat to the growth prospects of the Pacific Northwest.

Greece did not leave the euro zone in the second quarter, and instead worked out a multi-billion euro bail-out in July, its third in five years. It remains to be seen what the deal and austerity measures will mean for the Euro zone and global markets going forward.



Oil prices in the United States rose 25 percent in the second quarter after slumping to near six-year lows earlier in the year. This rise was felt by consumers as the Consumer Price Index ticked up in May and June in part due to rising prices at the pump. Consumer spending, however, still grew in the second quarter and helped to sustain GDP growth.

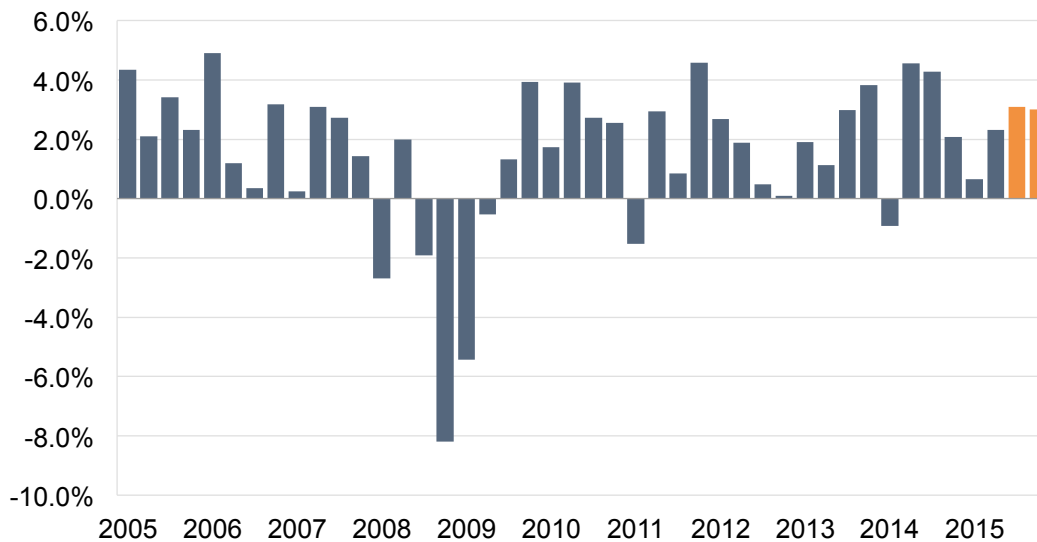
The dollar continued to show strength versus foreign currencies, and has appreciated about 12 percent since the middle of 2014. This has continued to impact the prices of US exports as well as the value of foreign sales of U.S.-based firms.

Talks continued between 12 nations on the Trans-Pacific Partnership. The potential reduction in tariffs could have a significant impact on regional companies like Nike.

## GDP/OUTPUT

After a disappointing first quarter which saw GDP growth of 0.6 percent, the United States economy came back in the second quarter with annualized growth of 2.3 percent. According to the Bureau of Economic Analysis (BEA), growth was driven primarily by consumer expenditures, exports, government spending, and the housing sector. The Wall Street Journal Economic Forecasting Survey projects annualized GDP growth of 3 percent per quarter for the remainder of 2015.

**Figure 1: Gross Domestic Product, United States, Annualized Percent Change, 2005–2015**



Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

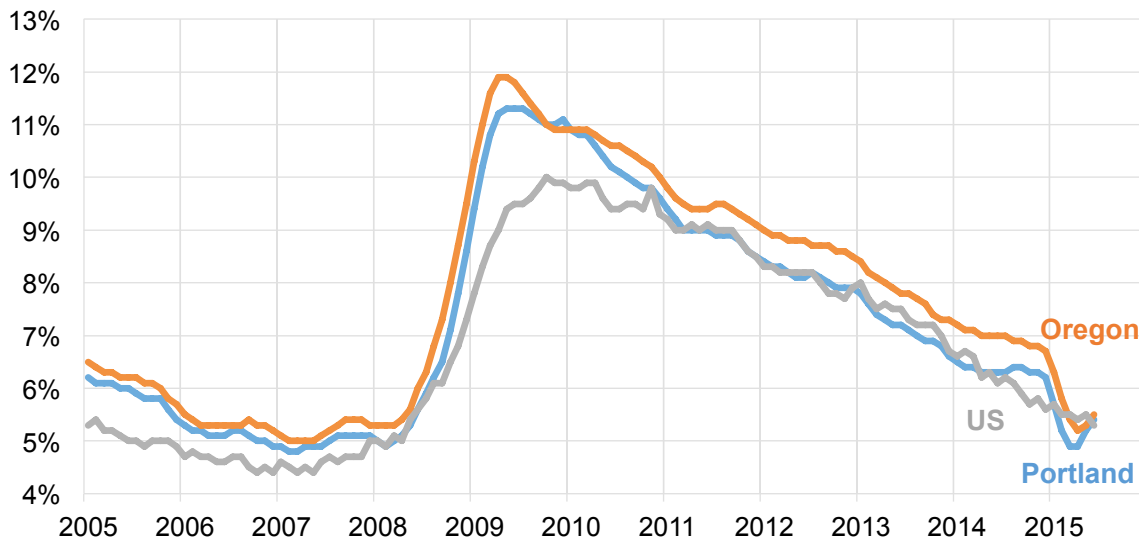
According to the U.S. Bureau of Economic Analysis, Oregon output grew 3.6 percent in 2014, making it the 6<sup>th</sup>-fastest growing state in the country. This growth came in part from durable goods manufacturing, which is dominated by semiconductor manufacturing in Oregon. Notably, Oregon derives over 23 percent of its GDP from durable goods manufacturing—the highest rate of any state and more than three times the national share.

## EMPLOYMENT

The Bureau of Labor Statistics (BLS) reported that total U.S. nonfarm employment increased by 223,000 in June and unemployment declined by 20 basis points to 5.3 percent. The last time that the national unemployment rate was this low was in April 2008.

The unemployment rate for Oregon and the Portland area ticked up slightly in June, to 5.5 percent and 5.4 percent respectively. According to the Oregon Employment Department, the increases could be attributed to new in-migrants, recent college graduates, and students on summer break look for jobs.

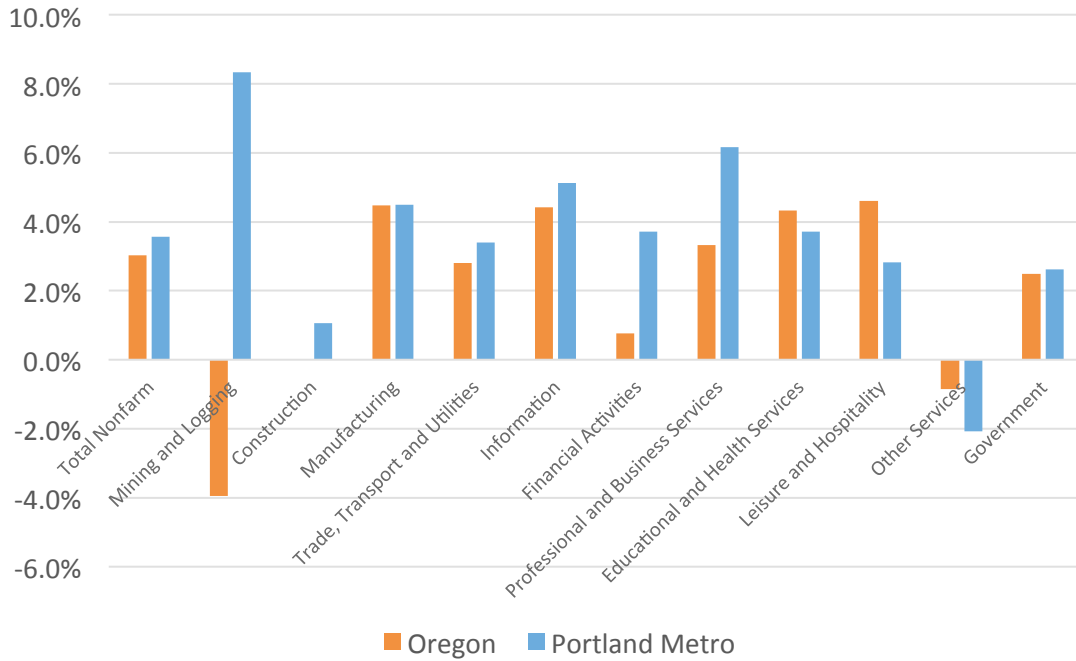
**Figure 2: Unemployment Rate, Portland MSA, Oregon and United States, 2005-2015**



Source: Bureau of Labor Statistics

Despite the slight rise in unemployment, both Oregon and the Portland MSA added jobs in June. Job growth has been strong over the past year—in the 12 months to June 2015, Oregon’s job growth rate was 3.0 percent and that of Portland MSA was a robust 3.6 percent. Both of these rates compare favorably to the national growth rate of 2.1 percent over the same time period.

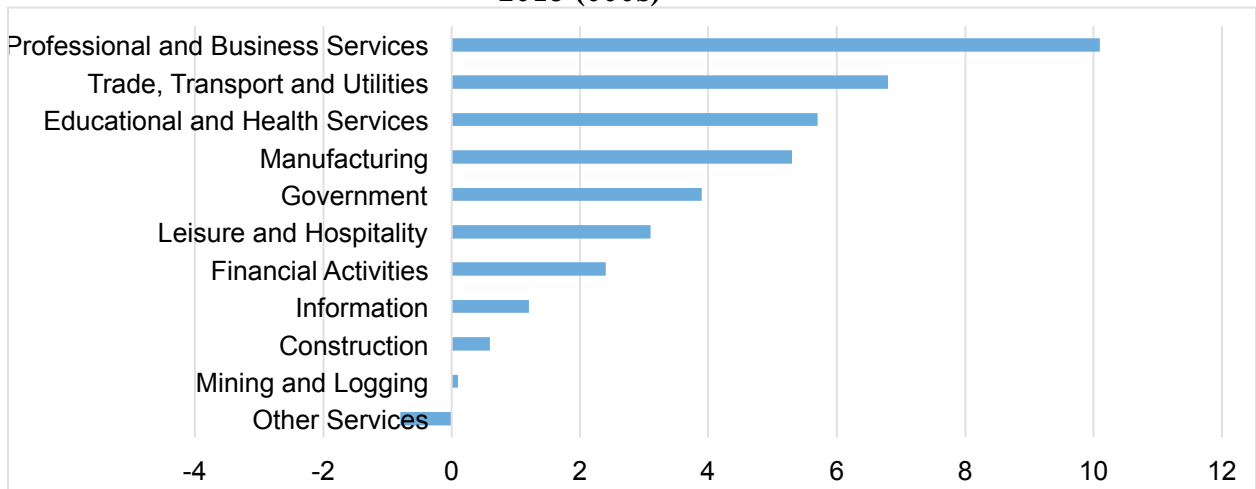
**Figure 3: Employment Growth Rate by Sector, Portland MSA and Oregon, 12 Months to June 2015**



Source: Oregon Employment Department

The Portland MSA added over 38,000 jobs in the past 12 months, and employment levels are now solidly above pre-recession levels. Employment growth has been relatively broad-based and has been led by strong growth in Professional and Business Services. According to JLL, the number of companies expanding in the MSA continues to increase, having an impact on commercial vacancy and rental rates.

**Figure 4: Employment Growth by Sector, Portland MSA, 12 Months to June 2015 (000s)**



Source: Oregon Employment Department

Alongside strong job growth has been a corresponding surge in population growth in the Portland MSA. Since 2010, the Portland MSA has added over 100,000 people – nearly half from net in-migration. Population growth rates have risen every year since the end of the Great Recession, reaching 1.5 percent by mid-2014. Attracted by jobs and a relatively low cost of living (compared to West Coast cities), new in-migrants have helped to increase demand for housing in the region.

Job growth in Oregon and Portland is expected to continue. The Oregon Office of Economic Analysis expects growth in the realm of 3 percent annually from 2015 to 2017. Other forecasters, such as IHS, are less bullish about growth prospects after this year.

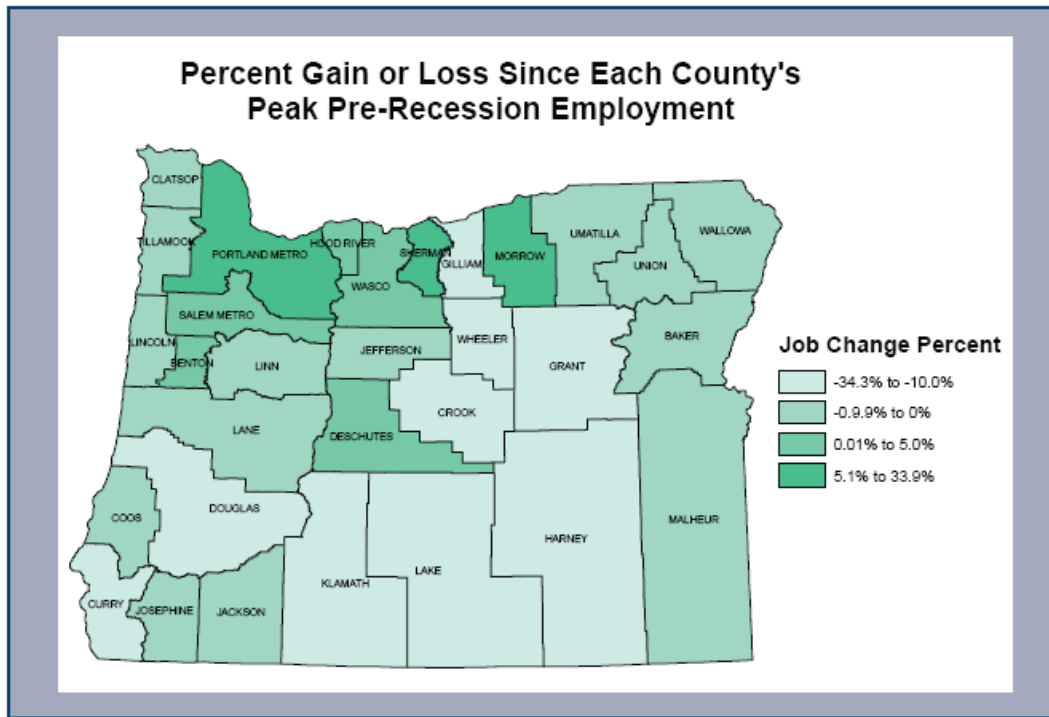
**Table 2: Employment Growth Forecasts, Oregon, 2015-2017**

<b>Forecaster</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Oregon Office of Economic Analysis	3.3%	2.9%	3.0%
IHS Economics	3.0%	1.7%	1.5%
Western Blue Chip Consensus	3.4%	2.9%	-

Source: Oregon Office of Economic Analysis

Job growth has not been as strong across the entire state. While the Portland MSA is above its pre-recession employment level, there are many areas in eastern and southern Oregon that have not gained back the jobs lost in the Great Recession, as is evident in the following map of the state:

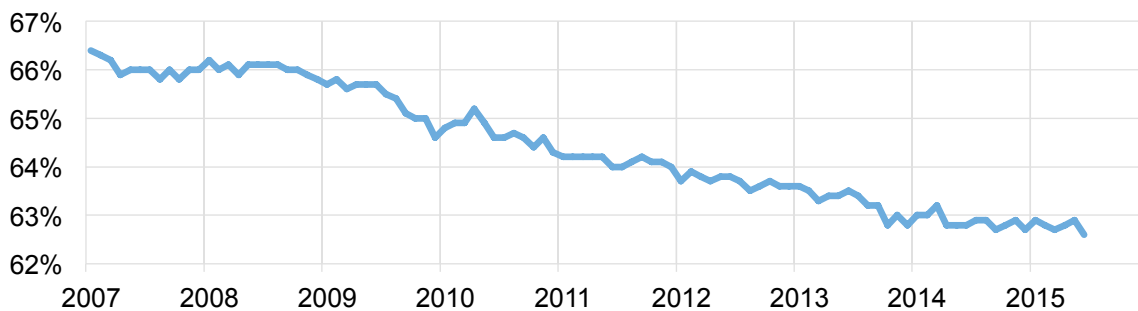
**Figure 6: Employment Growth by Sector, Portland MSA, 12 Months to June 2015 (000s)**



Source: Oregon Employment Department

Another potential issue involves the labor force participation rate. Oregon’s labor force participation rate was 60.3 percent in June, the lowest rate since records began in 1976. This trend is similar to the national trend, which at 62.6 percent is the lowest it has been since 1977.

**Figure 7: Labor Force Participation Rate, United States, 2007-2015**



Source: Bureau of Labor Statistics

## INFLATION

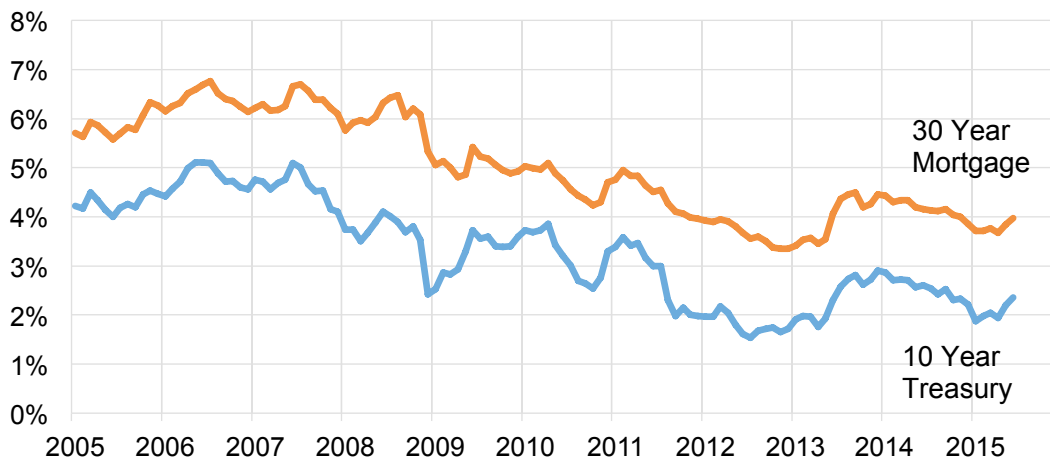
The United States Consumer Price Index (CPI-U) increased 0.3 percent in June on a seasonally-adjusted basis and 0.1 percent for the 12 months to June on a non-adjusted basis. Increases in gasoline, food, and shelter all contributed to the higher level. Despite the recent increases in fuel costs, the energy index is still down 15 percent over the past year due in large part to lower oil prices. The Wall Street Journal's Economic Forecasting Survey projects that the unadjusted 12-month CPI will increase by 1.3 percent in December 2015.

## INTEREST RATES

The Federal Funds Rate remained virtually unchanged in the second quarter at 0.13 percent. It is widely believed that the Federal Reserve will raise the rate once or twice by the end of 2015. The Wall Street Journal's Economic Forecasting Survey projects that the rate will increase to 0.54 percent by December 2015.

The 10-year Treasury and 30-year mortgage rates ticked up in the second quarter, ending June at 2.36 percent and 3.98 percent respectively. Both of these measures remain about 20 basis points under their June 2014 levels.

**Figure 8: Treasury and Mortgage Rates, United States, 2005-2015**



Source: Federal Reserve

## LOOKING AHEAD

Real estate investors will be watching for changes in interest rates, and many economists predict that the Federal Reserve will raise rates by the end of the year. Locally, population and employment growth looks likely to continue along its trajectory for the remainder of 2015, increasing demand for residential and commercial space, especially in close-in locations. ■

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## RESIDENTIAL MARKET ANALYSIS

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CLANCY TERRY

RMLS Student Fellow  
Master of Real Estate Development Candidate

In single-family housing markets nationally and locally in Oregon, many indicators point to tightening conditions coupled with some increases in rates of permitting, starts, and completions.

Axiometrics reports that nationally in April, single-family permits increased by 3.7 percent from the prior month to 666,000 units, a 7.1 percent increase year over year. An average seasonally adjusted annual rate (SAAR) of 650,000 single-family homes per month were permitted during the 12 months ended April 2015. Single-family starts increased 16.7 percent from the prior month to 733,000 units, surpassing the previous peak in January 2008. Single-family completions totaled 688,000 units for the 12 months ending in April 2015.

The National Association of Realtors (NAR) reports the median sale price for existing single-family homes registered at \$221,200, a 10 percent gain over April 2014. Transaction volume was also up in year-over-year terms by around seven percent to a SAAR of 4.43 million units. Unsold inventory of all home types for sale at the end of April increased to a 5.3 month supply, an improvement over the prior month. First-time homebuyers represented a 30 percent share of the market in April.

■ Clancy Terry is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is the 2015 RMLS Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

National single-family permitting increased again in May, this time by 2.6 percent over the prior month to 683,000 units annually, a 9.1 percent year-over-year increase. For the consecutive 12 months ending in May 2015, single-family starts decreased 5.4 percent to 680,000 units (still 6.8 percent better than one year prior). In the most recent 12 months, single-family starts averaged 665,000 homes per month. Completions rose 1.3 percent to 635,000 units for the year.

In May, a SAAR of 4.73 million existing single-family homes transacted, around 10 percent greater in year-over-year terms. The median price for these units came in at \$230,300, a nine percent gain year over year. Unsold inventory of all home types fell slightly to a 5.1 month supply. First-time homebuyers represented 32 percent of the market in May.

June permitting again registered an increase, rising by 0.9 percent from the prior month to an annual rate of 687,000 units (6 percent higher year over year). Starts for the year ending in June totaled 685,000 units, 0.9 percent less than the prior month but 14.7 percent better year over year. During this time period, an average of 675,000 units were started per month. Single-family completions reached 647,000 units for the year, a 10.6 percent increase.

In June, national single-family transaction volume increased again, to a SAAR of 4.84 million units, nearly 10 percent more than one year prior. The median sale price for existing homes reached \$237,700, nearly seven percent higher year over year and above the earlier high of \$230,900 set in July 2006. Continuing the tightening trend, national unsold inventory fell in June 2015 to a 5.0 month supply. The share of first-time homebuyers in the market fell back to 30 percent, yet this was the fourth consecutive month of 30+ percent first-time homebuyer participation.

Mortgage rates also appear to be continuing their gradual climb. Freddie Mac reported June's average commitment rate for a conventional, fixed-rate, 30-year mortgage at 3.98 percent. This is increased from May's 3.84 percent but the seventh consecutive month of below-4-percent rates.

## **LOCAL PERMITTING**

In the second quarter of 2015, 3,901 building permits for new private housing units were issued in total across Oregon. This is 14 percent more permits than were issued in the prior quarter (partially recovering from the first quarter's drop) but 14 percent fewer than the same quarter one year prior.

