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## OFFICE MARKET ANALYSIS

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The Urban Land Institute ranked Portland 11th in the nation among “Markets to Watch” for real estate investment in 2014. Jones Lang Lasalle reports that Portland is tied with San Francisco and New York for having the lowest office vacancy rate in the U.S. at 11.1 percent. At \$19.81, market wide average asking rent is the highest in six years. Market absorption for the quarter was seemed sluggish at 95,000 square feet, but capped a year that saw almost one million square feet of net absorption. This is against the backdrop of a return of the Edith Green Federal Building in the third quarter and the announcement of development of two downtown Class-A office building, signifying pent up demand for the class.

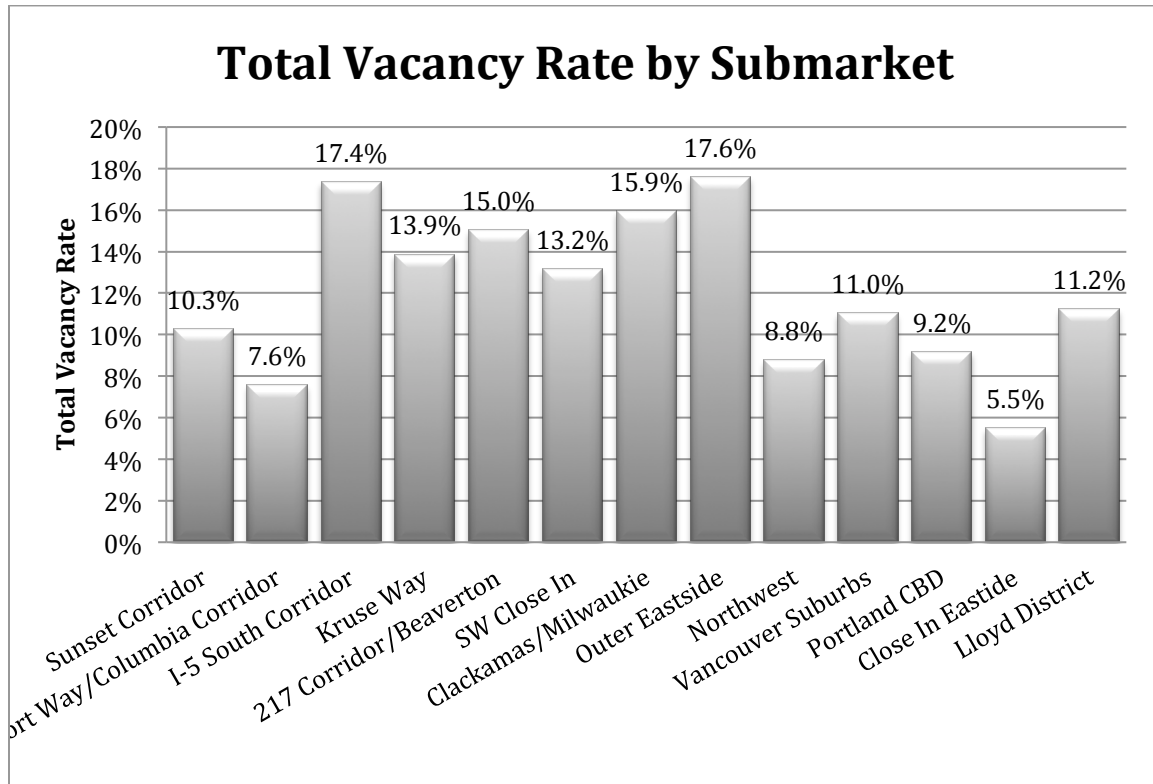
### VACANCY

Vacancy in the CBD is demonstrated to be competitively low on the national level, adding to this, the former schism between Class-A and Class-B & C has been undone. Class-B & C vacancy has dropped precipitously due to a spike in demand for creative space and amiable rents. This is the competitive backdrop for the increase in vacancy for Class-A office space. The strata has done well this year to transition from formal Class-A aesthetics to the stripped down creative space look, but the return of the Edith Green tower has hampered a decrease in Class-A vacancy.

