

PORTLAND INDUSTRIAL MARKET ANALYSIS

MICHAEL LOWES

Portland State University

The industrial market in Portland is one of continued strength through the end of 2018. Cushman Wakefield's MarketBeat reports the Portland industrial market saw an all-time low in vacancy rate in the fourth quarter of 2018, dropping to three percent. Much of this can be linked to Portland's Urban Growth Boundary which has limited the amount of available land in the face of increasing demand.

As vacancy has dropped to new lows, rents have reached new highs, sitting at \$0.72 per square foot, triple net. Developers have around 2.3 million square feet of industrial projects under construction. Sales of industrial properties are seeing average cap rates of around 5.5 percent to 6 percent.

MICHAEL LOWES is an Associate Broker at Capital Pacific focusing on retail, office, and industrial investment sales. He is currently a candidate for the Portland State University Masters of Real Estate Development. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

VACANCY AND ABSORPTION

Vacancy rates dropped almost one percentage point relative to the previous year. Net absorption has improved by almost 300,000 square feet. The lack of construction in comparison to 2017 can be pointed back to the lack of available land and Portland's strict Urban Growth Boundary. This has also led to a focus of new areas outside of the main I-5 corridor and urban core. Industrial developments have now starting spilling into Canby, Woodburn, and Salem, with access to I-5 being key for site selection.

DELIVERIES AND CONSTRUCTION

Last year saw 3.9 million square feet of new industrial product in Portland, with about 500,000 square feet in the last quarter. The largest new product delivered was the UPS Majestic Westmark Center coming in at 266,160 square feet. With numbers like this, 2018 will be tough to beat on delivery, but with limited vacancies Portland is sure to see the rental rates continue to climb. Portland's industrial market shows no signs of slowing down as the demand increases in the face of limited supply.

INDUSTRIAL OUTLOOK

As the retail real estate market changes, some of these changes will show up in the industrial market. For example, Amazon, a retail industry leader, has continued to grow its industrial footprint. Salem has seen one million square feet of industrial product delivered by Amazon alone, and surely this number will continue to increase.

Portland however, has not made it easy for the expansion of industrial assets. The Urban Growth Boundary is always a hot topic, and the lack of available land to create industrial product will keep the sector growing in the rental category and shrinking the vacancy rates. As this industry continues to grow the Urban Growth Boundary of Portland may need to grow alongside it, if not, then we may be seeing a complete stall in new product since there will be no land to build on.

Q4 2017 v. Q4 2018.

	Q4 17	Q4 18
Overall Vacancy	3.9%	3.0%
Net Absorption	-72k	254k
Under Construction	3.7M	2.3M
Overall Average Asking Rent	\$0.71	\$0.72

Source: Cushman & Wakefield

NOTABLE TRANSACTIONS

ACQUISITIONS:

Specht Properties, 6433 SE Lake Rd., Clackamas/Milwaukee
992,193 square feet / \$48.5M / \$48.88 per square foot

QW Properties, Big Eddy Commerce Center, East Columbia/Portland
153,387 square feet / \$22.2M / \$144.73 per square foot

Dermody, Boyd Coffee, East Columbia/Portland
268,495 square feet / \$18.8M / \$70 per square foot

LEASES:

14300-14340 N. Lombard St. / 151,050SF / Portland

12220 SW Cimino St. / 86,481SF / Tualatin

16800 SE Evelyn St. / 74,235SF / Clackamas/Milwaukee

Source: Cushman & Wakefield