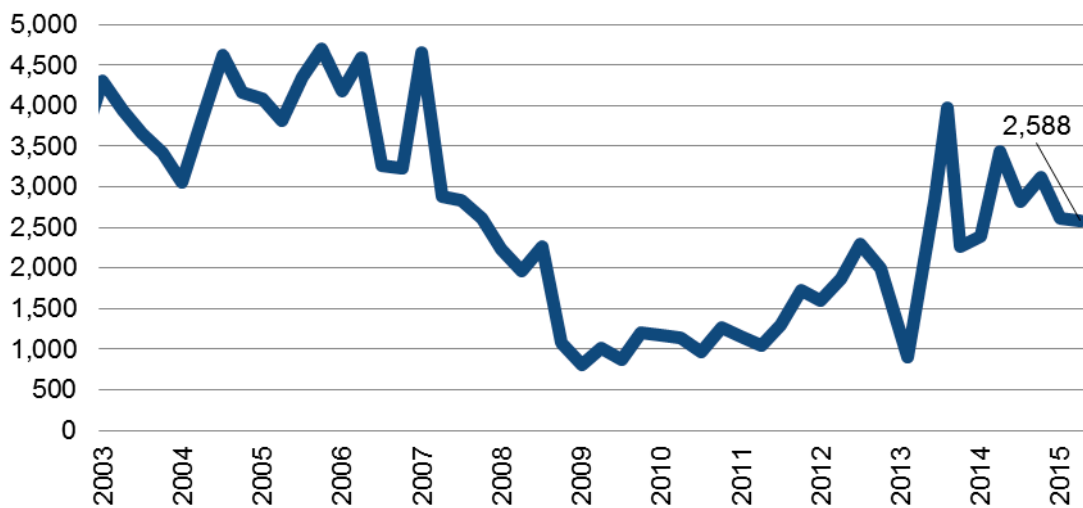


**Building permits for new private housing  
Oregon, statewide, seasonally adjusted**



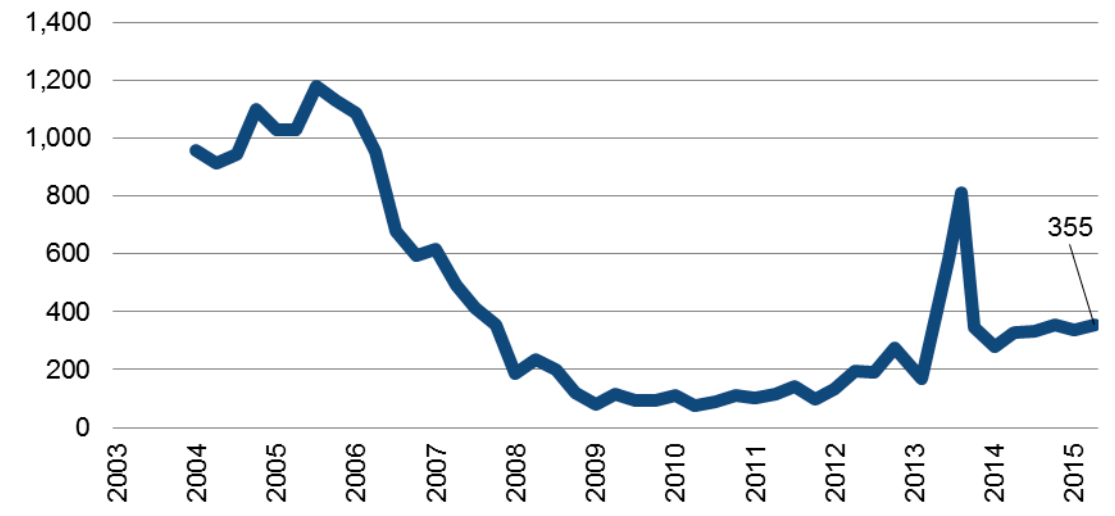
2,588 permits for new private housing units were issued in the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) in the second quarter. This rate is nearly equivalent to the prior quarter, but is 25 percent, or 851 permits, below the second quarter of 2014.

**Building permits for new private housing  
Portland-Vancouver-Hillsboro MSA, seasonally adjusted**



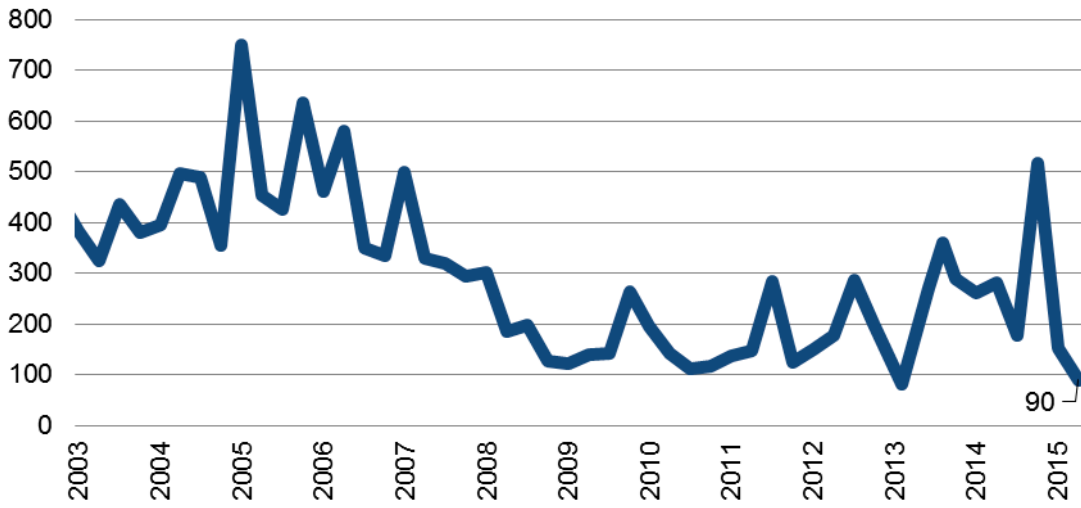
The Bend MSA received 355 permits for new private housing units. In consecutive-quarter and year-over-year comparisons, this represents modest gains: six percent more permits than first quarter 2015 and eight percent more permits than second quarter 2014.

**Building permits for new private housing  
Bend MSA, seasonally adjusted**



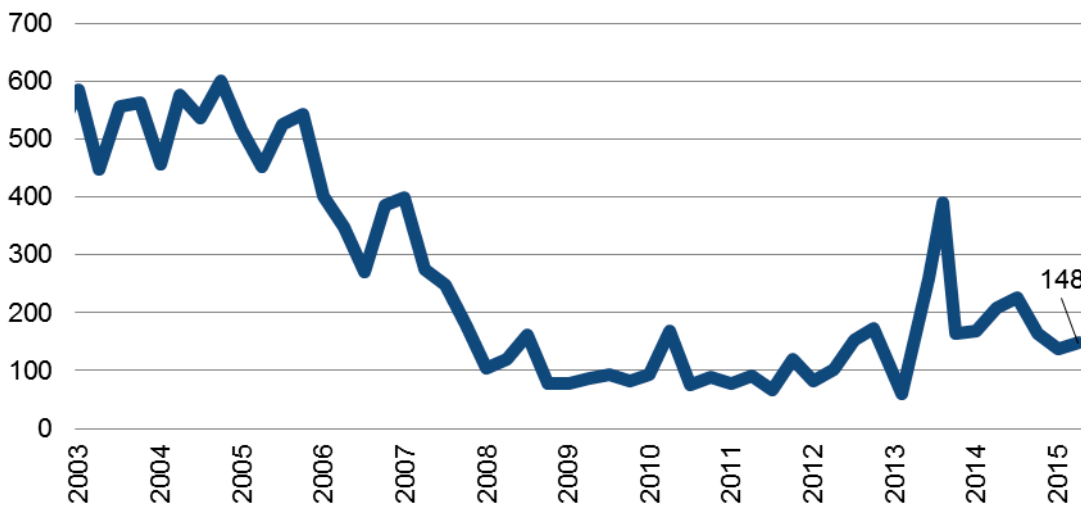
In the Eugene-Springfield MSA, permitting for new private housing units continued the decline seen in the first quarter. Only 90 such permits were issued during the second quarter of 2015, 41 percent fewer than the prior quarter and 68 percent fewer year over year.

**Building permits for new private housing  
Eugene-Springfield MSA, seasonally adjusted**



The Medford MSA saw an uptick from the first quarter of eight percent, receiving a total of 148 permits for new private housing units. This is 29 percent fewer permits in year-over-year terms.

**Building permits for new private housing  
Medford MSA, seasonally adjusted**



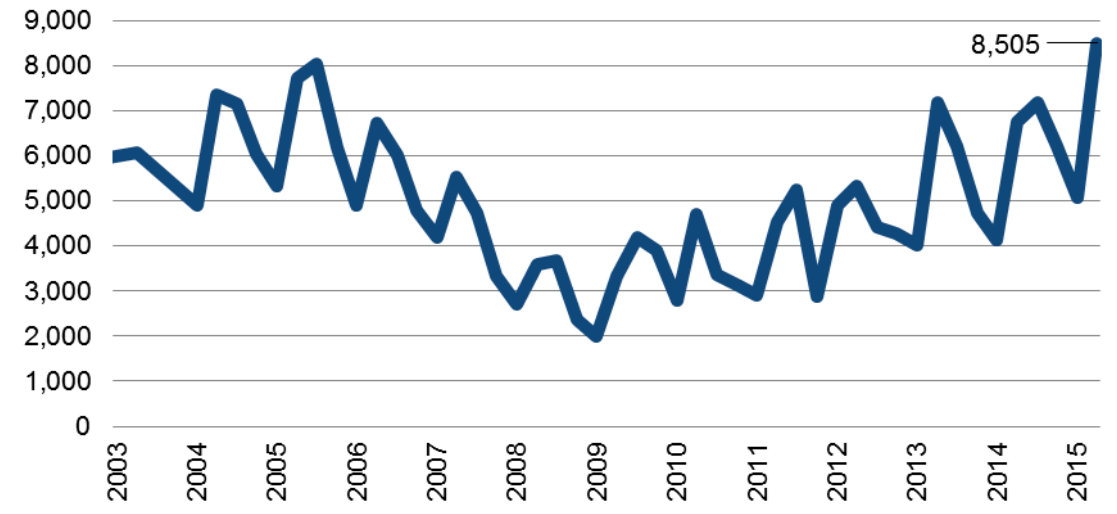
All other regions of Oregon not specifically broken out above, when aggregated, represented a noteworthy share of permits for new private housing

units in the second quarter. This is a change from recently analyzed quarters. Backing out the Portland, Bend, Eugene, and Medford totals from the overall Oregon number of permits shows that 720 permits for new private housing units were issued elsewhere in Oregon in the second quarter. This is a 300 percent increase over the first quarter of 2015 and a 159 percent increase over the second quarter of 2014.

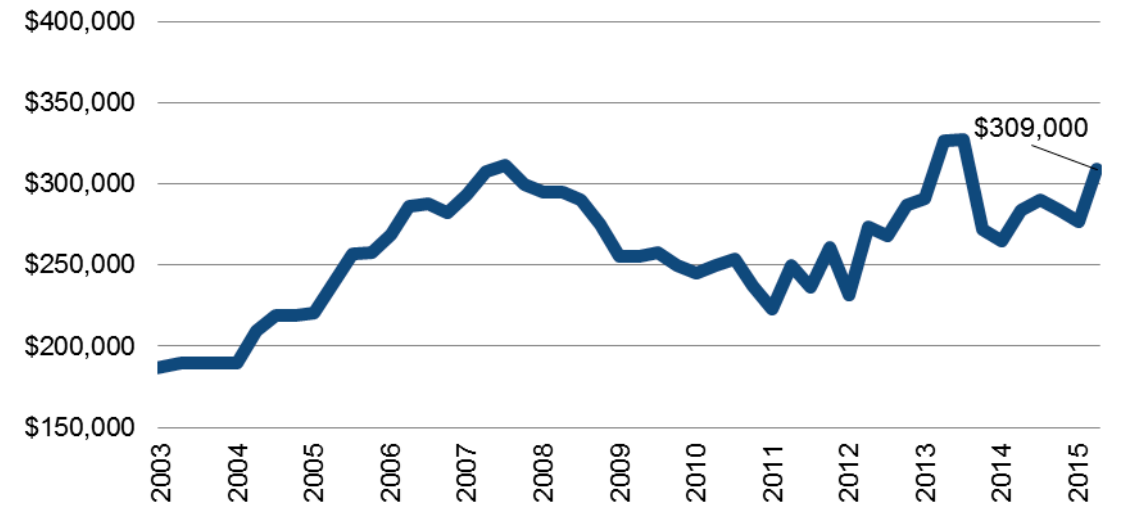
## PORTLAND

All measurements of the Portland market for existing homes reveal tightening trends in the second quarter. 8,505 sales were recorded in the second quarter, 67 percent more than the first quarter and 26 percent more than the second quarter of 2014. The median sale price reached \$309,000, \$32,500 or 12 percent higher than the first quarter and \$25,000 or 9 percent higher year over year. Units averaged 37 days on the market, a 35 percent shorter timeframe than the prior quarter and 21 percent less time than the second quarter of 2014. Sellers experienced an uptick to 100% achievement of list prices as compared to realized sale prices.

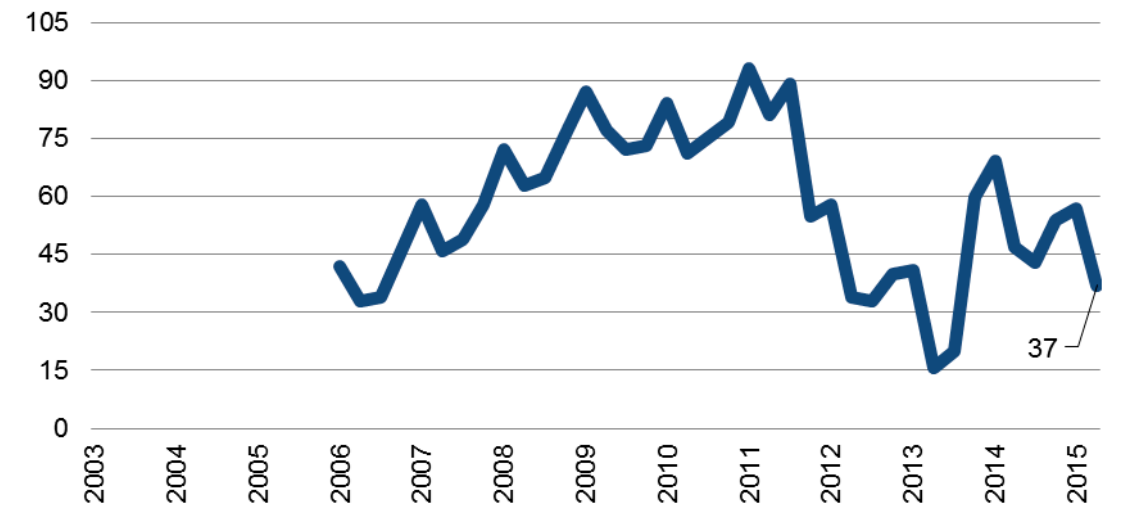
**Number of transactions  
Portland metro, existing homes**



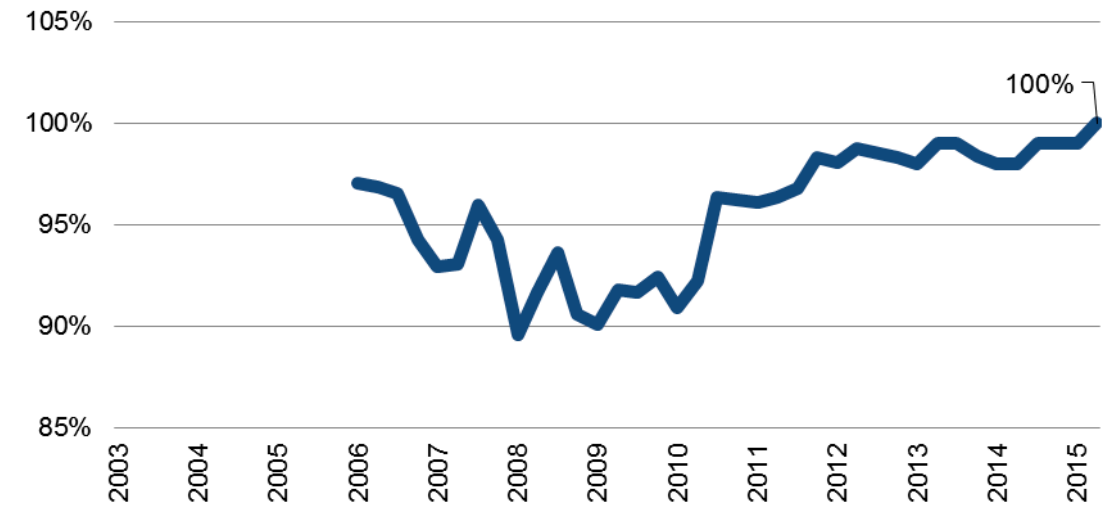
**Median sales price  
Portland metro, existing homes**



**Days on market  
Portland metro, existing homes**

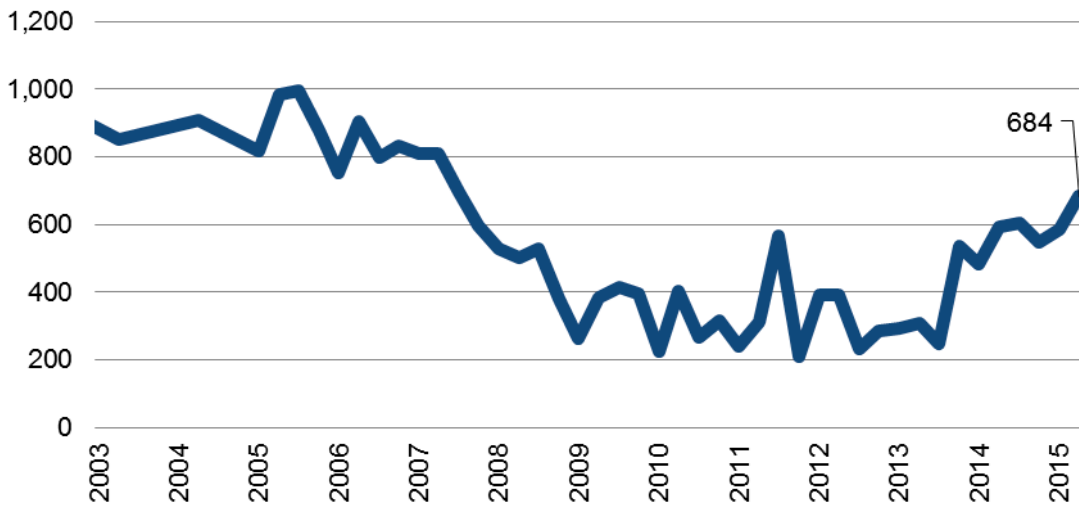


**Ratio of sales price to list price  
Portland metro, existing homes**

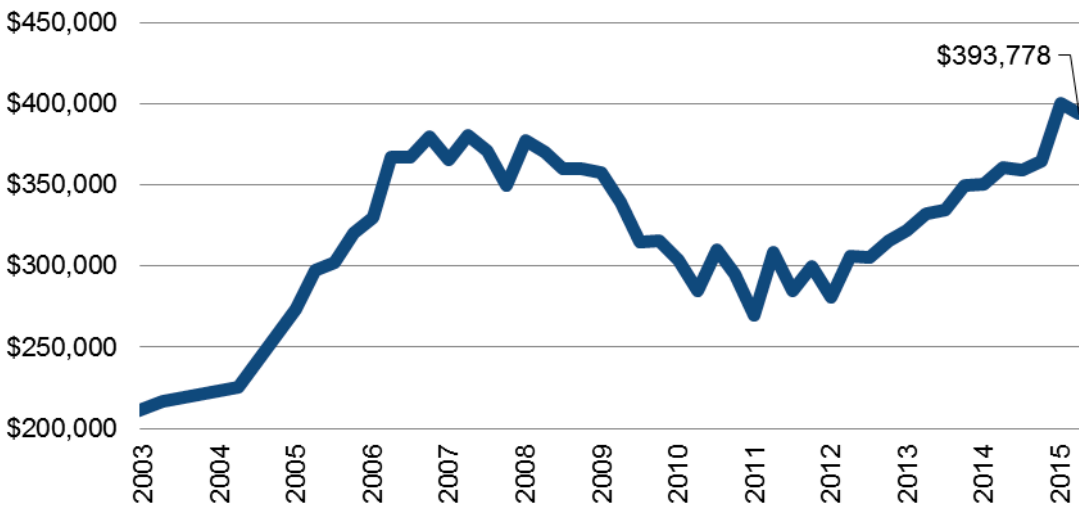


In the market for newly built detached single-family units, sales volume continued its recent upward trend while median price moderated slightly. 684 new homes sold in the second quarter, 17 percent more than the prior quarter and 15 percent more than second quarter 2014. The median sale price came in at \$393,778, around two percent lower than first quarter but still nine percent better than second quarter 2014 (and still above the prior peak in 2007).

**Number of transactions**  
**Portland metro, new detached homes**



**Median sales price**  
**Portland metro, new detached homes**

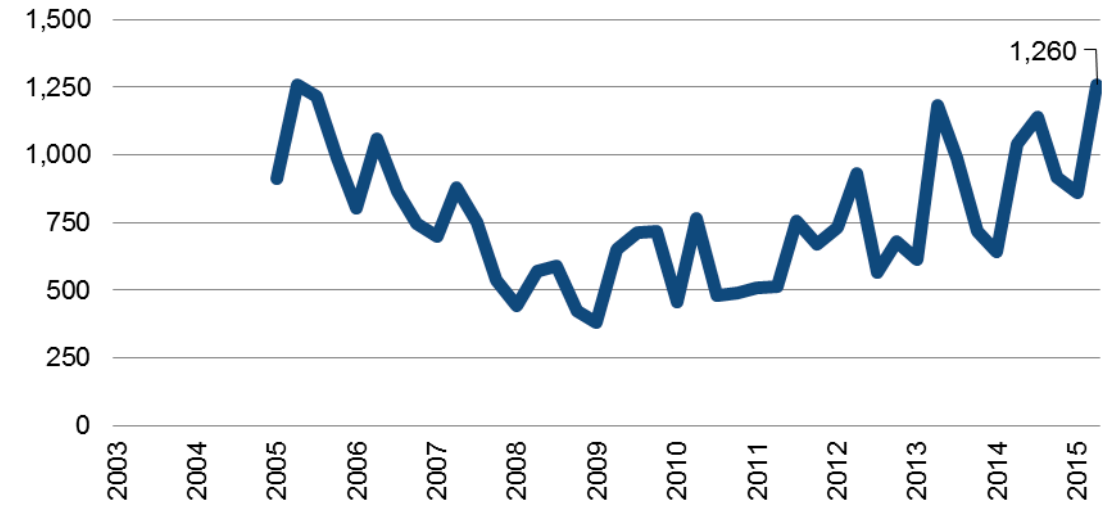


## VANCOUVER AND CLARK COUNTY

The trend patterns in the Vancouver and Clark County markets for existing single-family homes echoed the tightening exhibited in Portland.

