
OFFICE MARKET ANALYSIS

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“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.

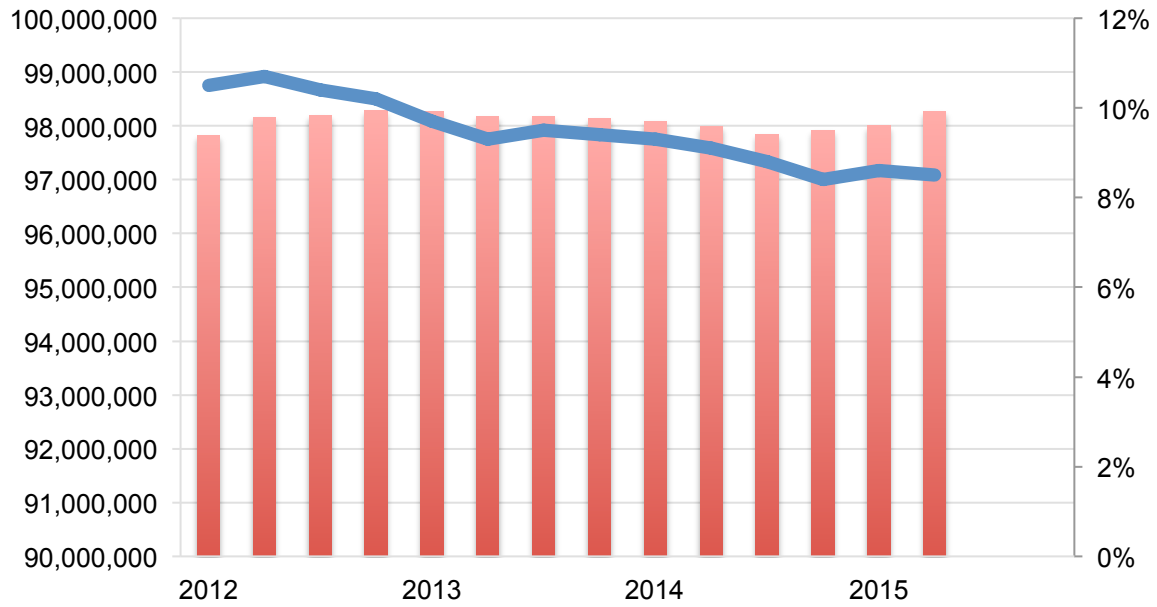
The sentiment is mirrored in the second quarter brokerage reports for Portland’s office market. CBRE led its report noting that “demand for office space increases despite decreases in average square feet per employee.” CBRE credits strong employment growth and a 40 percent increase in year-over-year 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.

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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%
CBD	9.8%
Kruse Way	9.9%
Eastside	10.0%
TOTAL	11.4%
Airport Way	11.8%
Tigard	12.1%
Barbur Boulevard	12.2%
Beaverton	12.2%
Clackamas	12.3%
Hillsboro	12.3%
Lake Oswego	12.4%
Suburban	13.4%
Vancouver	17.8%
West Hills	18.8%
WA Square	21.4%
Tualatin	23.8%

Source: CBRE

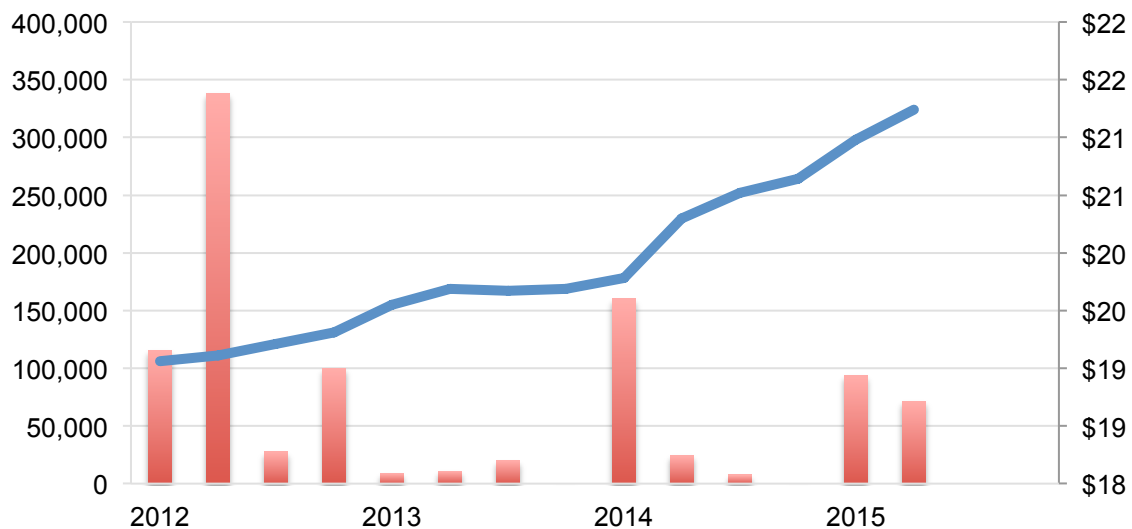
CBRE reported an overall second quarter 2015 vacancy rate of 11.4 percent for the Portland Area. Its submarket data show a strong performance for the CBD submarkets (Downtown (9.2 percent), Northwest (8.6 percent), and Lloyd Center (6.0 percent)), which have an overall vacancy rate of 9.8 percent. CBRE 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 13th 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