Across the Portland MSA vacancies are moving in the right direction. The Sunset Corridor and Kruse Way area have seen the most robust declines in vacancies. Nike

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and Intel have driven the progress on the Westside of the MSA various tenants have bolstered the Kruse Way area. Even the I-5 Corridor, lagging in the MSA, has signed a nearly 120,000 square foot lease at the Wilsonville Corporate Plaza.

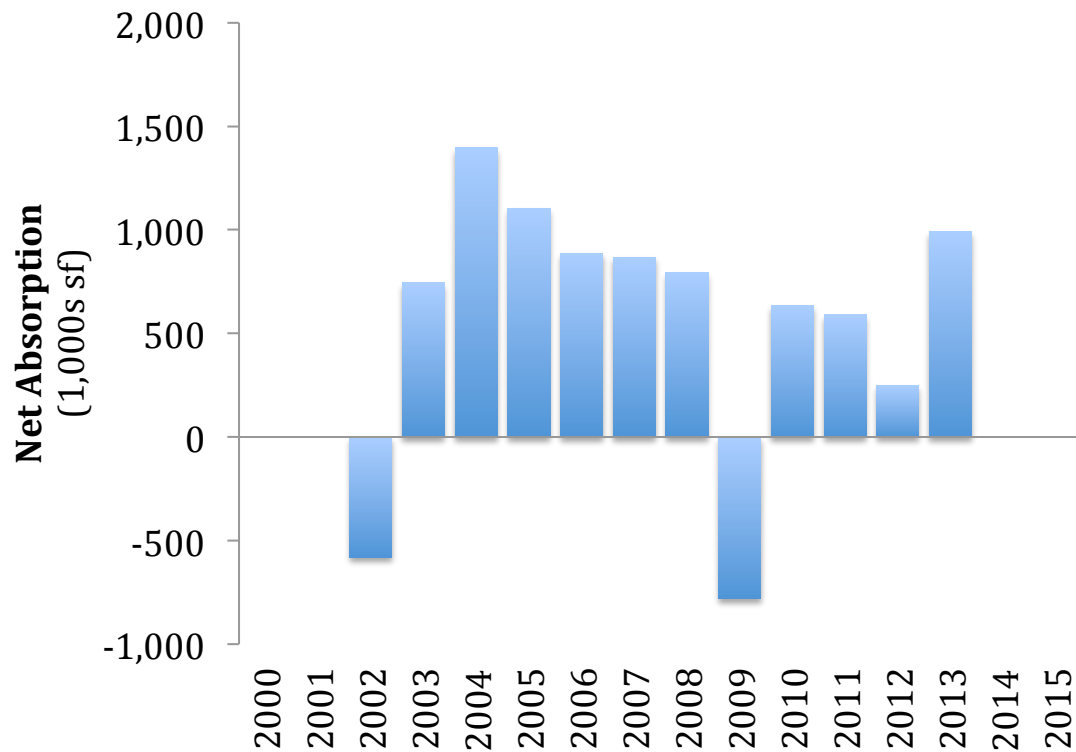


## ABSORPTION AND LEASING

Demand for the year totaled 989,864 square feet. Westside suburban demand, driven by activity related to Intel and Nike, was strong, registering 735,000 square feet and accounting for almost 75.0 percent of metro area yearly net absorption. Overall vacancy in the Westside suburbs ended 2013 at 13.3 percent, down 400 basis points from year-ago levels.

Over the past few quarters, as federal agencies re-occupied the newly-renovated Edith Green/Wendell Wyatt Federal Building, the CBD registered Class A absorption losses and nudged up vacancy rates.

Overall CBD demand remained in the black for 2013, totaling 35,000 square feet, thanks in large part to demand for Class B creative space from software and high-tech firms which continued to show an interest in establishing a foothold in Portland. Year-end vacancy for the CBD as a whole settled at 9.2 percent, just 10 basis points higher than year-ago levels.