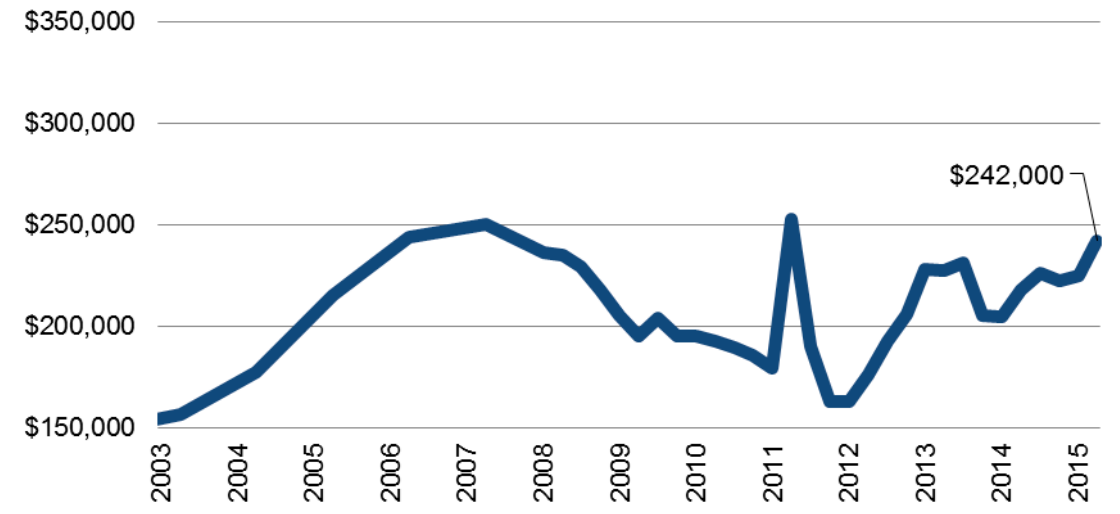
1,260 existing units sold in Vancouver, a 47 percent increase over the prior quarter and a 21 percent increase year over year. The median sale price reached \$242,000, an eight percent increase over the first quarter and an 11 percent increase year over year. Units averaged 43 days on the market, a 36 percent decrease from the first quarter and 26 percent less time than second quarter 2014.

**Number of transactions  
Vancouver, existing homes**

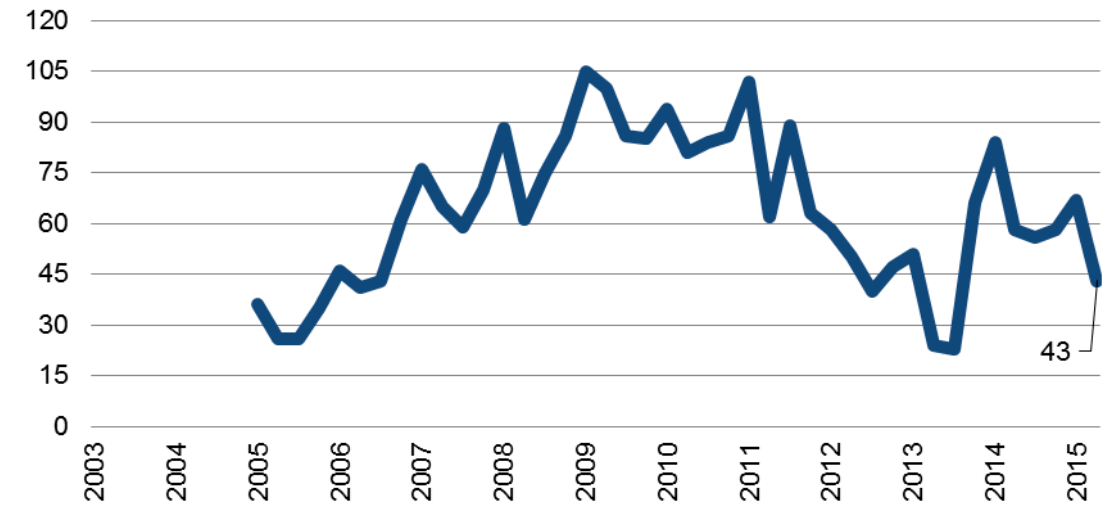




**Median sales price  
Vancouver, existing homes**



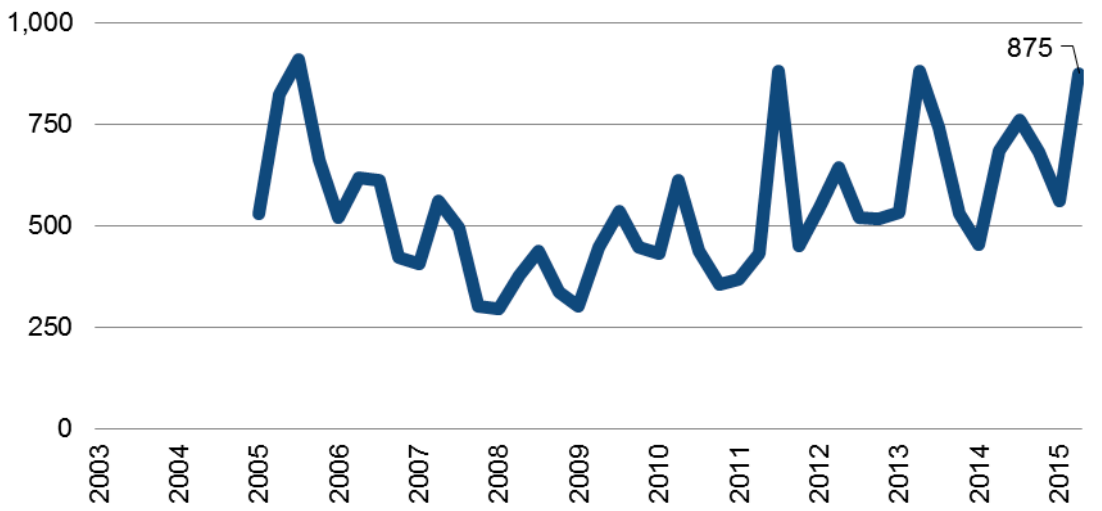
**Days on market  
Vancouver, existing homes**



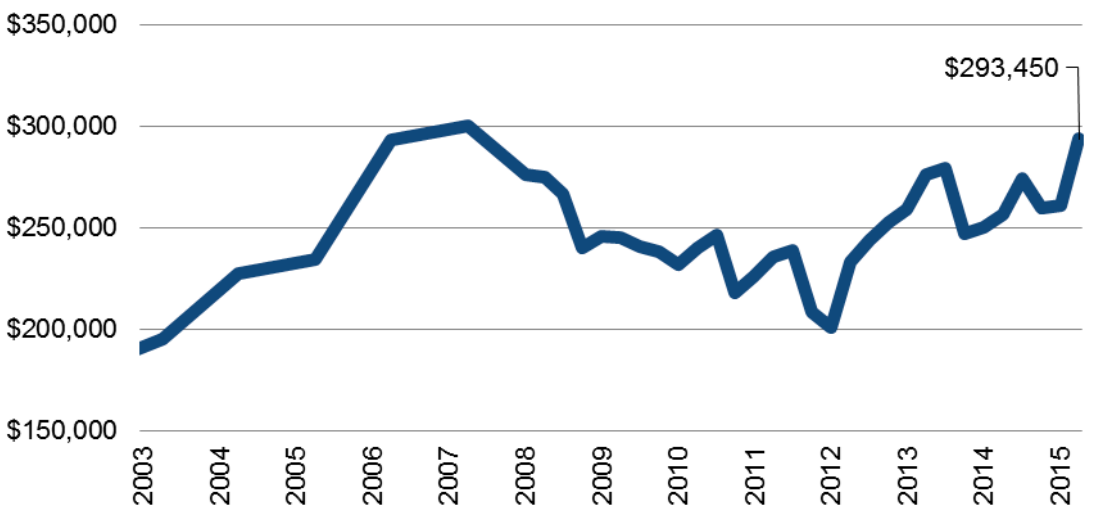
Similarly, 875 existing units sold in Clark County excluding Vancouver in the second quarter, a 57 percent increase over the first quarter and 28 percent more than second quarter 2014. The County’s median price reached \$293,450, 13 percent more than in the first quarter and 14 percent greater in year-over-year terms. The

units that ultimately sold averaged 57 days on the market, a 32 percent decrease from the first quarter and 31 percent less time than second quarter 2014.

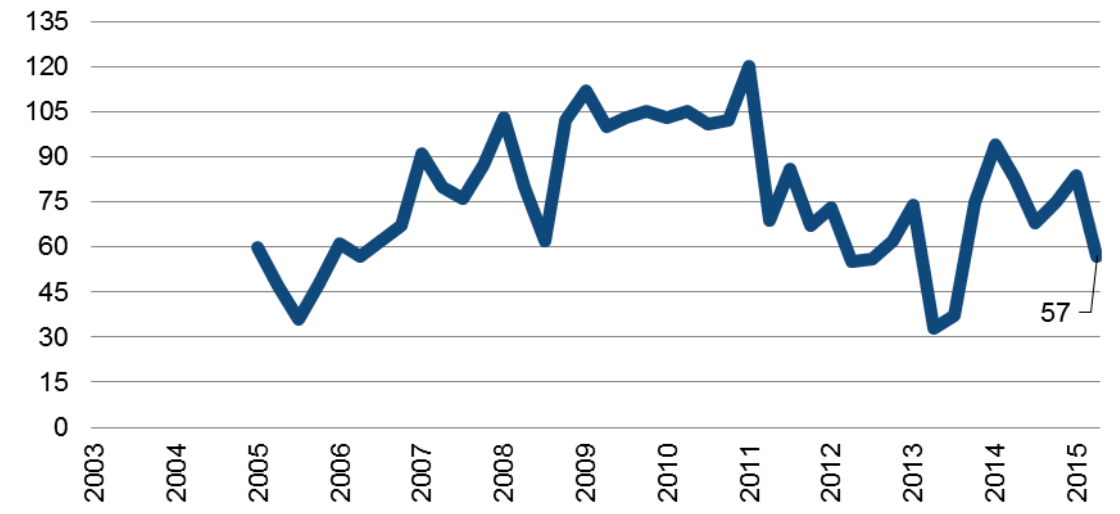
**Number of transactions**  
**Clark County, excluding Vancouver, existing homes**



**Median sales price**  
**Clark County, excluding Vancouver, existing homes**



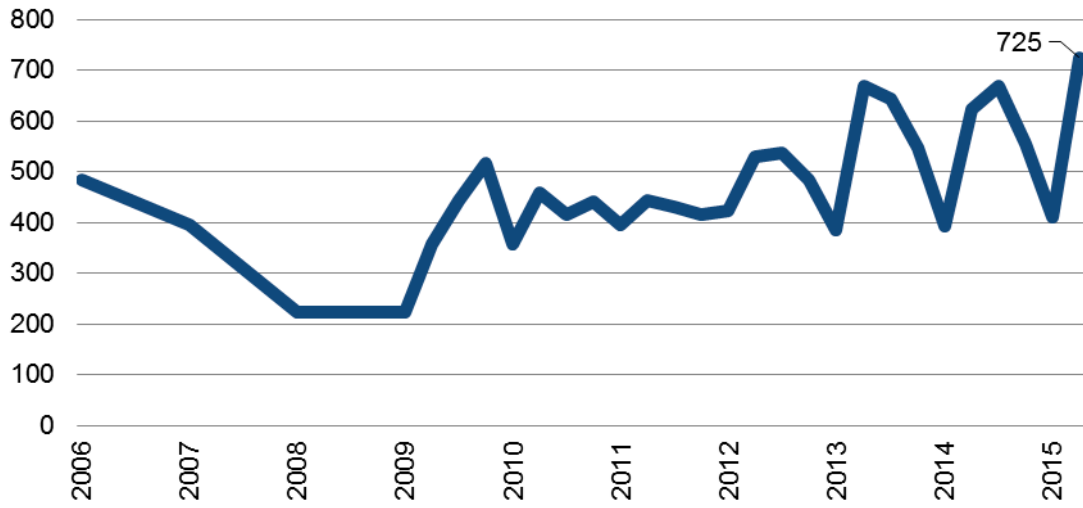
**Days on market**  
**Clark County, excluding Vancouver, existing homes**



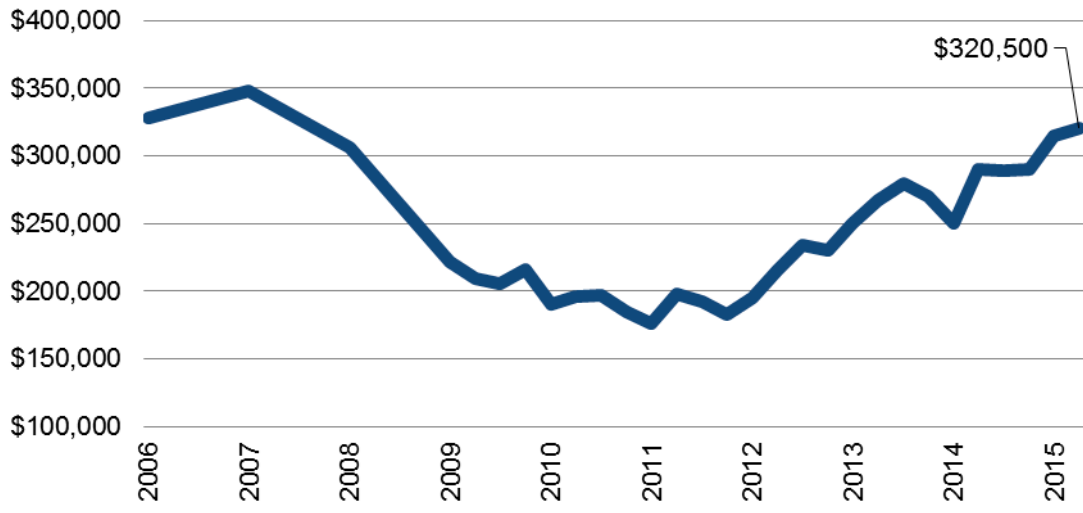
**CENTRAL OREGON**

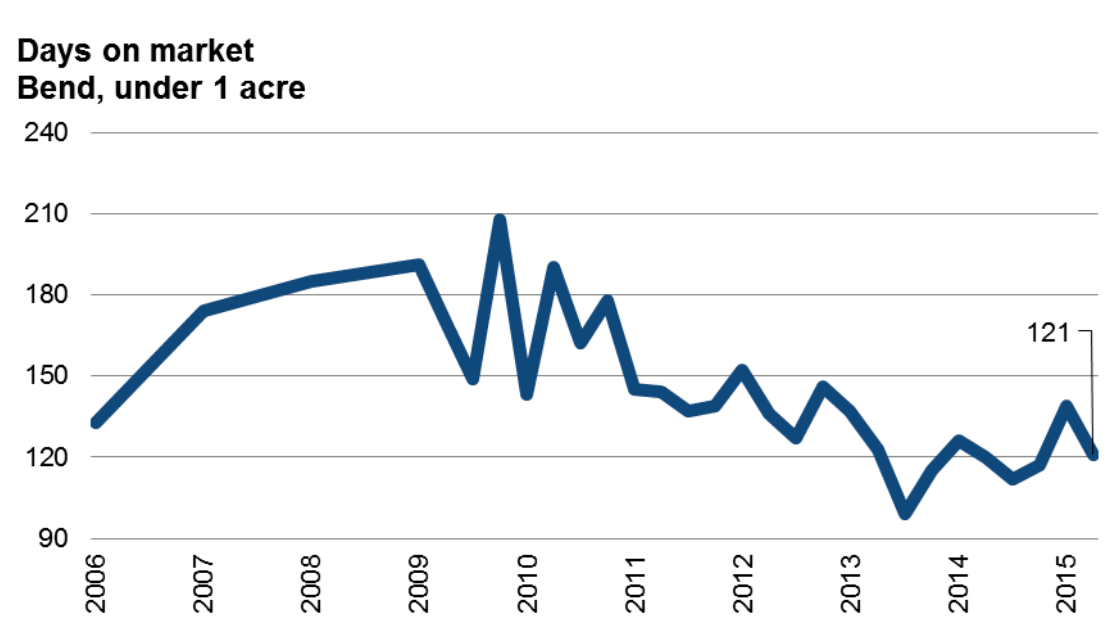
Housing markets also tightened in Central Oregon. During the second quarter in Bend, 725 existing homes sold. This is 76 percent more than during the first quarter, and 16 percent more than second quarter 2014. The median sale price rose to \$320,500, two percent above the first quarter and 11 percent above second quarter 2014. Sold units averaged 121 days on the market, 13 percent less time than in the first quarter and an uptick of only one day longer versus the second quarter of 2014.

**Number of transactions  
Bend, under 1 acre**



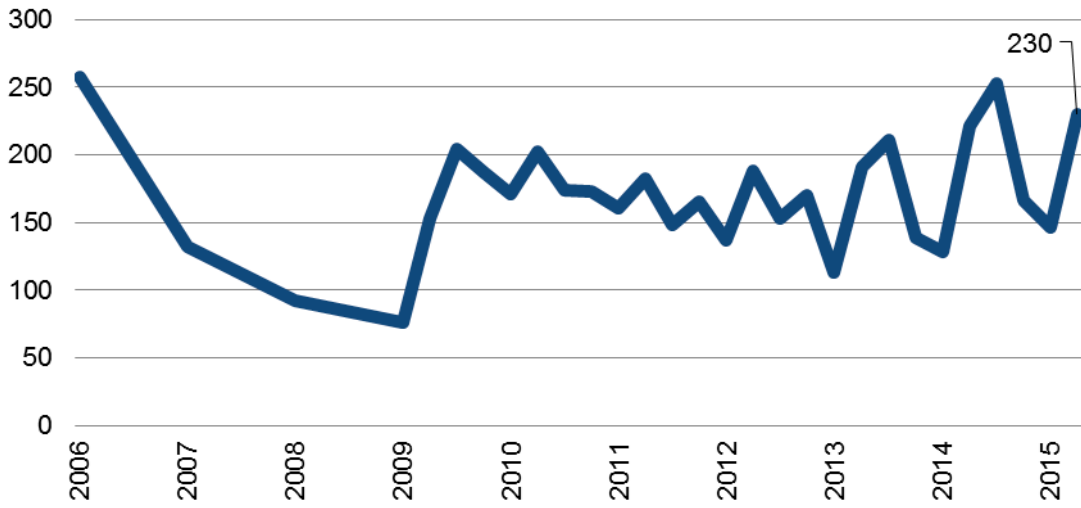
**Median sales price  
Bend, under 1 acre**



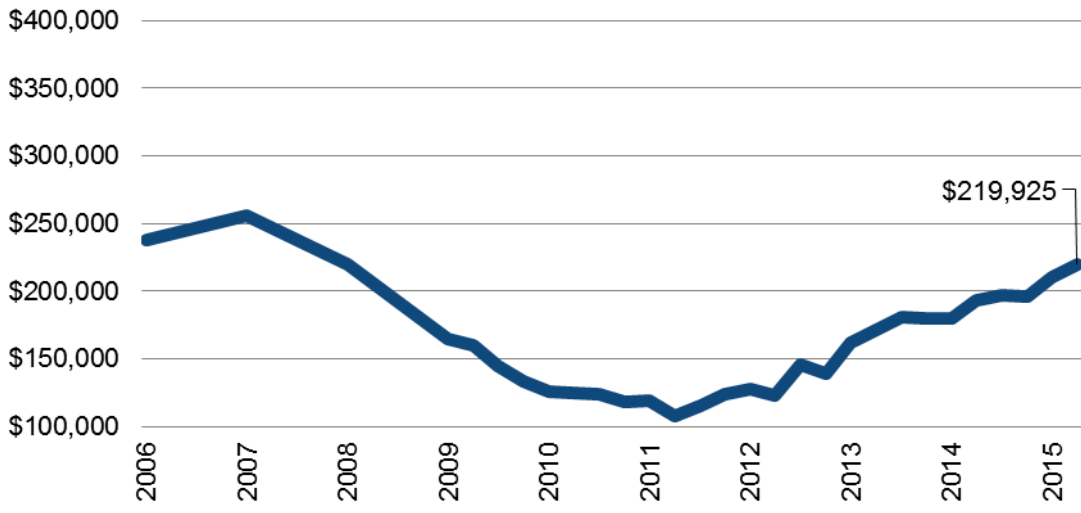


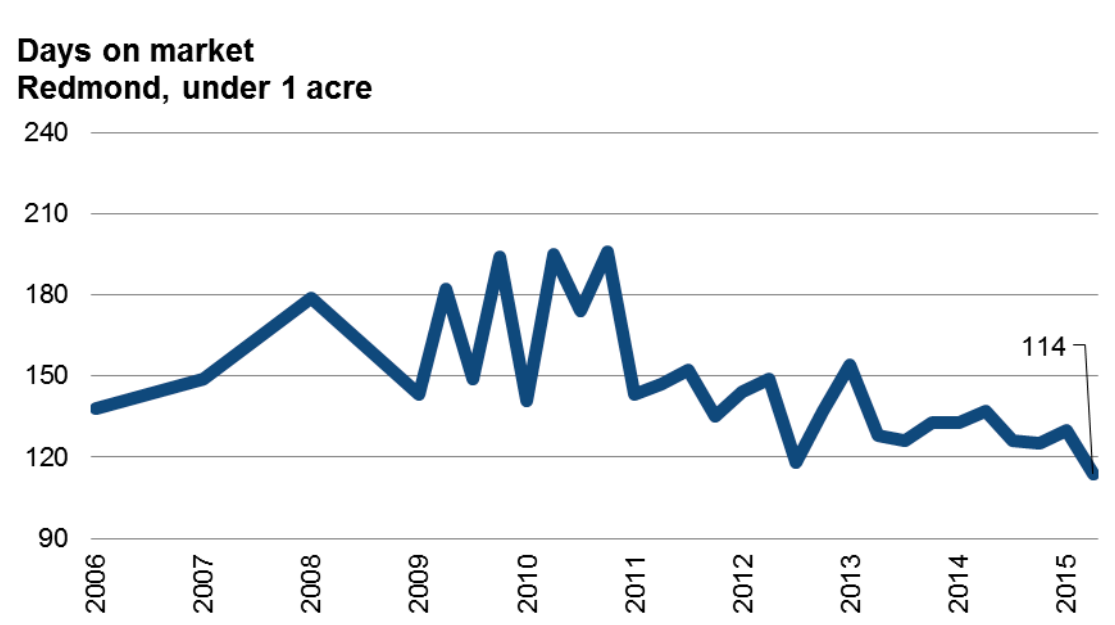
Redmond’s existing single-family transaction total for the second quarter was 230 units: 58 percent more than the first quarter and four percent more than second quarter 2014. A median sale price of \$219,925 was reached, which represents a five percent increase over first quarter 2015 and a 14 percent increase over second quarter 2014. Sold units averaged 114 days on the market, 12 percent faster than first quarter and 17 percent faster year over year.

