
OFFICE MARKET ANALYSIS

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Overall, in 2016, the US the occupancy growth within the office market stayed steady over the last two years; 6.5 million square feet of net absorption was recorded. Despite the low unemployment rate there was a shortage of skilled talent which restricted expansion in many technology markets. New York City and Washington D.C. both saw a negative net absorption in the fourth quarter, mainly in the tech and finance industries, though the tech sector remained one of the office market's main occupiers. Portland's also saw a slowing in the tech sector which resulted in a spike in sublease availability. But overall both the U.S. and Portland office markets set records in 2016 and ended the year strong.

Portland Metro's vigorous fourth quarter is creating a healthy beginning for 2017:

- ✧ **JLL** emphasized Portland's intense construction activity wherein 1.1 million square feet of new office space was delivered in 2016; which is the largest amount in over 15 years. And 2017 has more than 1.4 million square feet planned for construction making it an even bigger year than 2016.

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- ✧ **Colliers** focused on the fourth quarter's market strengths, including living costs relative to other west coast cities, a well-educated and fair paid work force, as well as a diversified economy.
- ✧ **CBRE** highlighted the fact that 2016 was one of the strongest years for major construction in Portland as well as redevelopment. The year ended with record breaking rental rates and low vacancy rates despite the high amount of square footage delivered, setting up 2017 to be an even more successful year.

VACANCY

Table 1: Total Vacancy Rates by Brokerage and Class, Fourth Quarter 2016

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	10.12 %	9.5%	9.8%	8.0%	6.8%	11.6%
Colliers	8.6%	10.5%	11.2%	10.4%	8.1%	--
JLL	9.4%	8.7%	8.7%	8.4%	9.2%	9.1%

Source: JLL; CBRE; Colliers International

CBRE's data shows vacancy rates in Portland and the suburbs rose slightly overall though Class C fell a significant amount from 7.6 percent to 6.8 percent. The Suburban market vacancy rate stayed below 12 percent landing at 11.6 percent. JLL reported the Lloyd district rose to 4.1 percent from a 3.8 percent vacancy rate in the third quarter, and the total vacancy was at 9.4 percent, a slightly higher rate than the 9.0 percent reported in the previous quarter.

Table 2: Portland Direct Vacancy Rate by Market area and Submarket, Fourth Quarter 2016

Location	Q4	Change from Q3
Portland CBD	8.7%	0.5%
Lloyd District	4.1%	-.3%
Portland Central City	8.2%	-0.5%
Clackamas / Milwaukie Totals	7.2%	0.4%
Airport Way/Columbia Corridor	19.6%	-3.7%
Close In Eastside	4.9%	0.7%
Outer Eastside	9.8%	-0.3%
Portland Eastside Suburbs	9.7%	1.0%
217 Corridor / Beaverton	13.5%	1.4%
I-5 South Corridor	12.0%	.5%
Kruse Way	8.5%	1.1%
Northwest	4.5%	-0.9%
Sunset Corridor	9.5%	-.5%
SW Close In	6.4%	0.2%
Portland Westside	9.6%	0.1%
Cascade Park/Camas	5.8%	-0.6%
CBD/West Vancouver	7.9%	0.0%
Hazel Dell / Salmon Creek	3.7%	2.5%
Orchards/Outer Clark	12.7%	-1.6%
St. John's Central Vancouver	23.8%	-0.1%
Vancouver Mall	5.0%	-0.8%
Vancouver Suburbs	8.1%	0.0%
Portland Metro	8.8%	-0.2%

Source: JLL

RENTAL RATES

Table 3: Average Quoted Rates (\$/SF FSG) by Brokerage and Class, Fourth Quarter 2016

Brokerage	Average	CBD	Suburban	CBD Class A	CBD Class B	CBD Class C
CBRE	\$25.72	\$29.15	\$22.46	\$31.24	\$29.54	\$24.65
Colliers	\$24.70	\$30.11	--	\$32.70	\$29.60	\$23.84
JLL	\$27.56	\$31.47	\$23.97	\$33.48	\$31.35	\$25.94

Source: CBRE, Colliers International, JLL

CBRE reported an overall rise in rental rates (5% increase year-over-year for the second quarter in a row), and reported rates from Colliers International and JLL also increased. JLL reported the highest rates both overall (\$27.56) and in the CBD (\$31.47), more than a dollar higher from their third quarter reports. As expected, rates from all sources have continued to trend up, though rates are growing at a slower pace than in first and second quarters.

Table 4: Portland Average Direct Asking Rent (\$/p.s.f.) Ranked by Market Area and Submarket, Fourth Quarter 2016

Location	Q4	Change from Q3
Portland CBD	\$31.47	\$1.25
Lloyd District	\$28.75	(\$0.99)
Portland Central City	\$31.23	\$1.12
Clackamas / Milwaukie Totals	\$21.25	\$0.70
Airport Way/Columbia Corridor	\$20.56	\$0.67
Close In Eastside	\$29.36	\$3.81
Outer Eastside	\$20.25	\$2.25
Portland Eastside Suburbs	\$24.79	\$3.06
217 Corridor / Beaverton	\$22.32	(\$0.01)
I-5 South Corridor	\$23.80	\$0.19
Kruse Way	\$29.56	(\$0.8)
Northwest	\$37.83	\$4.78
Sunset Corridor	\$22.73	\$0.03
SW Close In	\$20.23	\$0.03
Portland Westside	\$26.29	\$2.73
Cascade Park/Camas	\$20.85	\$0.59
CBD/West Vancouver	\$23.18	\$0.29
Hazel Dell / Salmon Creek	\$21.50	(\$1.13)
Orchards/Outer Clark	\$18.13	(\$0.87)
St. John's Central Vancouver	\$20.35	\$1.28
Vancouver Mall	\$15.82	\$1.03
Vancouver Suburbs	\$20.85	\$0.44
Portland Metro	\$27.56	\$1.56