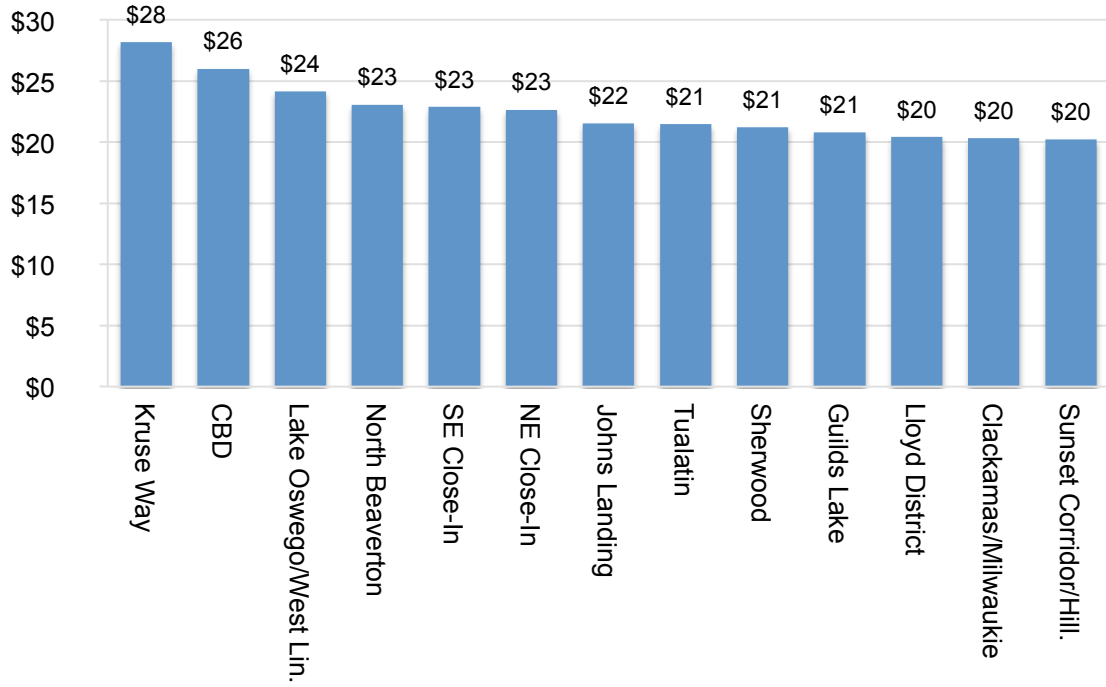


Source: Kidder Mathews

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



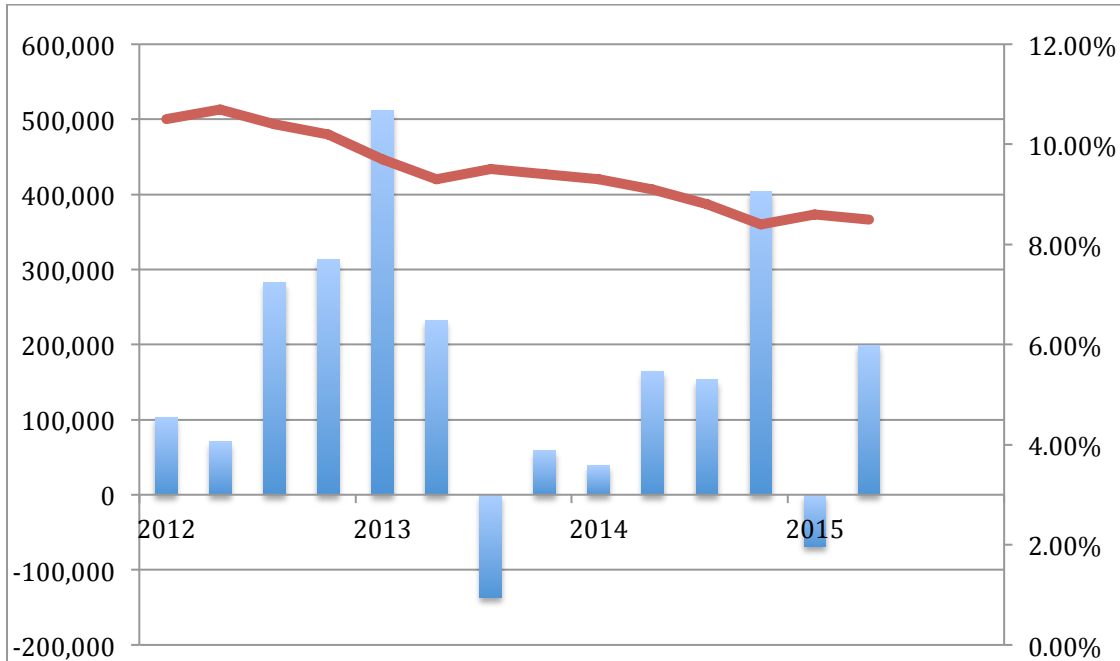
Source: CoStar

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

Building/Address	Tenant	Market	Square Feet
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

Building Address	City	Price	Price/SF	SF	Type
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

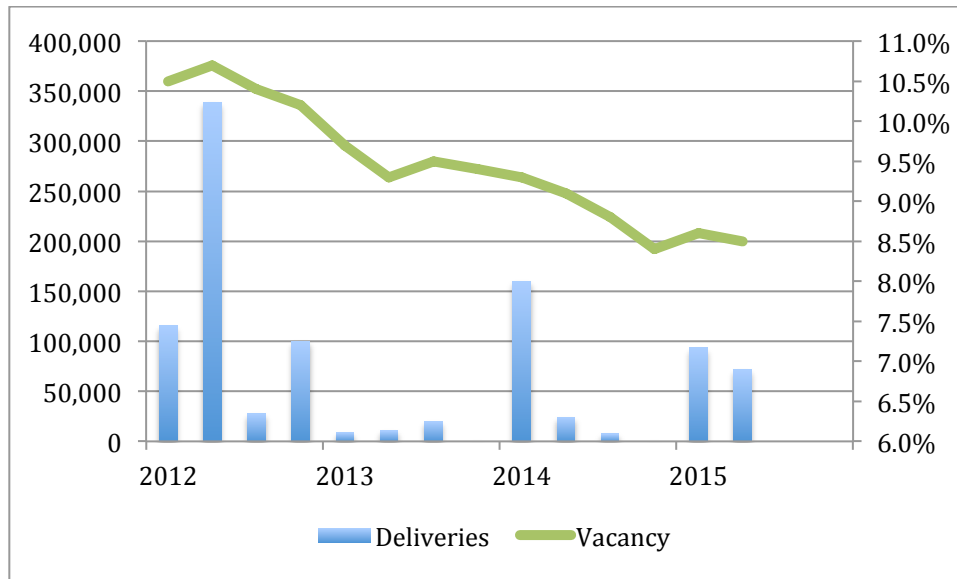
Source: JLL and Colliers International