**Number of transactions  
Redmond, under 1 acre**



**Median sales price  
Redmond, under 1 acre**

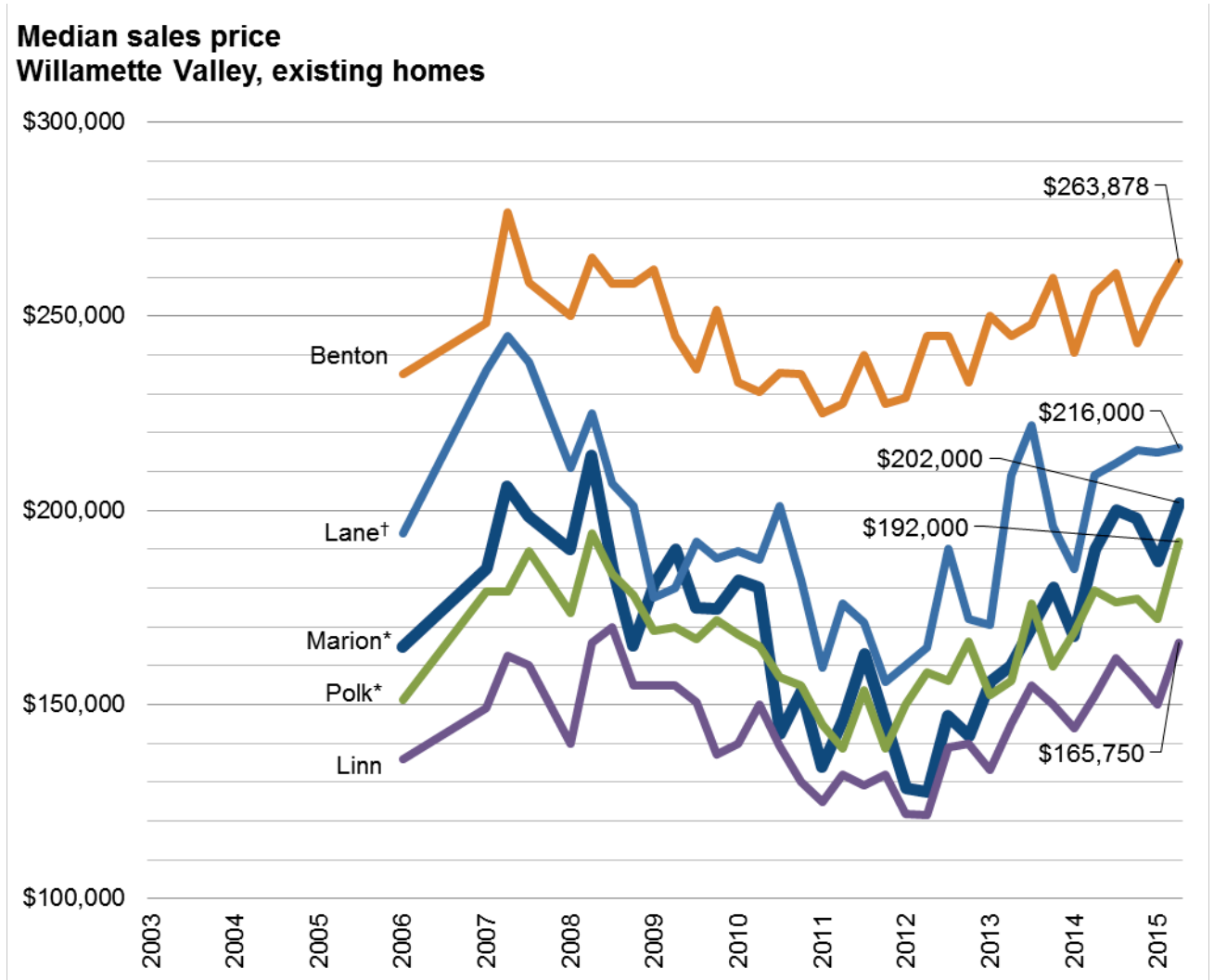




## WILLAMETTE VALLEY

All measurements of median sale prices in the Willamette Valley counties made positive movements in the second quarter of 2015. Linn and Polk counties posted the most substantial increases versus the first quarter, and Linn County showed the greater year-on-year growth.

- Benton County: \$263,878 median price, a four percent or \$9,505 increase from the prior quarter and a three percent or \$7,978 increase year over year
- Lane County (excluding Eugene): \$216,000 median price, a less than one percent increase of \$1,000 from the prior quarter and a three percent increase of \$7,000 year over year
- Marion County (excluding Salem): \$202,000 median price, an eight percent increase of \$15,160 from the prior quarter and a six percent or \$12,100 increase year over year
- Polk County (excluding Salem): \$192,000 median price, a 12 percent or \$20,050 increase from the prior quarter and a seven percent or \$12,550 increase year over year
- Linn County: \$165,750 median price, an 11 percent or \$15,850 increase from the prior quarter and a nine percent or \$13,750 increase year over year



†Excluding Eugene

\*Excluding Salem

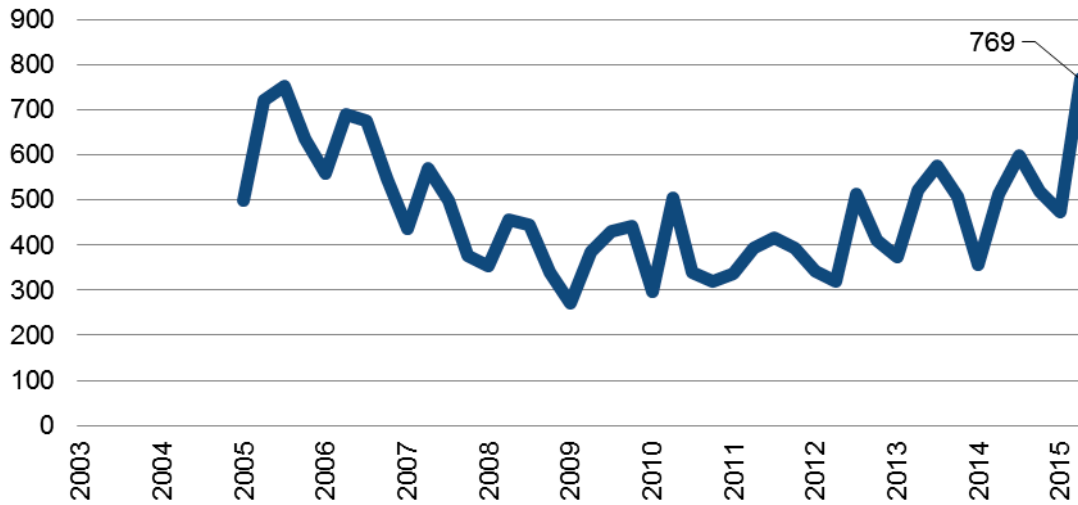
**SALEM**

Transaction volume in Salem increased from the first quarter by 62 percent or 295 transactions to reach 769 sales. This is also a 50 percent increase of 255 sales versus the first quarter of 2014. The median price increased by five percent or \$9,950, reaching \$199,900. This is eight percent or \$15,500 more than the prior-year period. From both time perspectives, homes sold faster in the second quarter: units

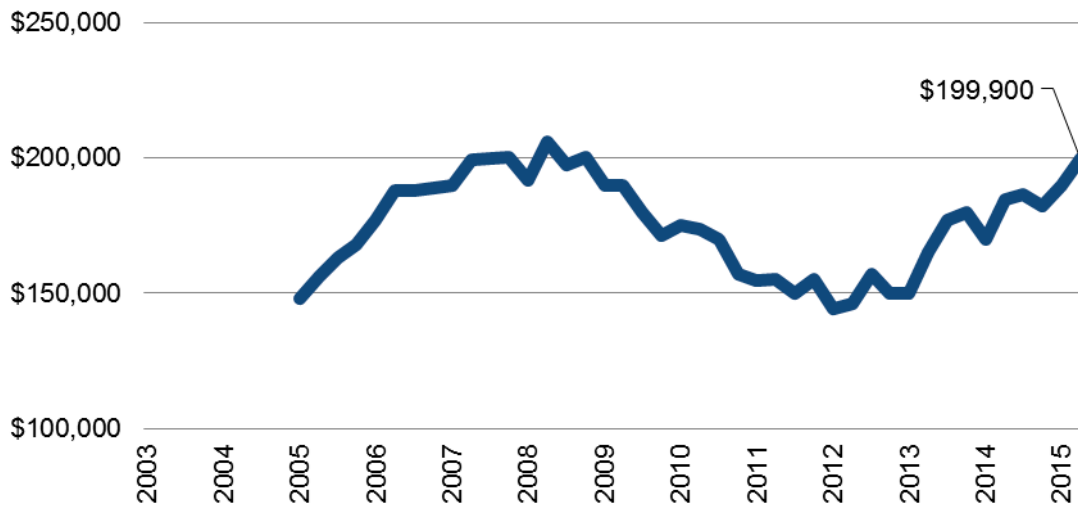


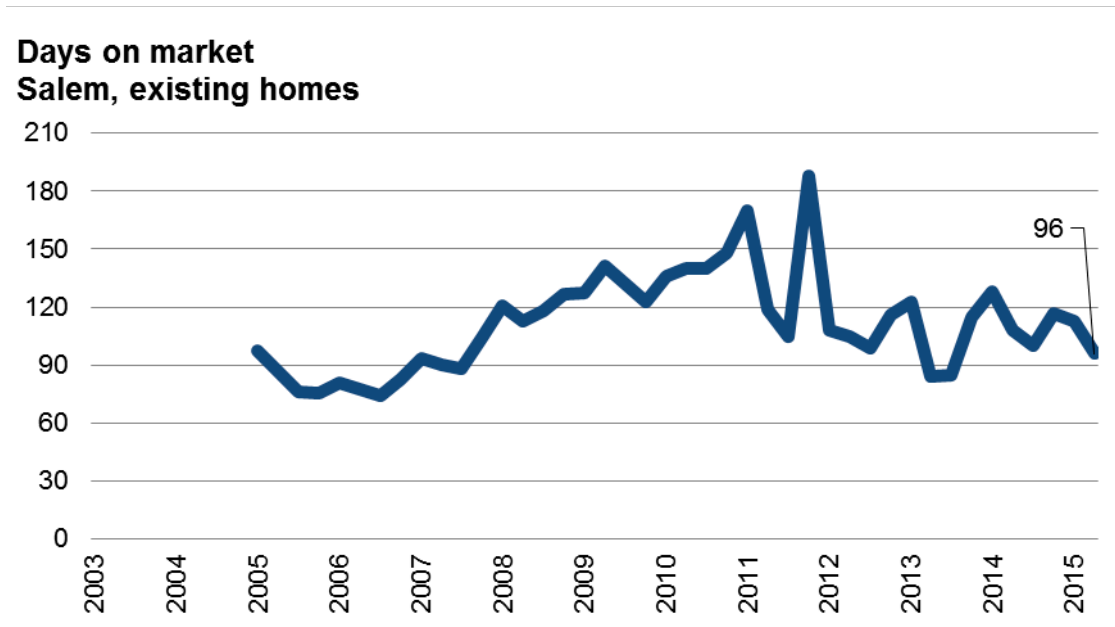
averaged just 96 days on the market, 17 days and 15 percent better than the first quarter, and 12 days or 11 percent faster than the first quarter of 2015.

**Number of transactions  
Salem, existing homes**



**Median sales price  
Salem, existing homes**

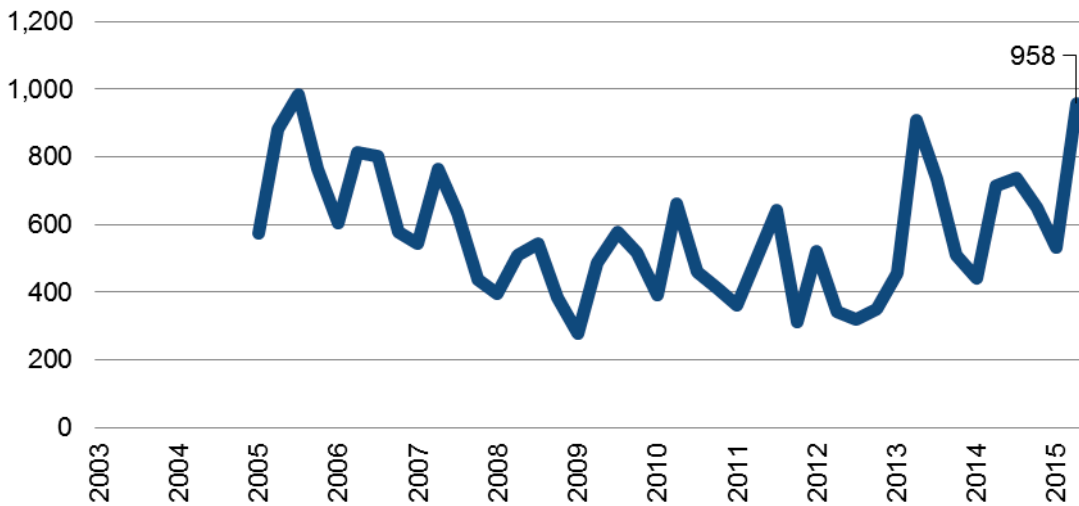




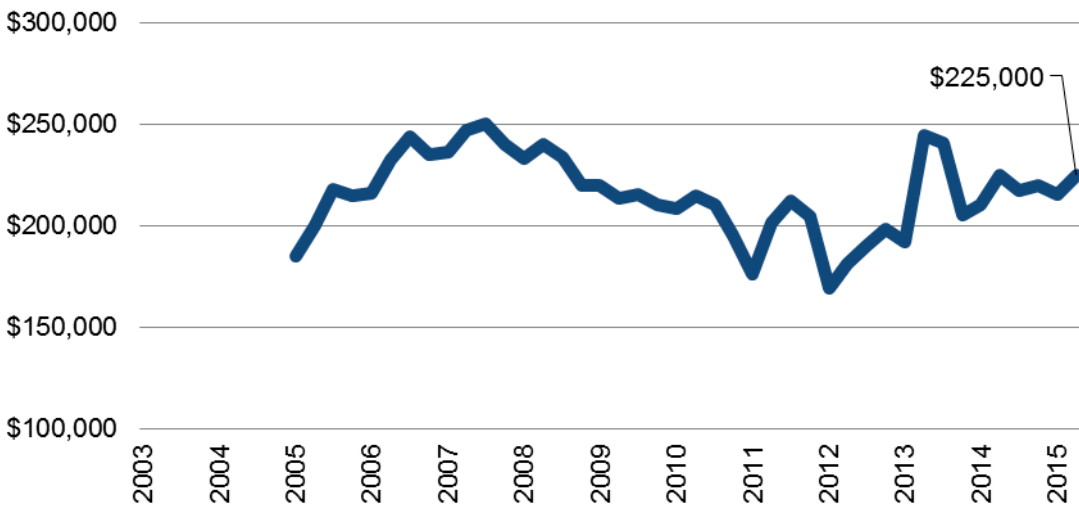
**EUGENE-SPRINGFIELD**

The Eugene-Springfield area also carried the torch. 958 existing single-family units sold in the second quarter, 80 percent more than transacted in the first quarter and 34 percent more than second quarter 2014. The median price increased by five percent to \$225,000 to reach the same level it did in the second quarter of 2014. These sales averaged 55 days on the market, beating the prior quarter by 28 percent and the same period a year ago by 14 percent.

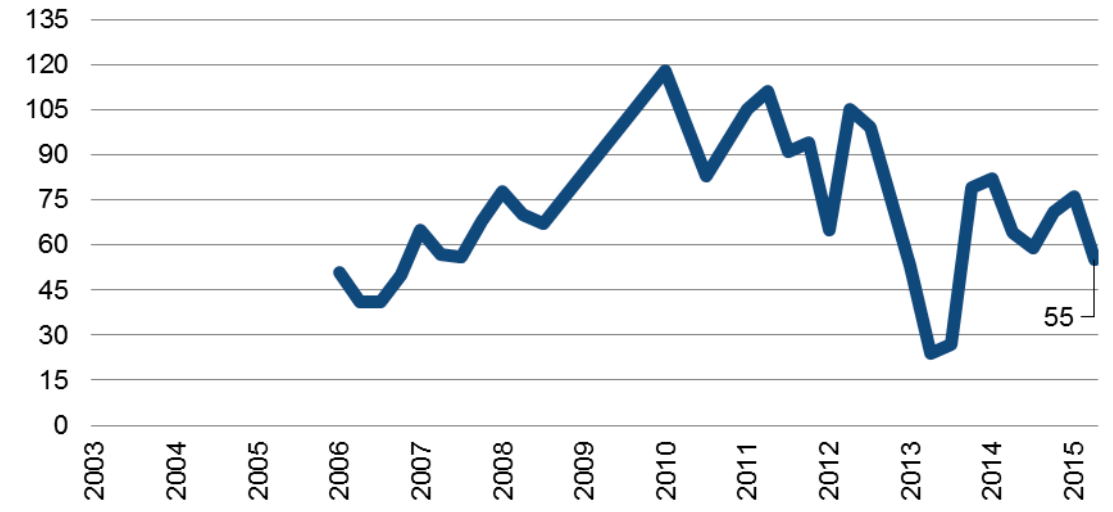
**Number of transactions**  
**Eugene-Springfield, existing homes**



**Median sales price**  
**Eugene-Springfield, existing homes**



**Days on market  
Eugene-Springfield, existing homes**

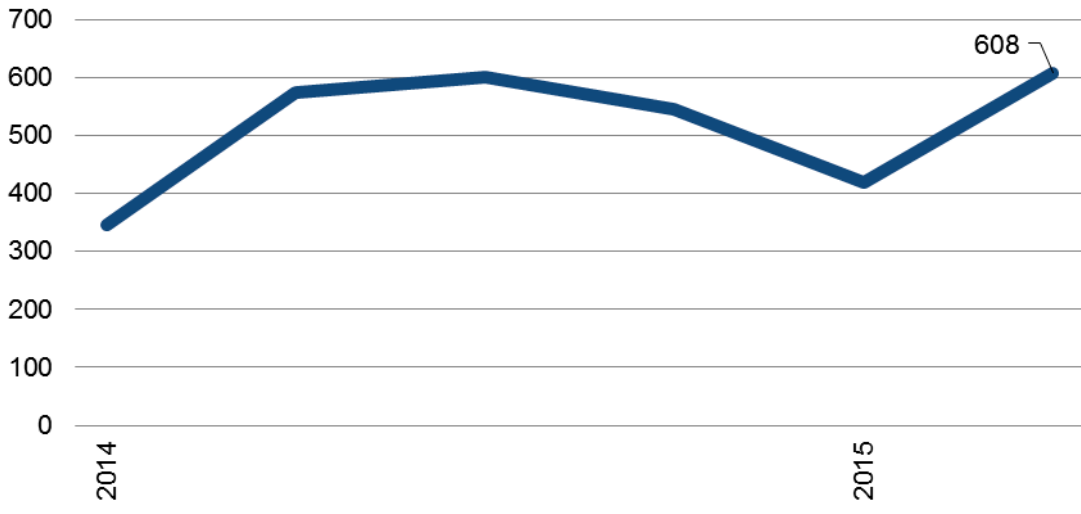


**SOUTHERN OREGON**

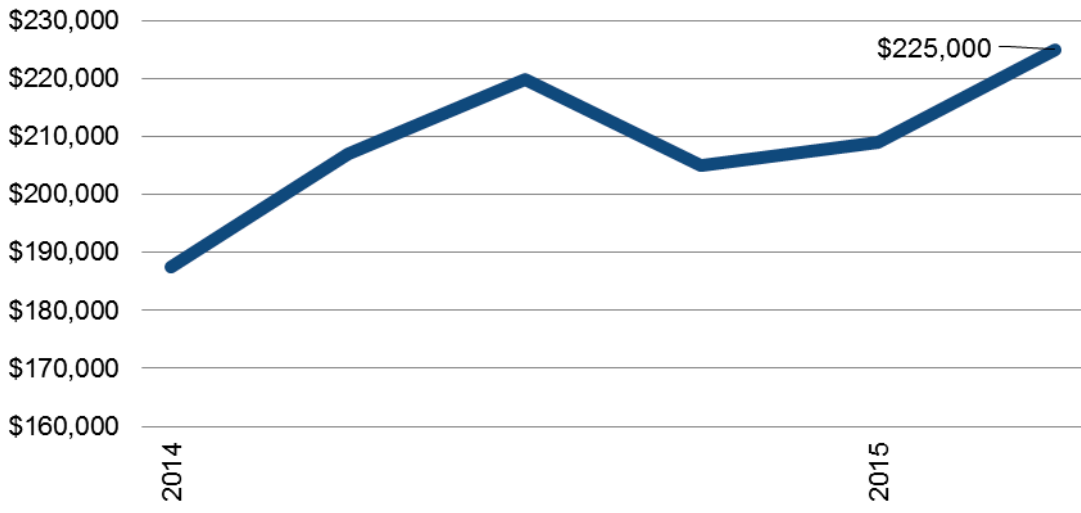
Data for southern Oregon comes to us on a rolling three-month basis, thus the following information pertains to the period March 1, 2015 – May 31, 2015. Jackson County’s market strengthened somewhat, while Josephine County’s was nearly unchanged.

In Jackson County, 608 transactions closed in the second quarter, a 45 percent increase over the first quarter and a six percent increase year over year. The median sale price rose to \$225,000 which is eight percent above the first quarter and nine percent above the second quarter of 2014. Transacted properties spent 56 days on the market, 23 percent less time than the first quarter but 33 percent longer than second quarter 2014.