Source: JLL

ABSORPTION AND LEASING

Table 5: Net Absorption (square feet) by Brokerage and Area, Fourth Quarter 2016

Brokerage	Overall	CBD	Suburban
CBRE	(80,141)	(87,881)	(7,009)
Colliers	121,350	(31,334)	----
JLL	65,432	10,774	----

Source: JLL; CBRE; Colliers International

CBRE reported an overall negative net absorption in all Portland Metro markets in the fourth quarter, whereas Colliers International and JLL only reported negative absorption in the CBD. CBRE points to the slowing tech sector and major construction deliveries for these fourth quarter absorption rates. Despite these lower rates Portland still ended 2016 with an annual total of 782,090 square feet of positive net absorption.

Table 6: Notable Lease Transactions, Fourth Quarter 2016

Tenant	Building/Address	Market	Square Feet
Elemental Technologies	1320 SW Broadway St.	CBD	101,400
Consumer Cellular	12259-12447 SW 69 th Ave.	Tigard	82,140
DAT Solutions, LLC	Creekside Corporate Park – Bldg 1	217 Corridor/Beaverton	53,792
D+H	1320 SW Broadway St.	CBD	45,617
Tillamook	The Pettygrove Bldg.	NW Close-in	45,000
Virginia Garcia Memorial Health Center	3305 NW Aloclek Dr.	Sunset Corridor/Hillsboro	40,294
Puppet Labs Inc.	Block 300	CBD	37,889
Vacasa Rentals	River Tec	CBD	37,441

Source: Colliers International; CoStar

SALES TRANSACTIONS

Colliers International and CoStar both noted one of the largest transactions in the fourth quarter as the Pacwest Center in the CBD, a significant building in Portland's skyline. With a total price of \$170, 000,000 it is one of the most notable transactions in recent history.

Table 7: Notable Sales Transactions, Fourth Quarter 2016

Building Address	Submarket	Price	Price/SF	SF
Pacwest Center	CBD	\$170,000,000	\$311.63	545,522
Pioneer Tower	CBD	\$121,750,000	\$411	296,239
Park Square Campus	CBD	\$94,350,000	\$318.98	295,789
Commonwealth Building	CBD	\$69,000,000	\$316	218,49
Meier & Frank Unit 2	CBD	\$54,150,000	\$259.69	208,517
CDK Plaza	CBD	\$33,368,000	\$174.77	180,772
1500 Plaza Building	Lloyd	\$14,575,000	\$200.84	72,570
Centre 205	Mall 205	\$5,800,000	\$197.87	29,312
618 NW Gilsan	CBD	\$5,600,000	\$154.38	36,274
Creekside Corporate Park Bldg 7	217 Corridor/Beaverton	\$4,275,000	\$192.68	22,187

Source: CoStar; Colliers International

DELIVERIES AND CONSTRUCTION

CBRE's data shows that 782,090 SF of office space was delivered in 2016 and JLL reports over 1.4 million SF of office space is currently under construction with 24 percent already preleased. Three notable projects delivered this quarter were Albina Yard, a new construction development in NE; Overland Warehouse, an adaptive reuse project in the CBD; and one of the largest projects was 38 Davis – almost 100,000 sq. ft. in the CBD developed by Gerding Edlen. 2017 won't see much of a slowing in deliveries, especially first and second quarters when multiple developments are expected to be completed.

With these new projects coming on the market rental rates are expected to keep rising, though not at the unprecedented rates that Portland has seen the last couple of years. Vancouver accounted for almost 60% of Portland's suburban market's net absorption in 2016 – in part due to a large Banfield Pet Hospital project.

Table 8: Portland Office Market Construction and Deliveries by Submarket, Fourth Quarter 2016

	Deliveries (YTD)	Under Construction	% of Total Construction
Portland CBD	722,531	466,738	64%
Lloyd District	28,563	45,098	63%
Portland Central City	751,094	511,836	68%
Clackamas / Milwaukie Totals	16,720	17,500	95%
Airport Way/Columbia Corridor	0	0	--
Close In Eastside	161,896	329,741	49%
Outer Eastside	0	0	--
Portland Eastside Suburbs	178,616	347,241	51%
217 Corridor / Beaverton	0	0	--
I-5 South Corridor	0	0	--
Kruse Way	0	0	--
Northwest	40,933	465,454	8.7%
Sunset Corridor	0	0	--
SW Close In	0	110,120	--
Portland Westside	40,933	575,574	7%
Cascade Park/Camas	206,000	0	--
CBD/West Vancouver	0	0	--
Hazel Dell / Salmon Creek	0	0	--
Orchards/Outer Clark	0	0	--
St. John's Central Vancouver	0	0	--
Vancouver Mall	0	0	--
Vancouver Suburbs	206,000	0	--
Portland Metro	1,176,643	1,434,651	100%

Source: JLL