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.

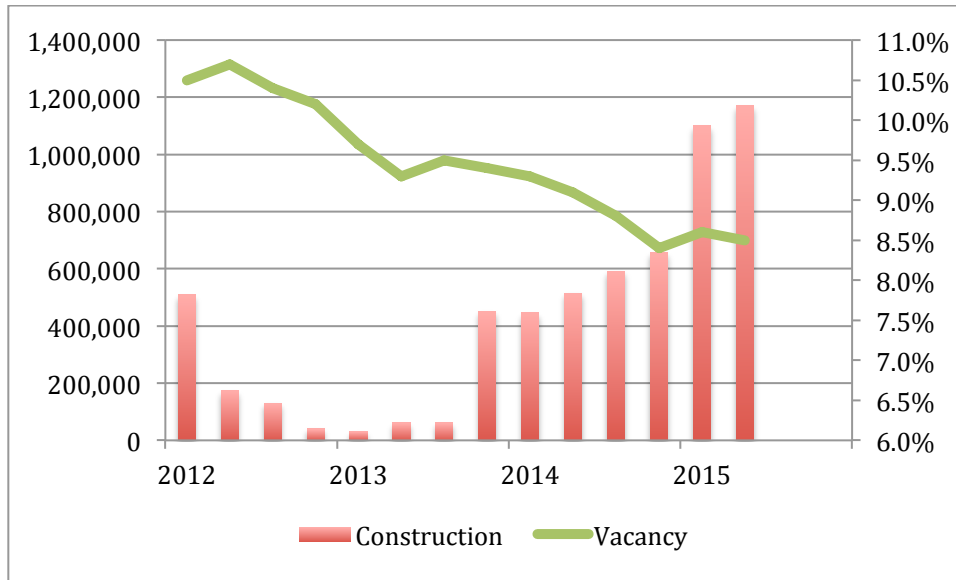
The coming year should bring a number of additional deliveries with nearly 1,200,000 RBA under construction. CoStar reports an even higher under construction RBA with several notable projects, including Intel’s Ronler Acres D1X Mod 2 (1,000,000 square feet), Daimler Trucks North America (265,000) and 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 12th 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