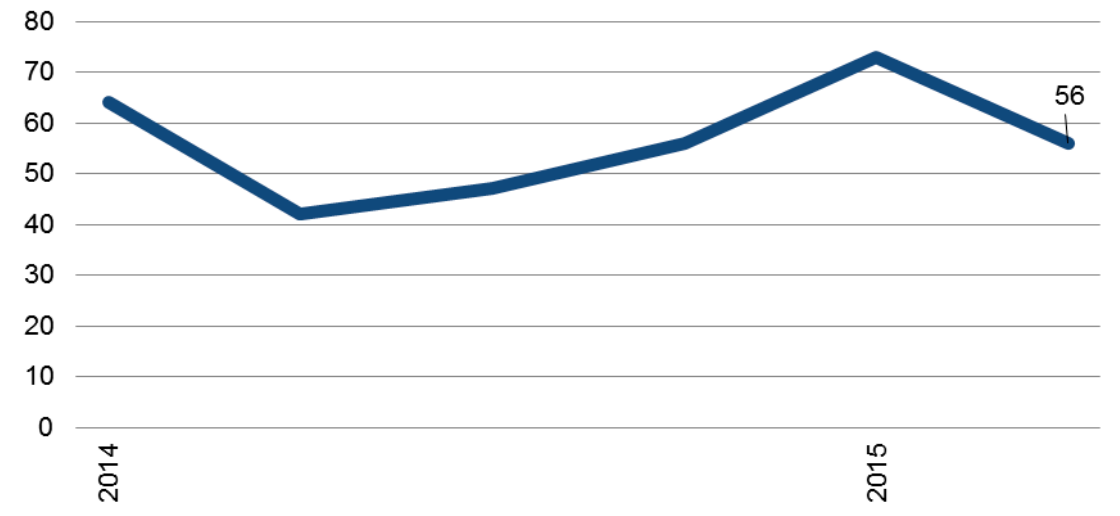
**Number of transactions  
Jackson County, existing homes**



**Median sales price  
Jackson County, existing homes**

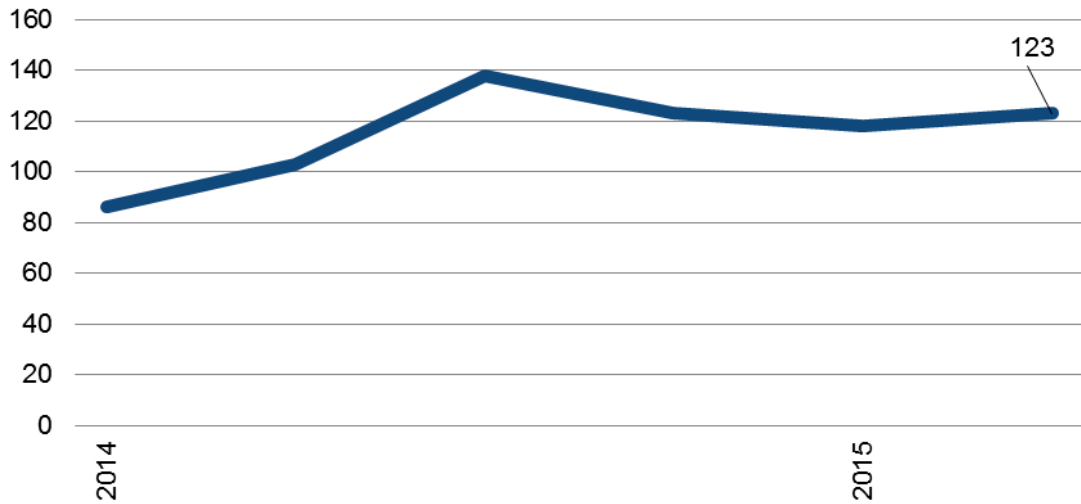


**Average days on market  
Jackson County, existing homes**

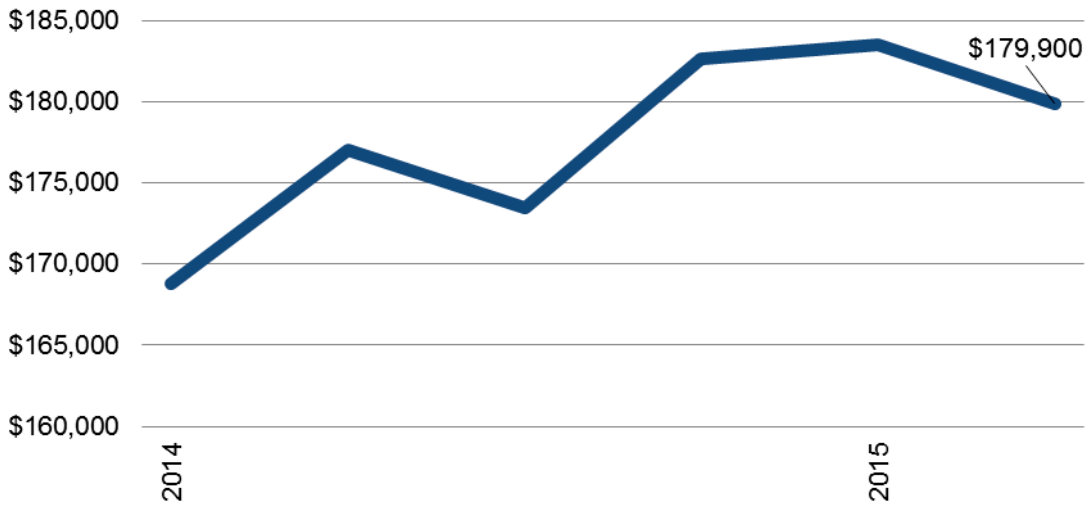


In Josephine County, 123 properties were sold in the second quarter. This is a four percent increase quarter over quarter and a 19 percent increase year over year. The median sale price registered at \$179,900, a two percent decline from the first quarter and a two percent increase in year-over-year terms. Just as in the first quarter, properties spent 81 days on the market, which is 13 percent longer than they took to sell in the second quarter of 2014.

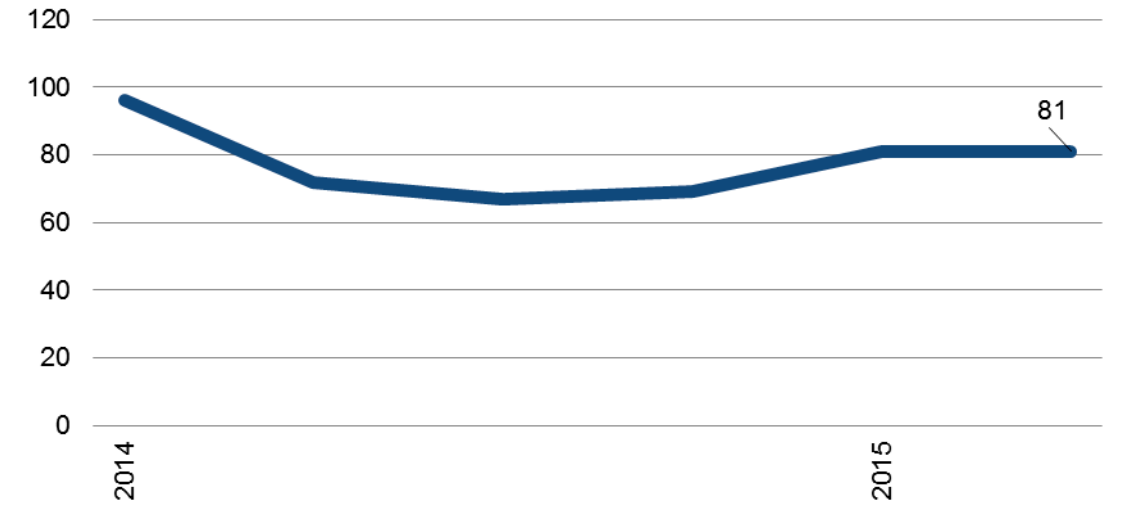
**Number of transactions  
Josephine County, existing homes**



**Median sales price  
Josephine County, existing homes**



**Average days on market  
Josephine County, existing homes**





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## MULTIFAMILY MARKET ANALYSIS

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CLANCY TERRY

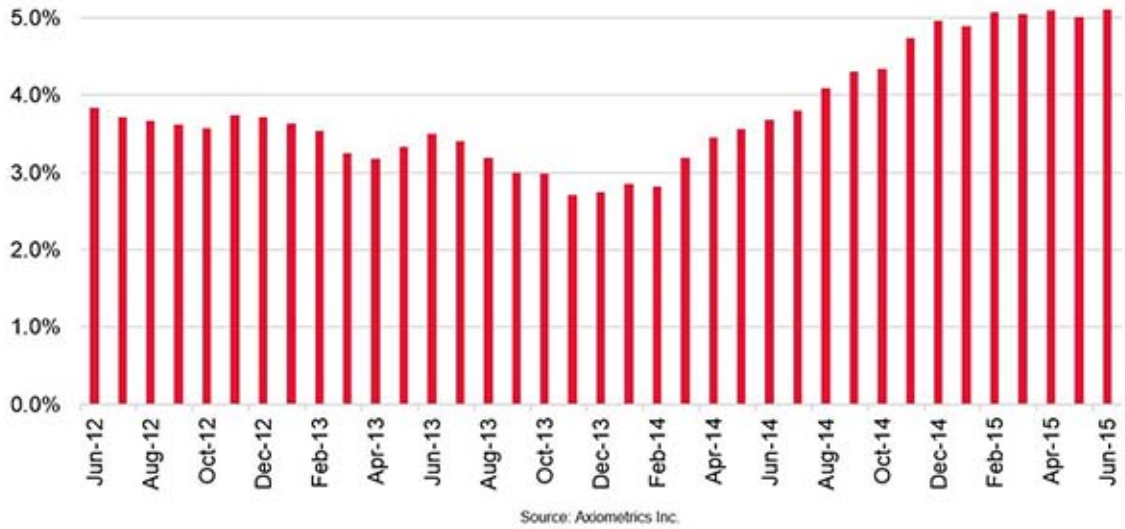
RMLS Student Fellow  
Master of Real Estate Development Candidate

At the national level, annual effective rent growth in the multifamily sector has extended the strong fundamentals reported in the first quarter. The national rate of rent growth was 5.1 percent in April, 5.0 percent in May, and 5.1 percent in June. The rate has now been at or above 5.0 percent for five consecutive months, the longest such streak in at least six years according to Axiometrics, from whom this data is derived. National effective rent growth as 3.7 percent in June of 2014. At 4.7 percent, year-to-date effective rent growth is also at its highest in six years.

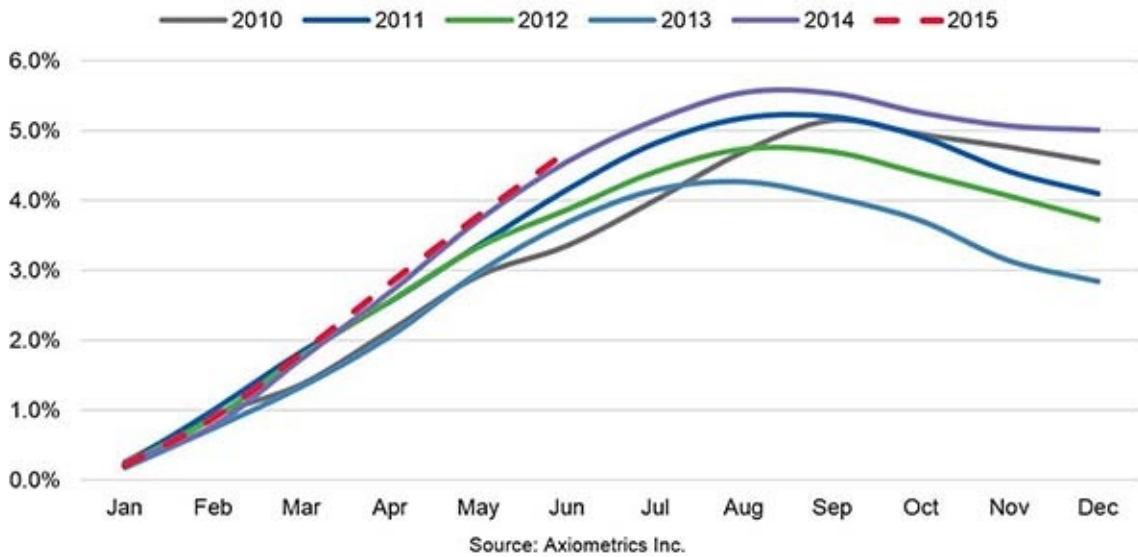
Meanwhile national vacancy registered at 4.7 percent in June 2015, giving no ground on the gains made in May. The third graphic below pertaining to occupancy shows it typically peaking mid-year. Given the continued strengthening of the multifamily market, however, Axiometrics suggests the moderating effect could have less impact than in other years. National deliveries of new multifamily supply will contribute, however, to moderating occupancy during the second half of the year as ongoing supply pushes toward balance in absorption rates.

■ Clancy Terry is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is the 2015 RMLS Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

### National Annual Effective Rent Growth



### National Year-to-Date Effective Rent Growth



### National Occupancy Rate



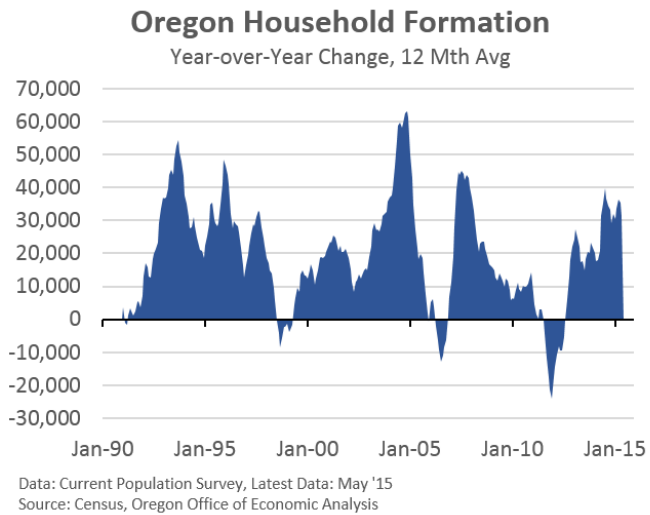
Examining the second quarter overall for the U.S., Axometrics found that its overall annualized effective rent growth arrived at 5.0 percent for the first time in four years. The quarter-over-quarter effective rent growth figure was 2.7 percent, significantly better than the first quarter’s metric. A 95.2 percent quarterly occupancy was achieved in the market, surpassing 95 percent for only the second time since 2001. Certain factors such as ending school years and warm weather typically drive rent growth in the second quarter, and 2015 has not been an exception.

### National Annual Effective Rent Growth and Occupancy Rate



62,403 new multifamily units were delivered in second quarter. There are 277,224 units projected for total 2015 delivery, so the second quarter’s completions represent 22.5 percent of this annual total.

Josh Lehner of the Oregon Office of Economic Analysis released an update on household formation in Oregon, a key metric in relation to housing, especially new construction. While the graphic shows fluctuations in the rate of change, it is in decidedly positive territory in recent months.



## PORTLAND APARTMENT MARKET

The multifamily market in the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) continued to reach new milestones in the second quarter, revealed in Axiometrics’ wealth of data as follows.

In April 2015, Portland’s annualized rate of effective rent growth experienced the largest increase in all markets surveyed across the country, rising from 9.4 percent in March to 10.6 percent in April. *This is the first time Portland’s annual effective rent growth has reached double digits since April 2011.* The 10.6 percent rate of rent growth landed Portland in fourth place nationally for the month, behind only Oakland, CA (14.8 percent), Denver, CO (11.5 percent), and San Jose, CA (10.8 percent). On a monthly basis in April, Portland’s vacancy rate was 3.4 percent.

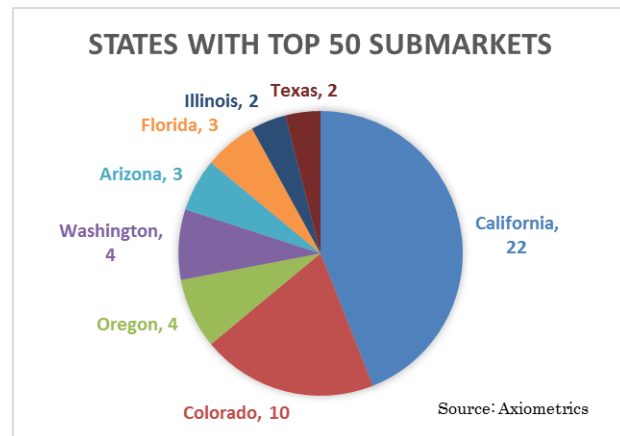
In May 2015, Axiometrics’ ranking of top 10 metros for effective rent growth experienced some major shifts, thanks in part to the Portland market. While Oakland remained in first place for greatest rate of rent growth at 14.3 percent, for the first time in at least a year the top five metros did not include all three Bay Area markets—San Francisco fell to sixth place while *Portland ascended to second place nationally* thanks to registering a 12.2 percent rate of annual effective rent growth for the month. Vacancy tightened further to 3.2 percent in May.

In June 2015, effective rent growth rankings underwent fewer upsets. Portland not only held the number two spot on the list of top metros, but its rate of effective rent growth *increased yet again*, to 13.6 percent. The monthly measurement of vacancy again declined, reaching 2.9 percent. (Oakland remained in first place

with 14.4 percent effective rent growth; Denver was third at 10.9 percent and San Jose fourth at 10.4 percent.)

Examining the second quarter as a whole, Axiometrics ranks the Portland MSA in second place for annualized effective rent growth at a rate of 11.8 percent, behind Oakland in first place at 14.3 percent. From another perspective, Portland rank in first place nationally for quarterly effective rent growth at 6.5 percent. Axiometrics pegs overall quarterly occupancy for Portland at 96.8 percent (a 3.2 percent vacancy rate), also good for a second place finish behind the New York City MSA.

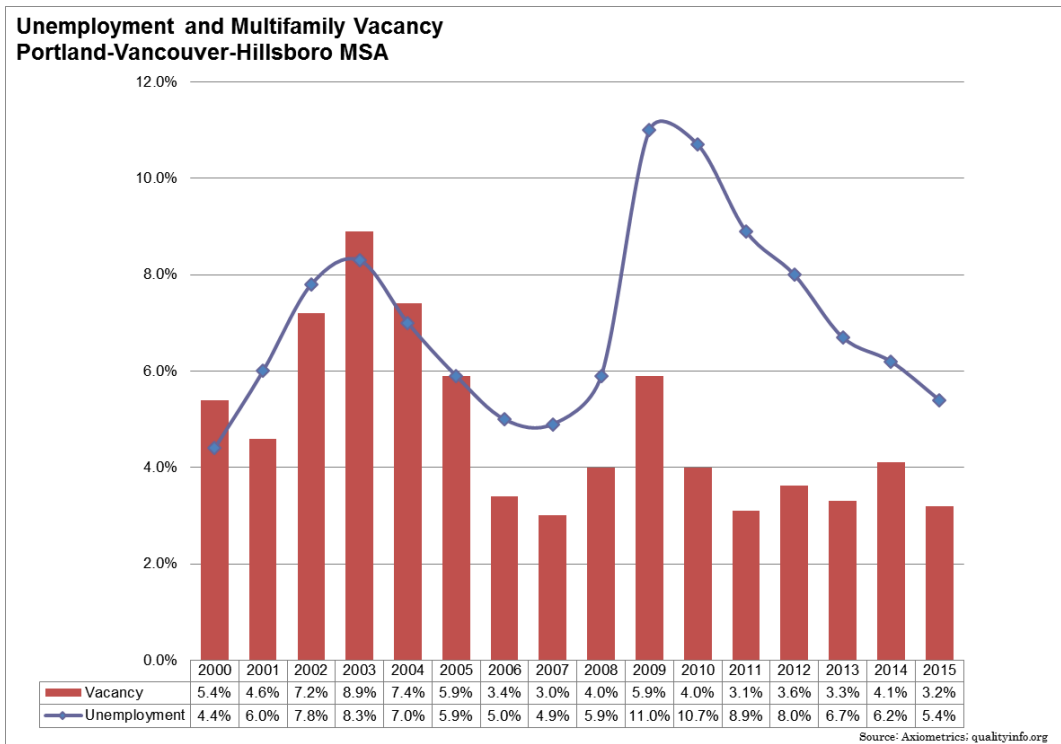
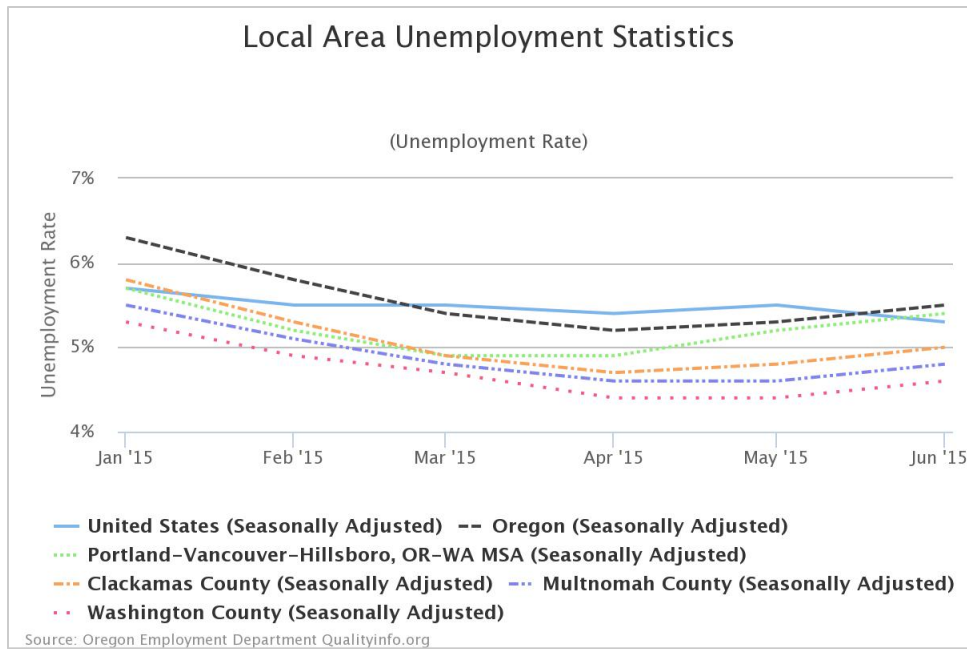
In a special feature, Axiometrics examined the top 50 multifamily submarkets with strongest annual effective rent growth in the U.S. in June 2015 and found that 43 of these were located in the West between the Rocky Mountains and the Pacific Coast. Unsurprisingly, California claimed the largest number of top submarkets out of all states, accounting for fully 22 of the top 50. Colorado claimed 10 while Oregon and Washington each claimed four. With only a few exceptions, most

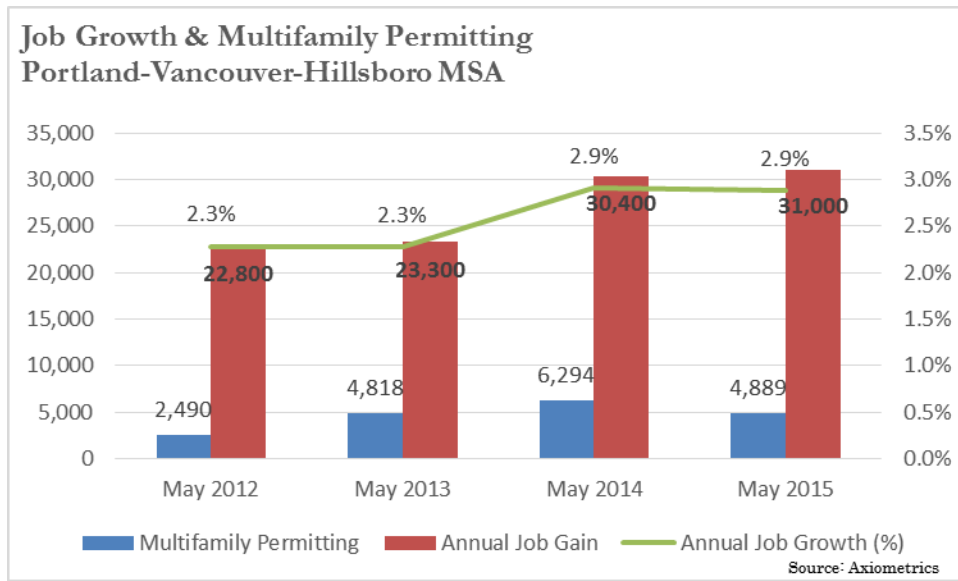


of these top-performing submarkets were in suburban locations. Indeed, Portland claimed three of Oregon's 4 top submarkets, and all three made it into the top 10 in this ranking. The Beaverton submarket ranked second with a June rate of rent growth at 18.12 percent; Vancouver, WA ranked fifth with a 16.98 percent growth rate; and Milwaukie ranked tenth at 14.77 percent.

This national submarket survey dovetails with Colliers International's Research & Forecast Report for the second quarter in Portland which finds multifamily renters in Portland do indeed have a strong preference for suburban locations. While the group reports a consistent 5.1 percent vacancy in downtown properties, the surrounding suburbs register at just 2.74 percent vacant, one of the lowest rates in the country. The bulk of new construction continues to be directed at the central city, however, with Colliers reporting deliveries of "over 11,500 units last year." Rent growth in the suburbs is therefore expected to continue increasing. Robust transaction volume in the suburbs and new deliveries bringing multifamily supply into greater balance with absorption are both expected to continue throughout 2015.

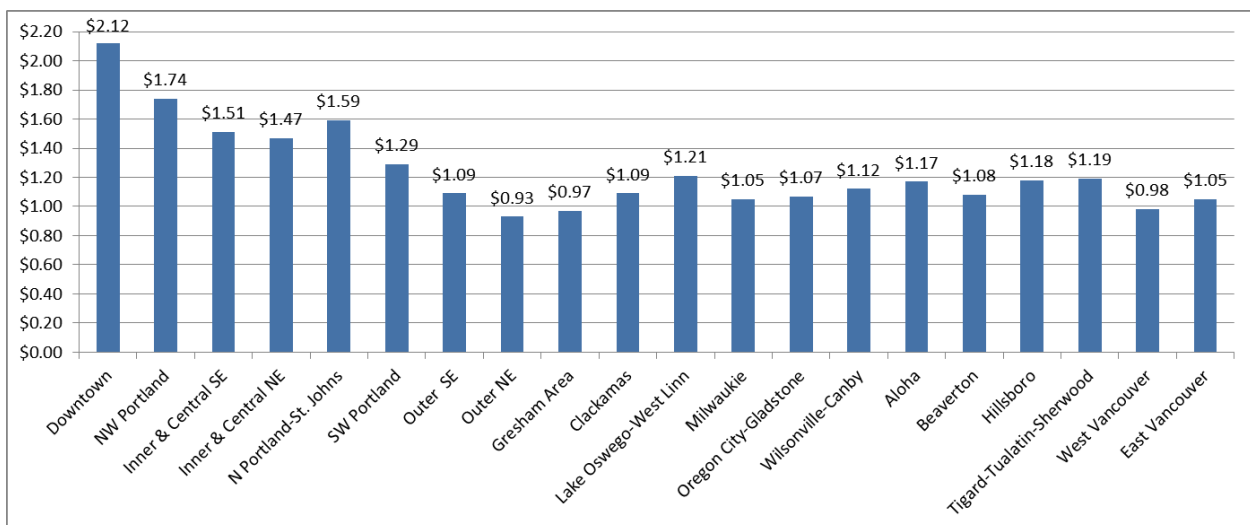
The following charts display local unemployment trends; overlays of multifamily vacancy reported for the second quarter (3.2 percent) and the most recent unemployment statistic for June 2015 in the Portland MSA from the State of Oregon Employment Department (5.4 percent); and job growth/multifamily permitting.



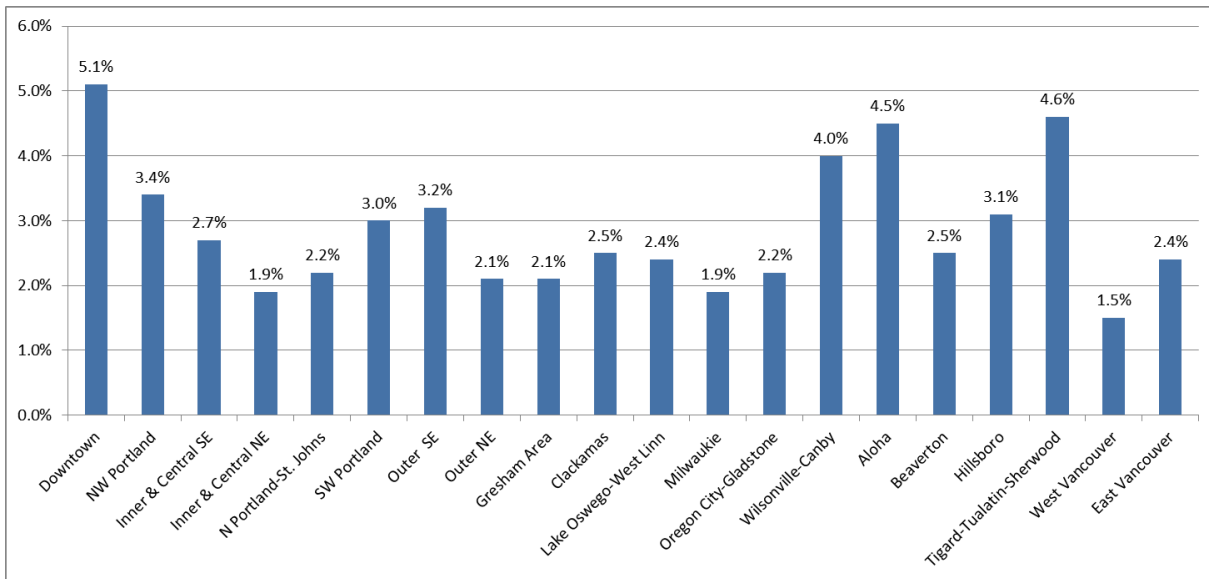


Below are representations of Multifamily NW's average rents per square foot and average vacancy rates for the 20 Portland submarkets in its most recently published survey.

### Rent/SF by Submarket, Spring 2015



**Vacancy Rate by Submarket, Spring 2015**



**TRANSACTIONS**

Sperry Van Ness | Bluestone & Hockley has compiled the following data on multifamily transactions over \$450,000 for the second quarter of 2015:

- In April, 17 properties traded compared to 18 in April 2014. Dollar volume totaled \$143,142,800, 37.9 percent greater than April 2014. Averages for these 17 transactions are as follows: 75.6 units, \$8,420,165 price, \$118,300/unit, 964.6 square feet/unit, \$123.08/square foot, 5.49 percent average reported cap rate.
- In May, 20 properties traded compared to 12 in May 2014. Dollar volume totaled \$59,904,000, 283.1 percent greater than May 2014. Averages for these 20 transactions are as follows: 26.2 units, \$2,995,200 price, \$114,321/unit, 820.8 square feet/unit, \$150.97/square foot, 4.71 percent average reported cap rate.
- In June, 29 properties traded compared to 12 in June 2014. Dollar volume totaled \$384,363,622, 97.8 percent greater than June 2014. Averages for the 29 transactions are as follows: 78.5 units, \$13,253,918 price, \$168,877/unit, 925.9 square feet/unit, \$179.94/square foot, 5.93 percent average reported cap rate.
- Year to date through June 2015, total dollar volume of sales over \$450,000 reached \$992,771,545 on 142 transactions. The averages for these 142 transactions are: 52.7 units, \$6,991,349 price, \$125,113/unit, 900.6 square feet/unit, \$147.41/square foot, 5.79 percent average reported cap rate.



Colliers Portland reports the following significant trades in the first quarter, includes some low-income/non-market rate transactions.

Project	City	Sale Date	Sale Price	# Units	Price/Unit	Price/SF	Cap Rate
Wyndham Park	Beaverton	6/1/2015	\$63,900,000	423	\$ 151,064	\$ 331.53	
Museum Place	Portland	6/19/2015	\$59,500,000	140	\$ 425,000	\$ 389.78	5.40
Canyon Creek	Wilsonville	4/30/2015	\$49,500,000	372	\$ 133,065	\$ 136.27	5.50
Domaine at Villebois	Wilsonville	6/25/2015	\$48,025,000	274	\$ 175,274	\$ 180.38	4.73
Powell Valley Farms	Gresham	6/15/2015	\$27,750,000	228	\$ 121,711	\$ 138.92	
Tualatin View	Portland	4/29/2015	\$21,900,000	210	\$ 104,286	\$ 112.77	5.70
Summerlinn	West Linn	6/17/2015	\$19,200,000	300	\$ 64,000	\$ 62.31	5.80
Westmoreland's Union Manor	Portland	6/16/2015	\$18,100,000	300	\$ 60,333	\$ 82.70	
West Slope Terrace	Portland	6/11/2015	\$12,700,000	96	\$ 132,292	\$ 131.50	
7701-7820 NW Quinalt St	Camas	6/19/2015	\$10,052,000	28	\$ 359,000	\$ 372.30	
Corso Apartments	Portland	5/5/2015	\$ 7,750,000	46	\$ 168,478	\$ 208.78	
Cascadian Terrace	Portland	5/29/2015	\$ 7,525,000	103	\$ 73,058	\$ 85.51	
Woodland Park Estates	Portland	5/13/2015	\$ 6,633,000	74	\$ 89,635	\$ 93.16	

ABR Winkler Real Estate Services reports the following perspective on multifamily sales through the year-to-date period ended June 2015:

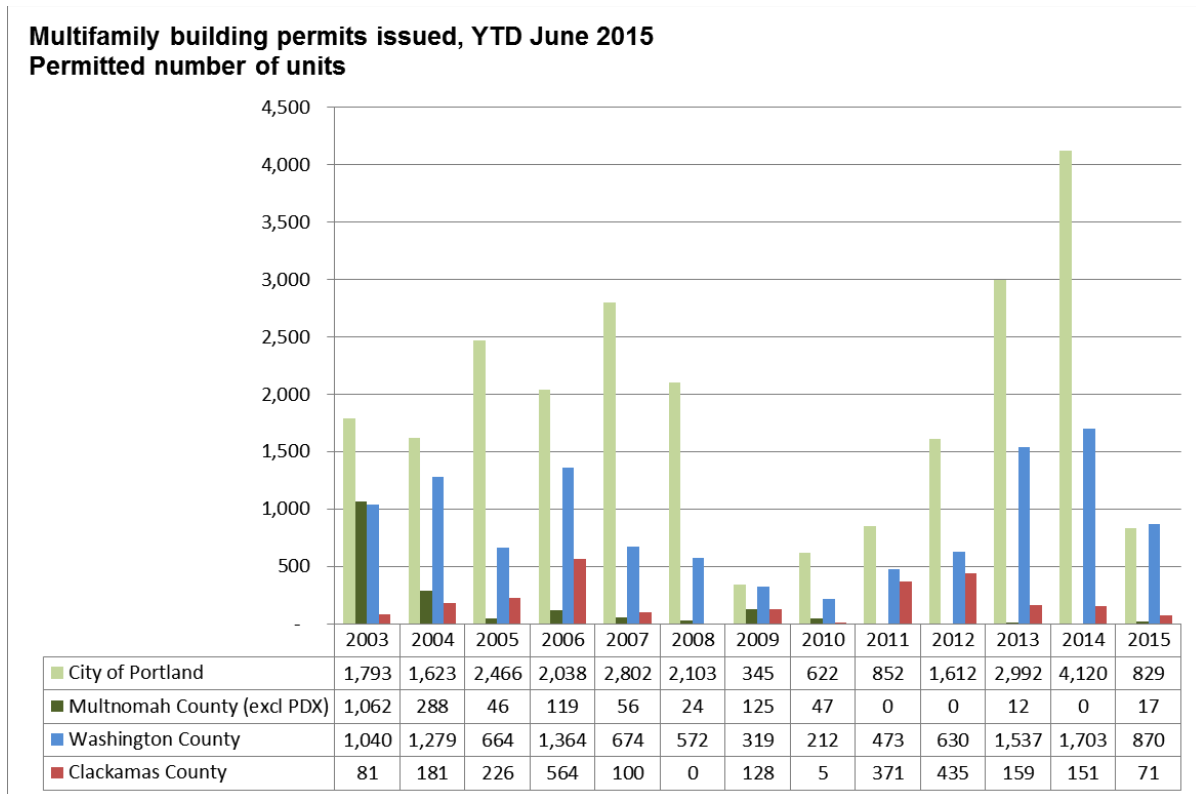
Average price per foot	\$102
Median cap rate	6.07%
Dollar volume of sales	\$853,296,241
Median gross rent multiplier	9.04
Median price per unit	\$89,286
Average price	\$5,140,339
Average number of units	46

## PERMITS

In the second quarter, Washington County issued more permits for multifamily units in buildings with five or more units than the City of Portland. Also, for the first time this year, multifamily permits were issued in the areas of Multnomah County that exclude Portland.

In Portland, 404 multifamily units were permitted. Meanwhile, 17 multifamily units were permitted in the balance of Multnomah County that excludes Portland (a.k.a. the eastern suburbs). Also, 523 multifamily units were permitted in Washington County, and 53 multifamily units were permitted in Clackamas County.

The robust second-quarter permitting in Washington County also brings that jurisdiction's year-to-date total above Portland's correlating metric. 2015's year-to-date multifamily permitting totals are represented in the following graphic.



Source: U.S. Census Bureau

## NEW CONSTRUCTION

NAI Norris, Beggs & Simpson’s (NAI-NBS) second-quarter 2015 multifamily report discusses the shifting tenure split in Portland among a growing proportion of newly built multifamily real estate. The firm reveals that 67 percent of all new housing units built in Portland between 2010 and 2014 were apartments, reflecting the much larger volume of multifamily permits issued in the jurisdiction as compared to single-family permitting. Portland’s well-documented population growth together with demand for multifamily from both Millennials *and* Baby Boomers are all called out as fundamental drivers underpinning the local multifamily market. Beyond this familiar refrain, however, is the group’s argument that recent arrivals of major employers in the market have intensified the concentration of a population demanding apartment living. The city’s amenities, cost of living, and well-educated population are attractive to employers, and firms—many in the technology industry—have responded by bolstering their presence. NAI-NBS points to the very tight Central City office market as evidence. ■

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# OFFICE MARKET ANALYSIS

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ALEC LAWRENCE

Portland State University

“Oregon is experiencing full-throttle growth today. Jobs and income are increasing as fast, if not faster than during the mid-2000s.” That is the State of Oregon’s Office of Economic Analysis synopsis of current economic conditions in its May 2015 economic and revenue forecast. It found overall year-over-year employment growth stood at 3.3 percent with employment and income growth accruing to average wage earners and to most industries.

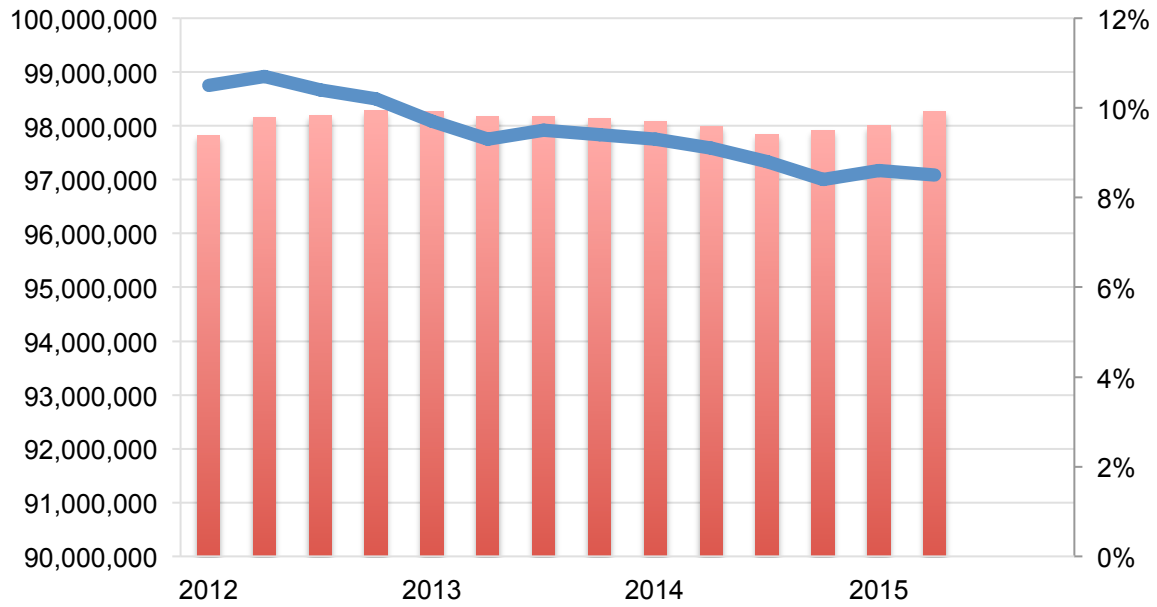
The sentiment is mirrored in the second quarter brokerage reports for Portland’s office market. CBRE led its report noting that “demand for office space increases despite decreases in average square feet per employee.” CBRE credits strong employment growth and a 40 percent increase in year-over-year absorption rates and predicted that growth will continue through 2015. Kidder Mathew’s notes that it is a landlord’s market as new tenants race to absorb a number of deliveries while rents increase. JLL notes that rents have increased for new deliveries across subsequent announcements of new lease agreements.

■ **Alec Lawrence** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author’s responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity.

## VACANCY

Kidder Mathews data indicate overall office vacancy edged down to 8.5 percent from 8.6 percent during first quarter 2015. Vacancy rates have hovered in this territory for the last year since dropping below 9.0 percent during third quarter 2014.

**Figure 1: Portland Office Market Total RBA (square feet) and Vacancy Rate (%), 2012-2015**



Source: Kidder Mathews

**Table 1: Portland Vacancy Rate  
by Submarket, Q2 2015**

Submarket	Vacancy (%)
Wilsonville	4.4%
Johns Landing	5.9%
Lloyd Center	6.0%
Northwest	8.6%
Downtown	9.2%
<b>CBD</b>	<b>9.8%</b>
Kruse Way	9.9%
Eastside	10.0%
<b>TOTAL</b>	<b>11.4%</b>
Airport Way	11.8%
Tigard	12.1%
Barbur Boulevard	12.2%
Beaverton	12.2%
Clackamas	12.3%
Hillsboro	12.3%
Lake Oswego	12.4%
<b>Suburban</b>	<b>13.4%</b>
Vancouver	17.8%
West Hills	18.8%
WA Square	21.4%
Tualatin	23.8%

Source: CBRE

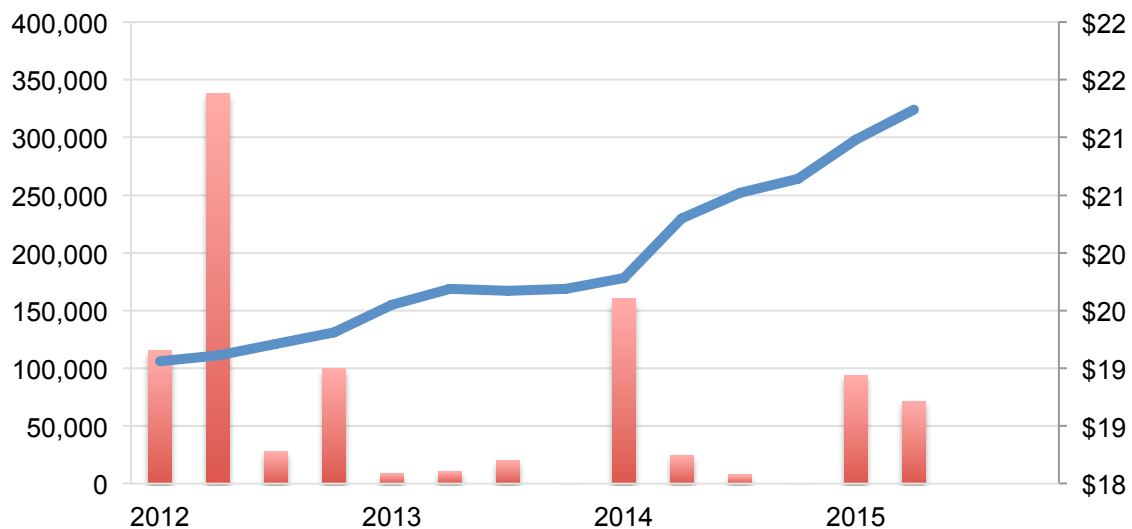
CBRE reported an overall second quarter 2015 vacancy rate of 11.4 percent for the Portland Area. Its submarket data show a strong performance for the CBD submarkets (Downtown (9.2 percent), Northwest (8.6 percent), and Lloyd Center (6.0 percent)), which have an overall vacancy rate of 9.8 percent. CBRE notes that downtown vacancy is at its lowest since Q4 2010.

Most suburban markets are performing well too. Wilsonville leads the Portland area at 4.4 percent and John's Landing falls close behind at 5.9 percent. However, the Vancouver, West Hills, Washington Square, and Tualatin submarkets drag overall Suburban vacancy down to an overall rate of 13.4 percent. CBRE credits Kruse Way with suburban performance for the quarter, noting that at 9.9 percent, it is at its lowest since 2007.

## RENTAL RATES

Kidder Mathews indicates that the overall average quoted FSG rental rates rose to \$21.24 for the second quarter. A 4.6 percent year-over-year increase from \$20.30 in the second quarter of 2014. CBRE notes this is the 13<sup>th</sup> straight quarter that rental rates have increased and that rate are increasing at a faster rate than last year (6.7 percent year-over-year increase in 2015 versus a 3.7 percent increase in 2014).

**Figure 2: Portland Office Market Average Asking Rents (\$) and Deliveries (square feet), 2012-2015**

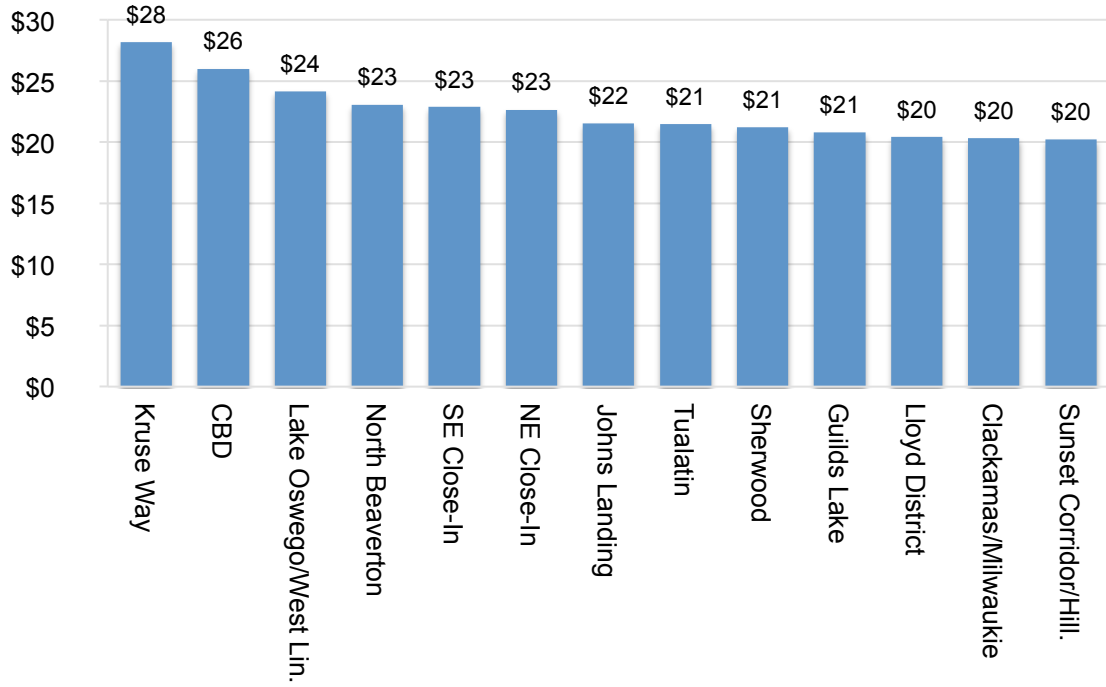


Source: Kidder Mathews

Kidder Mathews reported an average asking rental rate of \$25.35 per square foot per year for Class A properties, down from \$25.46 per square foot during the first quarter of 2015 but still up from \$25.15 at the end of the fourth quarter of 2014. Class B properties had an average asking rate of \$20.27 per square foot, up 7.02 percent from the first quarter. Class C properties reported an average asking rate of \$16.44, down from \$16.84 during the last quarter.

CoStar data shows the Kruse Way submarket leading rents with an average asking rent of \$28 per square foot per year. The Lake Oswego/West Lin submarket is not far behind at \$24. The CBD and close-in Southeast and Northeast follow behind at \$28, \$23, and \$23 respectively.

**Figure 3: Highest Office Market Average Asking Rents in Portland Area Submarkets, Q2 2015**



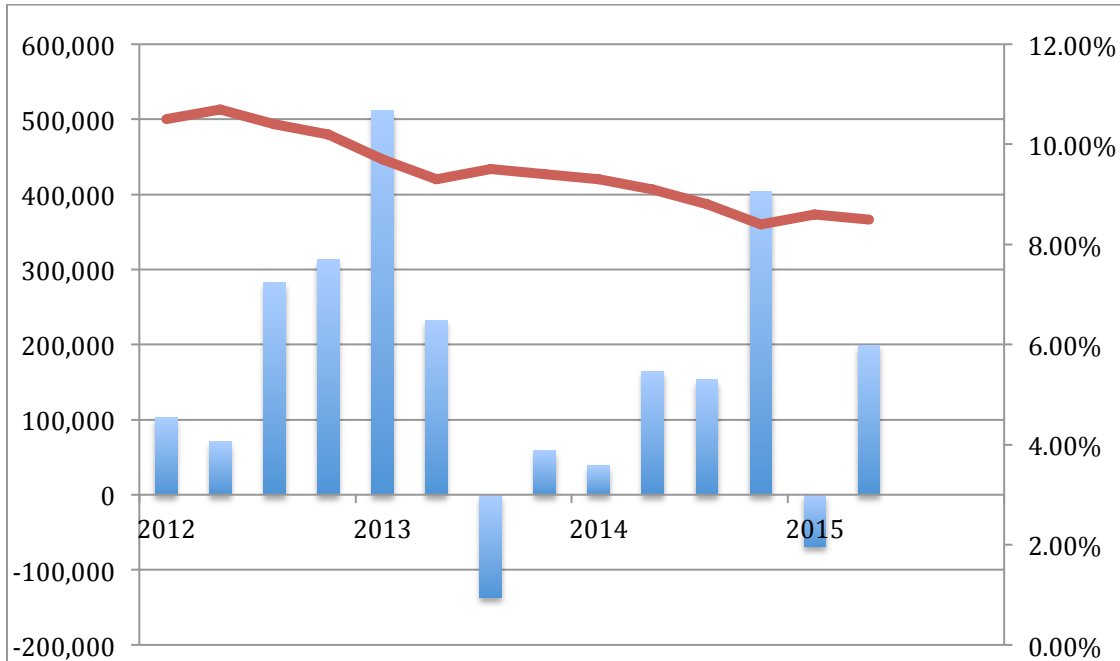
Source: CoStar

## ABSORPTION AND LEASING

As related by Kidder Mathews, net absorption across Portland rebounded from a weak first quarter to a total of 199,204 square feet during the second quarter. CBRE’s data were even higher, with 349,579 square feet absorbed. CBRE attributes 103,038 of this to the downtown submarkets and 240,541 to the suburban markets.

According to CoStar, net absorption for Class A properties during the second quarter was 58,547 square feet, up from 27,053 during the first quarter. Absorption for Class B properties was at 16,665 square feet, up from negative 87,382 square foot absorption during the first quarter.

**Figure 4: Portland Office Market Net Absorption (square feet) and Vacancy (%), 2012–2015**



Source: Kidder Mathews



**Table 2: Portland Area Net Absorption by Submarket, Q2 2015**

Submarket	Net Absorption	Net Absorption as a Percentage of Submarket RSF
Vancouver	89,343	2.0%
Northwest	81,106	1.7%
Eastside	55,773	2.1%
Kruse Way	47,366	2.1%
Clackamas	40,600	3.3%
Lloyd Center	39,247	2.0%
Johns Landing	21,802	1.7%
Tigard	15,633	0.8%
Airport Way	9,228	1.7%
Barbur Boulevard	7,841	1.6%
Wilsonville	6,053	0.8%
Lake Oswego	4,619	0.8%
Beaverton	4,060	0.1%
West Hills	-9,001	1.1%
WA Square	-11,306	0.9%
Hillsboro	-16,863	1.5%
CBD	-17,315	0.1%
Tualatin	-24,607	2.6%

Source: CBRE

CBRE absorption data by submarket show a small negative absorption of -17,315 square feet for the CBD. CBRE attributes this to DEQ's move-out from CH2M Center.

Vancouver led absorption for the Portland Market with 89,343 square feet, two percent of all RSF in the submarket. Northwest, Eastside, Kruse Way, Clackamas, Lloyd Center, and Johns Landing also experienced strong absorption.

The West Hills, Washington Square, and Tualatin saw further losses—all with negative net absorption for the quarter.

**Table 3: 2015 Q2 Notable Lease Transactions**

<b>Building/Address</b>	<b>Tenant</b>	<b>Market</b>	<b>Square Feet</b>
Parkside Center	CH2M Hill	CBD	120,304
US Custom House	WeWork	CBD	78,835
Clark Center	Papa Murphy's	Vancouver Mall	76,329
Former YMCA Building	Under Armour	Barbur Blvd	70,003
Pearl West	Wacom	CBD	56,422
Fox Tower	CollegeNET Inc	CBD	38,546
Bank of America Financial Center	Bank of America	CBD	36,703
Willamette Oaks	Ankrom Moisan	SW Close In	36,524
321 Glisan	PNCA	CBD	32,868
Park Avenue West	Morgan Stanley	CBD	31,450
Overton Building	Swift + Possible	NW Close In	29,933
Nimbus Corp Ctr, Bldg 1	Walgreens	217 Corr	29,806
The 4400 Building	Bonneville Power	Vancouver Mall	25,469
Hist US Nat Bank Block	Google	CBD	25,416
Pioneer Tower	Geffen Mesher & Co	CBD	22,753

Source: JLL and Colliers International

## SALES TRANSACTIONS

**Table 4: 2015 Q2 Notable Sales Transactions**

<b>Building Address</b>	<b>City</b>	<b>Price</b>	<b>Price/SF</b>	<b>SF</b>	<b>Type</b>
CH2m Center	Portland	\$55,000,000	\$248.83	221,034	Investment
Cornell Oaks Corp Ctr	Beaverton	\$13,200,000	\$183.06	72,108	Investment
Block 90	Portland	\$12,900,000	\$268.43	48,057	Investment
Durham Plaza	Tigard	\$10,000,000	\$239.11	41,822	Investment
YMCA Building	Portland	\$10,000,000	\$145.77	68,600	Investment
Blagen Block	Portland	\$9,100,000	\$236.36	38,501	Investment
Stevens Medical Center	Portland	\$6,750,000	\$343.86	19,630	Investment
2415 SE 43rd Ave	Portland	\$6,200,000	\$196.13	31,612	Investment
The Marine Building	Portland	\$6,000,000	\$147.83	40,587	Investment
17201 NE Sacramento St	Portland	\$4,250,000	\$174.60	24,341	Owner/User
2233 SW Jefferson St	Portland	\$3,998,400	\$249.90	16,000	Investment
19 NW 5th Ave	Portland	\$2,750,000	\$118.40	23,226	Investment
25195 SW Parkway Ave	Wilsonville	\$2,725,000	\$104.76	26,012	Investment

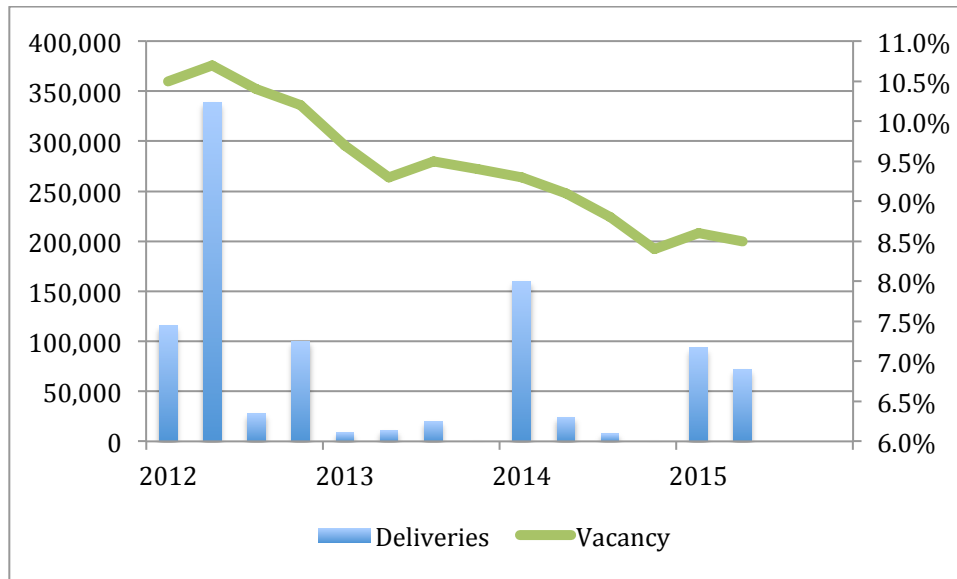
Source: JLL and Colliers International

## DELIVERIES AND CONSTRUCTION

Notable deliveries for the second quarter included the warehouse-to-office conversion of the Waterman Building by North Rim Commercial Realty. The 29,483 RBA building is in Close-In Southeast. The One North East Building in Inner Northeast also delivered during the quarter. The building is part of a two building creative office project that centers on a 14,000 square foot public courtyard.

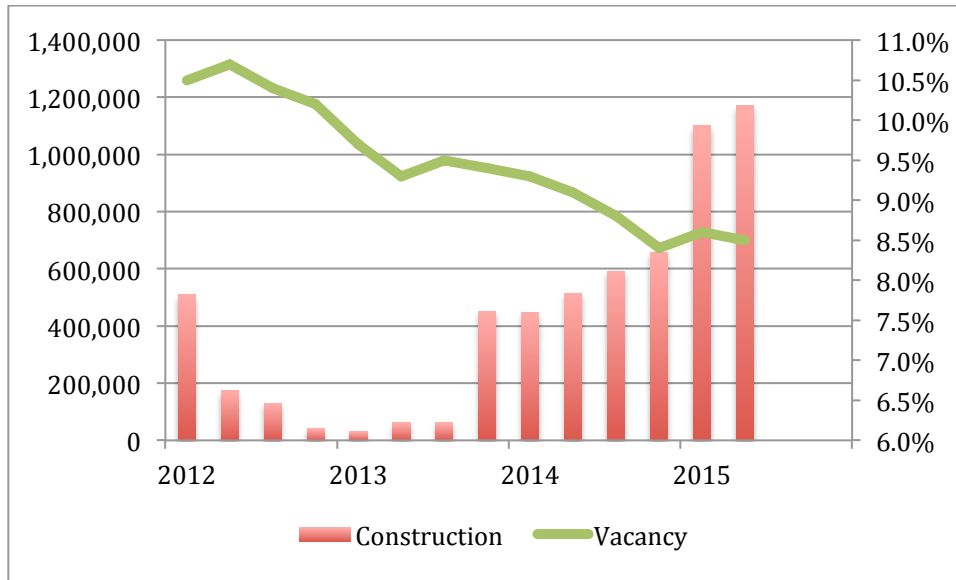
The coming year should bring a number of additional deliveries with nearly 1,200,000 RBA under construction. CoStar reports an even higher under construction RBA with several notable projects, including Intel’s Ronler Acres D1X Mod 2 (1,000,000 square feet), Daimler Trucks North America (265,000) and the Park Avenue West Tower (220,889). In addition, Killian Pacific is moving forward with its 72,000 square foot Third & Clay building, Menashe Properties continues work on its office building at 12<sup>th</sup> and Morrison, and Under Armour announced it will renovate the former Metro Family YMCA building on Barbur Boulevard.

**Figure 5: Portland Office Market Deliveries (rentable square feet) and Vacancy (%), 2012–2015**



Source: Kidder Mathews

**Figure 6: Portland Office Market Construction (rentable square feet) and Vacancy (%), 2012–2015**



Source: Kidder Mathews

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# INDUSTRIAL MARKET ANALYSIS

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ADAM SEIDMAN

Portland State University

Portland's industrial market continued to improve in the second quarter, with vacancy rates at historic lows and rental rates on the rise. Net absorption saw a slight decrease in the quarter, not including Intel's Mod1 project, but remains positive year-to-date. A significant construction pipeline of over 2 million square feet, much of it speculative space, will hit the market in the second half of the year – and industry experts believe that there is demand for all of the space.

## VACANCY AND RENTS

The Portland area's industrial market continued to show strength in the second quarter, with a declining vacancy rate and an increase in asking rents. A review of quarterly research reports from four leading commercial real estate firms revealed a metro-wide vacancy rate of 4.9 percent in the second quarter, 22 basis points below the prior quarter and 91 basis points below this time last year. This tightening market is mostly being driven by demand for distribution, warehouse, and manufacturing spaces, which together had a vacancy rate of 4.6 percent in the second quarter. Flex space, in contrast, had a vacancy rate of 10.7 percent, a slight decrease from the prior quarter but a 45 basis point increase year-over-year.

■ Adam Seidman is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

**Table 1: Portland Industrial Quarterly Report Survey Q2 2015**

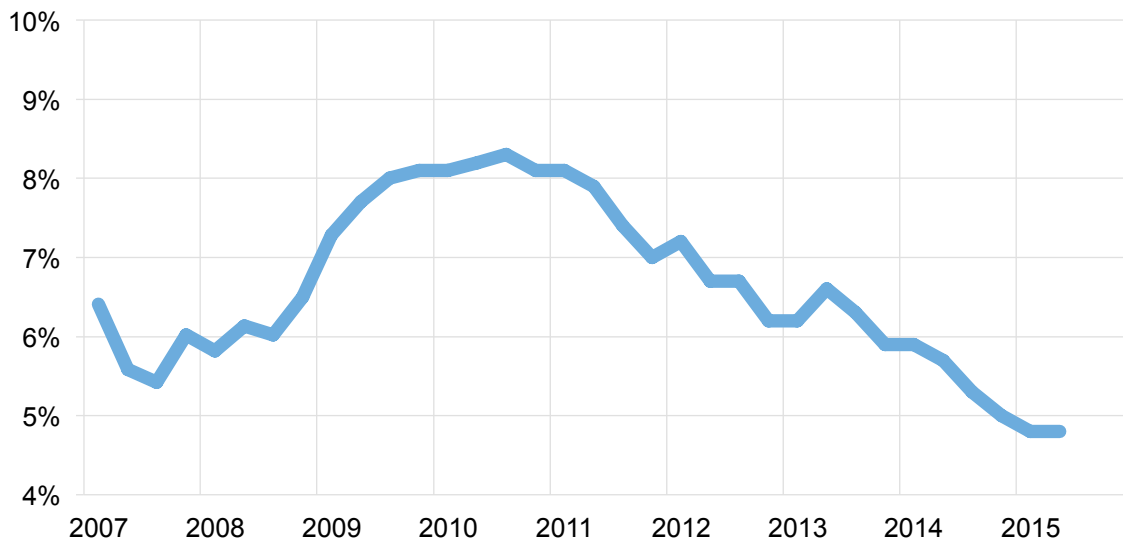
	Colliers	JLL	CBRE	Kidder Mathews	Average - Q2 2015	Chg vs Prior Qtr	Chg vs Prior Year
<b>Vacancy</b>							
- Industrial *	4.9%	4.2%	-	-	4.6%	-20 bps	-90 bps
- Flex	11.6%	9.8%	-	-	10.7%	-05 bps	45 bps
- Weighted Average	5.5%	4.7%	4.7%	4.8%	<b>4.9%</b>	<b>-22 bps</b>	<b>-91 bps</b>
<b>Rents **</b>							
- Industrial *	\$0.47	\$0.50	\$0.40	-	\$0.46	-0.4%	7.0%
- Flex	\$0.95	\$0.95	\$1.02	-	\$0.97	6.8%	15.0%
- Weighted Average	\$0.51	\$0.54	\$0.46	\$0.48	<b>\$0.50</b>	<b>1.7%</b>	<b>8.5%</b>

\* Includes distribution, warehouse, and manufacturing

\*\* Asking rents for finished space (blended); CBRE Industrial rents are for shell space

Sources: Quarterly Reports

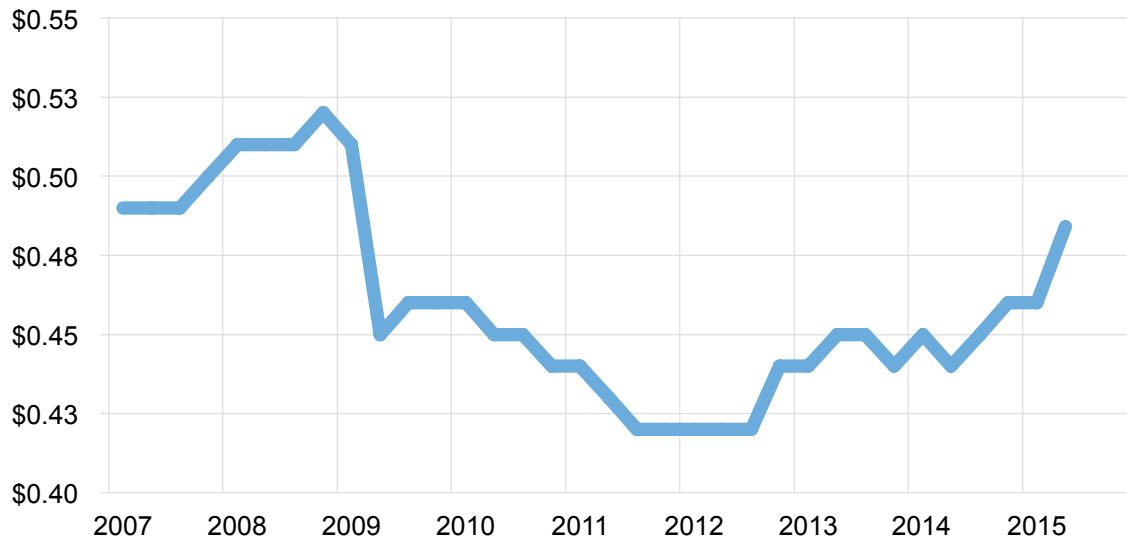
According to Kidder Mathews, this is the eighth consecutive quarter in which vacancy rates either decreased or stayed flat. JLL says that vacancy in the market is at its lowest point in over 20 years, encouraging a rise in speculative construction, with only one-third of upcoming deliveries spoken for (i.e. build to suit, owner-built). Colliers reports that the improving technology economy contributed to the lowest flex vacancy rate in the Sunset Corridor in more than a decade.

**Figure 1: Portland Industrial Market Vacancy Rate, 2007–2015 Q2**

Source: Kidder Mathews

Along with decreasing vacancy rates, asking rental rates continued their upward trajectory in the second quarter. The quarterly report survey showed monthly industrial asking rates of \$0.46/square foot and flex rates of \$0.97/square foot, for a combined weighted market average of \$0.50/square foot. Industrial rates dipped slightly from the first quarter but are up a strong 7 percent year-over-year. Flex rates exhibited very strong quarterly growth of nearly 7 percent and annual growth of 15 percent.

**Figure 2: Portland Industrial Market Asking Rents, 2007–2015 Q2**



Source: Kidder Mathews

## ABSORPTION AND DELIVERIES

Colliers reported positive net absorption of 825,000 square feet in the second quarter, down from over 1 million square feet in the first quarter. However, Intel's Mod1 at D1X accounted for 1.1 million square feet in the quarter – factoring out this space, the overall market actually saw negative net absorption of about 275,000 square feet. Over the past four quarters, the market has absorbed 2.75 million square feet of space (not including Mod1). This net absorption run rate is slightly higher than the market's average annual net absorption from 2004-2014 of 2.55 million square feet.

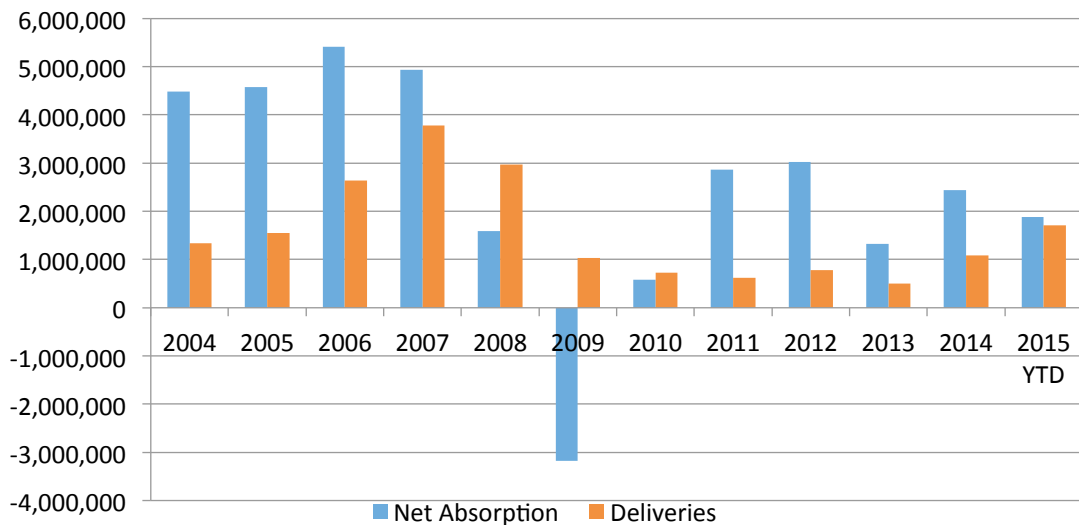


**Table 2: Portland Industrial Net Absorption Last 4 Quarters**

	<b>Industrial</b>	<b>Flex</b>	<b>Total</b>
<b>Q3 2014</b>	949,800	-45,116	904,684
<b>Q4 2014</b>	848,170	14,689	862,859
<b>Q1 2015</b>	1,129,776	-68,708	1,061,068
<b>Q2 2015</b>	-318,067	1,143,713	825,646
<b>Total</b>	2,609,679	1,044,578	3,654,257
<i>w/out Intel</i>	2,609,679	-55,422	2,749,573
<b>AVG 2004-2014</b>			2,549,245
<i>Peak Annual</i>	2006:		5,412,028
<i>Trough Annual</i>	2009:		-3,169,003

Source: Colliers International

**Figure 3: Portland Industrial Net Absorption and Deliveries, 2004–2015 Q2**



Sources: Colliers Quarterly Report and Colliers/Capacity Commercial Presentation

Excluding Intel's Mod1, deliveries for the first half of the year totaled just over 600,000 square feet. Notable deliveries included 215,000 square feet at the Gateway Corporate Center and 97,000 square feet at the speculative Koch Corporate Center.

**Table 3: Notable Portland Industrial Lease Transactions Q2 2015**

<b>Tenant</b>	<b>Building</b>	<b>Submarket</b>	<b>Size (s.f.)</b>	<b>Type</b>
Georgia Pacific	Rivergate Corporate Center 2	Rivergate	607,000	Renewal
Bridgestone Tire	ProLogis PDX 20	East Columbia	204,280	Relocation
CEVA Logistics	Alderwood Corporate Center	Airport Way	154,675	Renewal & Expansion
Bay Valley Foods	Kelley Point Distribution Center	Rivergate	150,000	Renewal
Oregon Wine Services	Southwest Industrial Park	Tualatin	145,136	New

Sources: Colliers and CBRE

## UNDER CONSTRUCTION

Local real estate firms estimate that there is current tenant demand for between 2 million to 4 million square feet of industrial space in the Portland metropolitan market. JLL notes that there are 15 users seeking spaces over 100,000 square feet – significantly larger than the typical lease of between 10,000 and 50,000 square feet.

To meet known and speculative demand, there are 15 projects currently under construction with over 2 million square feet of space. This does not include Intel's 1.6 million square feet at Ronler Acres. Over 800,000 square feet is located in just two projects in the Northeast submarket – Holland's Cameron Distribution Center and Specht's Interstate Crossroads Distribution Center. Both of these projects are speculative.

Since 2009, annual deliveries in the market have averaged 800,000 square feet. Assuming that the 2 million square feet under construction are delivered in the second half of 2015, the projected yearly total deliveries will equal 2.6 million square feet. This amount of space is the most delivered since 2008 and is equal to more than 3 years of deliveries (given the average of the past 6 years).

## INVESTMENT ACTIVITY

Kidder Mathews reported that transaction volume for the second quarter was \$143 million, in-line with 2014 quarterly averages and up from \$121 million in the first quarter. The average sales price in the second quarter was \$71.72 per square foot, up slightly from the first quarter average of \$70.56. Notably, the average market capitalization rate decreased to 6.41 percent in the second quarter, down from 7.02 percent in the previous quarter.

**Table 4: Notable Portland Industrial Sales Transactions Q2 2015**

<b>Address</b>	<b>Location</b>	<b>Size (s.f.)</b>	<b>Price</b>	<b>Price/s.f.</b>	<b>Type</b>
Tualatin Corporate Center	Tualatin	401,000	\$ 36,100,000	\$ 90.02	Investment
13635 N Lombard Street	Portland	139,000	\$ 7,550,000	\$ 54.32	Investment
17600 NE San Rafael Street	Portland	94,634	\$ 7,300,000	\$ 77.14	Owner/User
11555 SW Myslonny Street	Tualatin	126,625	\$ 7,000,000	\$ 55.28	Owner/User
20495 SW Teton Avenue	Tualatin	100,000	\$ 6,000,000	\$ 60.00	Investment

Source: Kidder Mathews

## LOOKING AHEAD

With 2 million industrial square feet under construction, 2015 is on pace to deliver the most space in any year since the Great Recession. Strong tenant demand in the market, especially for larger spaces, will likely lead to the absorption of this space in 3 to 4 quarters. As much of this space is speculative, vacancy rates may rise in the near-term from their historic lows, but not significantly higher. Absorption of space in the two largest speculative projects currently under construction, consisting of over 800,000 square feet, will offer clues to the continuing strength of the market. Another trend to watch over the next few quarters will be the impact of marijuana legalization on the industrial market, especially on rental rates and property sales. ■

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## RETAIL MARKET ANALYSIS

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ALEC LAWRENCE

Portland State University

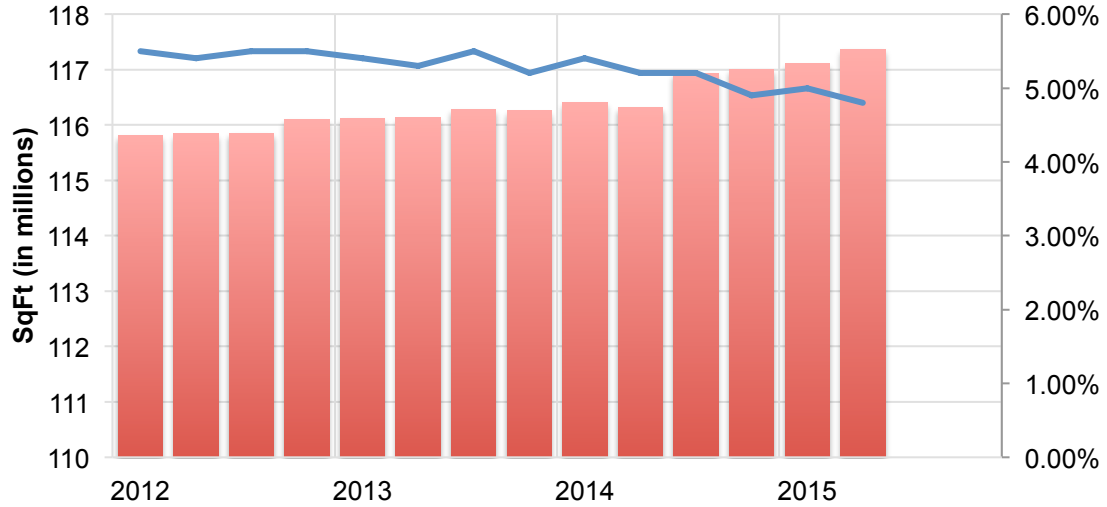
Recent trends in retail leasing across the country look to continue, with JLL projecting continued strong performance in the restaurants and food specialty, health/fitness/nutrition, and variety retail (i.e., discounters) categories through 2015. These trends reflect shifting preferences towards experiential consumption, health-oriented consumers, and the persistently stagnant incomes for lower-income earners. JLL predicts these trends will favor lifestyle centers, grocery-anchored and neighborhood strip centers, and outlet malls.

### VACANCY

Kidder Mathews reports that vacancy decreased 20 basis points from the first quarter to 4.8 percent. Rates have continued a slow but steady decrease, down 60 basis points since the second quarter of 2012. This decrease has held despite a growing number of deliveries in recent quarters. While still low, the spread between the availability rate and the vacancy rate has continued a yearlong increase, ending the second quarter at 1.3 percent above the overall vacancy rate from a low of 0.8 percent in third quarter 2014.

■ **Alec Lawrence** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity.

**Figure 1: Portland Retail Market Net Rentable Area (NRA) and Vacancy (%), 2012-2015**



Source: Kidder Mathews

CoStar reported a 2.7 percent vacancy rate for General Retail, 7.2 percent for Malls, 4.1 percent for Power Centers, 7.7 percent for Shopping Centers, and 0.9 percent for Specialty Centers. Kidder Mathews reports convenience centers at 12.6 percent, neighborhood centers at 6.5 percent, community centers at 4.5 percent, and regional and super-regional centers at 5.1 percent.

NAI, Norris, Beggs, & Simpson, reported the weakest vacancy rates in the 122nd/Gresham and Vancouver submarkets, at 9.87 percent and 8.41 percent respectively, and the strongest performance in the Southwest and Eastside submarkets, at 3.72 percent and 4.38 percent respectively.

**Table 1: Q2 2015 Vacancy and Absorption by Submarket**

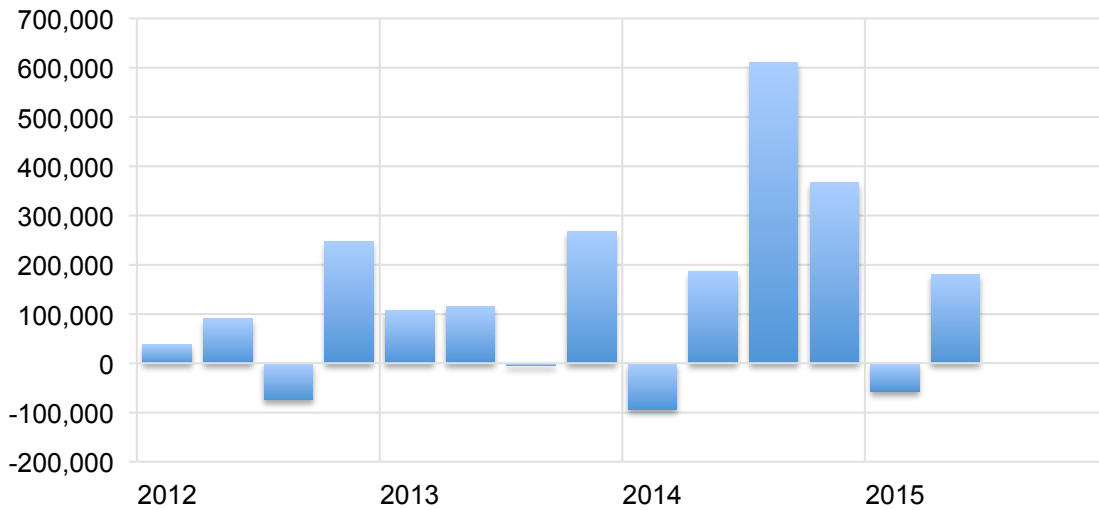
<b>Submarket</b>	<b>Vacancy</b>	<b>Absorption</b>
122nd/Gresham	9.87%	-517
Central City	6.41%	-18,991
Eastside	4.38%	21,296
Southeast/East Clackamas	6.07%	-82,407
Southwest	3.72%	62,298
Sunset Corridor	4.55%	8,797
Vancouver	8.41%	-68,117
<b>TOTAL</b>	<b>6.08%</b>	<b>-77,641</b>

Source: NAI, Norris, Beggs, & Simpson

## ABSORPTION AND LEASING

Kidder Mathews reports net absorption of 180,541 square feet for the quarter, a rebound from first quarter 2015, but down from highs reached during third and fourth quarter 2014. Still absorption was strong enough to keep vacancy levels down despite recent deliveries.

**Figure 2: Net Absorption Rate (square feet)**



Source: Kidder Mathews

NAI, Norris, Beggs & Simpson reports Hank’s Thriftway will shutter its 22,000 square foot store in the Sunset Corridor after 80 years in Washington County. The Peterkort Town Center Albertsons closed its doors, vacating its 50,000 square foot store. Safeway is following suit with an announcement that it will close two of its stores in August—its Wilkes East store in Gresham and the Oak Grove store in Milwaukie.

**Table 2: 2015 Q2 Notable Retail Lease Transactions**

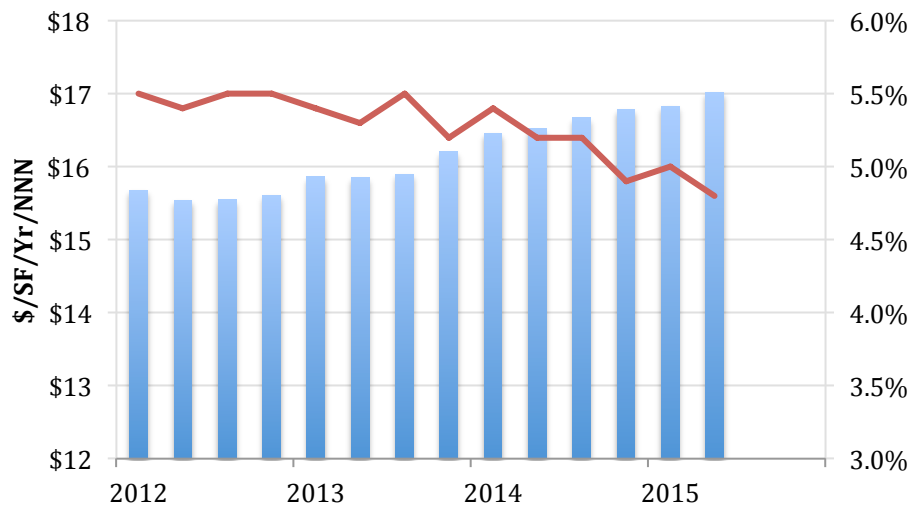
<b>Building</b>	<b>Tenant</b>	<b>Submarket</b>	<b>Sq. Ft</b>
Cascade Marketplace	OfficeMax	Cascade Park	23,000
Sandy1600	Automotive Electric Distributors	Lloyd District	14,881
Industrial Home Building	evo	Lloyd District	11,000
The Morrison	Dollar Tree	Goose Hollow MF	10,360

Source: CoStar

## RENTAL RATES

Kidder Mathews reports that rents continued an eight-quarter climb, ending at \$17.02. This marks a 1.1 percent quarter-to-quarter increase, the quickest rate of increase since first quarter 2014, and a turnaround from a three quarter decrease in rate increases.

**Figure 3: Portland Retail Market Average Quoted Rates and Vacancy, 2012-2015**



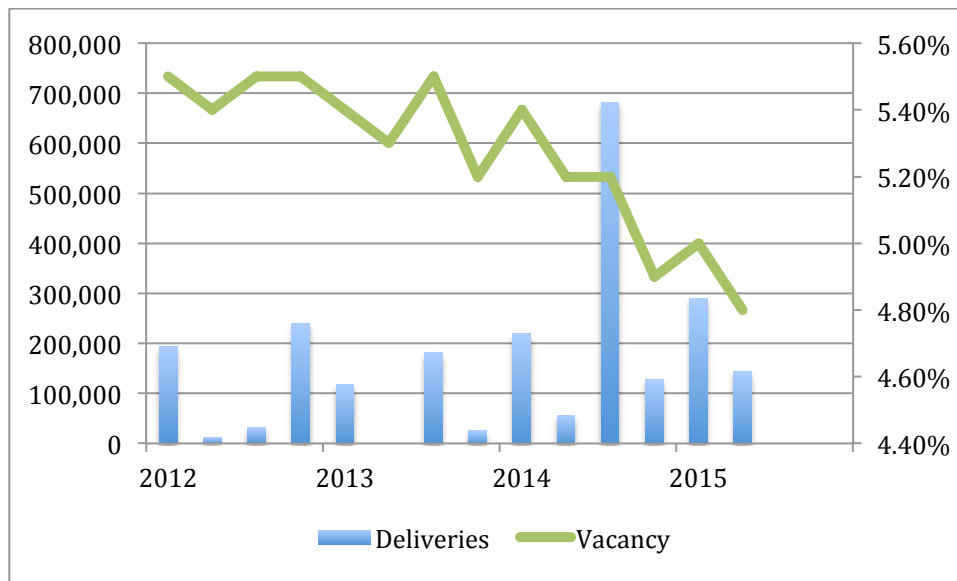
Source: Kidder Mathews

## DELIVERIES AND CONSTRUCTION

Kidder Mathews reported a total of 13 buildings and 216,016 square feet delivered for the quarter while NAI, Norris, Beggs, & Simpson reported 12 buildings completed and 314,293 square feet. NAI, Norris, Beggs & Simpson reports Kruse Village delivered 56,184 square feet during the quarter—completing all six buildings of the 62,000 square foot development. Leasing continues on the development with most signed tenants in the restaurants and food services and health and beauty categories. NAI, Norris, Beggs & Simpson attributed recent deliveries to the large number of mixed-use multifamily developments completed in Portland in recent quarters.

Kidder Mathews reports a total of 15 projects under construction for a total of 340,043 square feet. This is down from 390,761 square feet last quarter and far below the 999,576 under construction during second quarter 2014. Gramor reports it will begin construction on a new, mixed-use development anchored by a 145,000-square-foot Fred Meyer in Happy Valley at the corner of 172<sup>nd</sup> Avenue and Sunnyside Road. Included in the project will be eight retail buildings, a Fred Meyer fuel center, and a 168-unit apartment complex. Construction is set to begin in late 2015 and end in Fall 2016. Kidder Mathews reports the construction value at \$80 million.

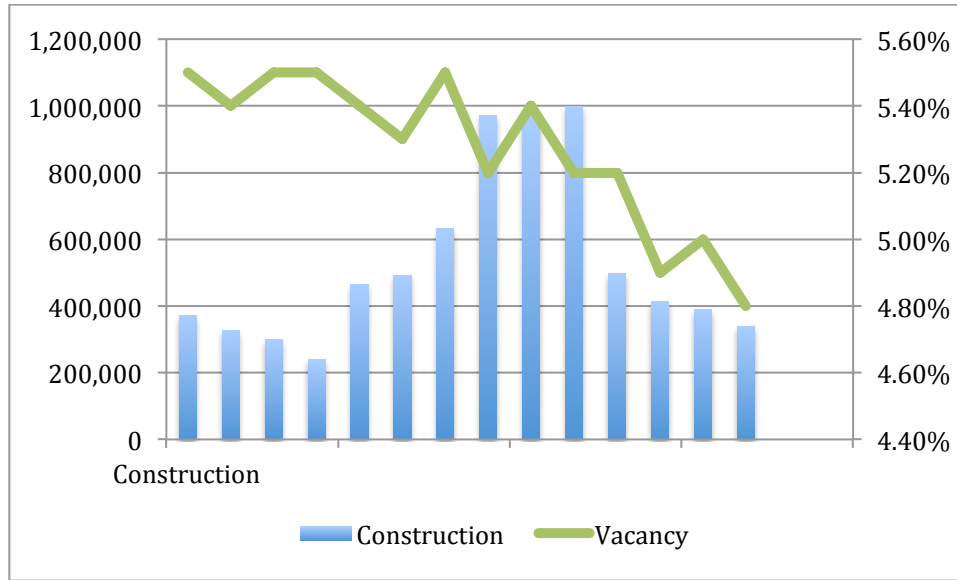
**Figure 4: Portland Retail Market Deliveries and Construction (square foot) and Vacancy (%), 2012-2015**



Source: Kidder Mathews



**Figure 5: Portland Retail Market Construction (square feet) and Vacancy (%), 2012-2015**



Source: Kidder Mathews

**SALES**

Kidder Mathews reported \$117.07 million in transactions during the second quarter, a decrease from the 2014 quarterly average of \$167.81 million. Capitalization rates increased from 6.07 percent during last quarter to 6.62 percent this quarter. CoStar reported higher second quarter transactions with the \$150 million sale of a nine-property portfolio to The Macerich Company.

**Table 3: 2015 Q2 Notable Investment Transactions**

Property	Buyer	Submarket	Sale Price
11250 183 <sup>rd</sup> St. (9 properties)	The Macerich Company	Sunset Corridor	\$150 M
322 NW 14 <sup>th</sup> Ave	HP Investors	Central City	\$12.9 M
2815-2831 SW Barbur Blvd	Interurban Development	Central City	\$10 M

Source: CoStar