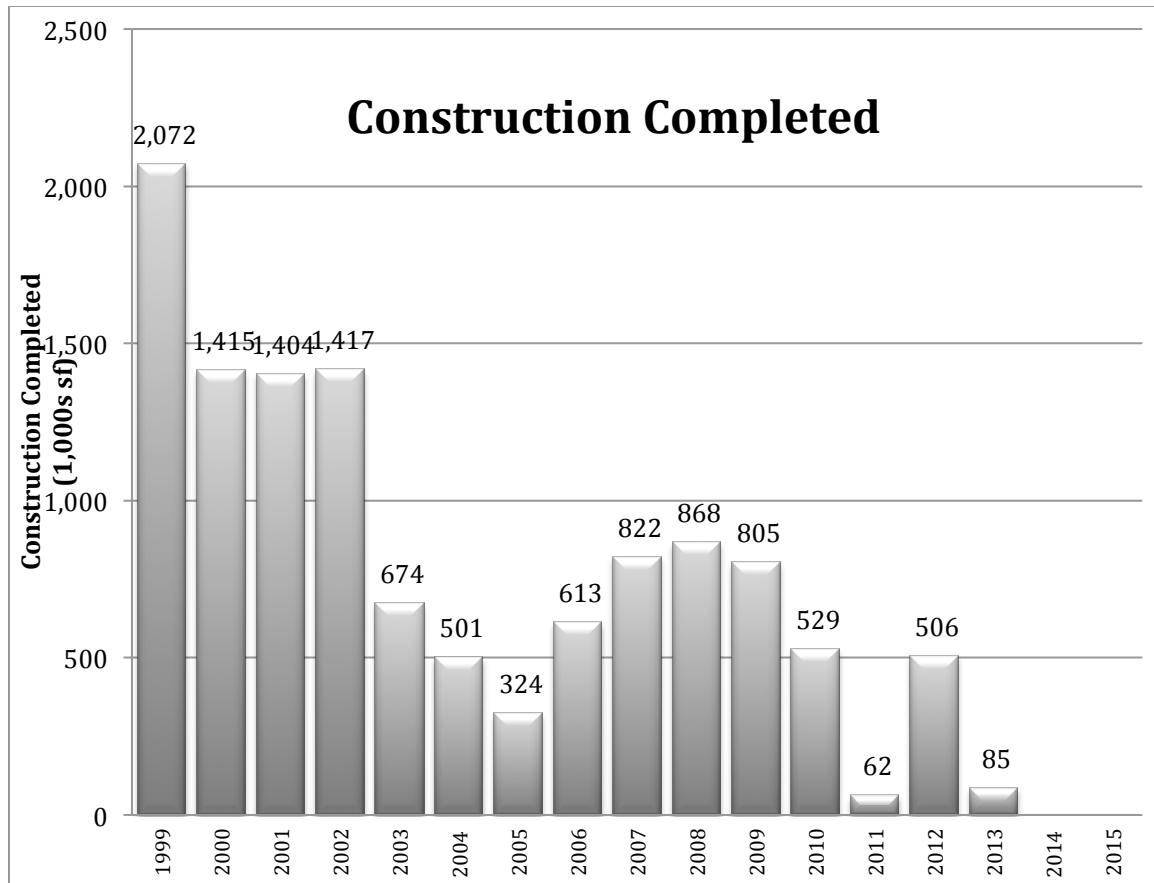
Class-A space was at a negative 69,000 square feet on the quarter, which is approximately 80,000 less of a loss than the third quarter of 2013. Class-B had a positive 35,000 square feet of absorption and Class-C had a positive 72,000 square feet. The strong numbers in the first and second tier class of office space signifies return of small and/or price sensitive businesses to the Portland market, a reflection of positive economic trends.

Despite the mass amount of leasing activity that took place in the CBD during the fourth quarter, much of it was a reshuffling of the deck, though Stoel Rives as created waves by pre-leasing a significant portion of the Park Avenue West building at an above market rent demonstrating a demand and ability to pay for new Class-A office space in Portland.

Completed lease transactions				
Tenant	Building/Address	Submarket	SF	Type
Stoel Rives	Park Avenue West	CBD	131,906	New
Nike	Greenbrier Court	Sunset Corridor	74,677	New
Coaxis	1510 SE Water Avenue	Close in Eastside	40,000	New
US Army Corps of Engineers	1201 Lloyd Building	Lloyd district	37,811	New
AT&T Mobility	South Place Office Building	I-5 South Corridor	27,529	Renewal
K&L Gates LLP	Umpqua Bank Plaza	CBD	21,200	New
Fios Inc	Pittock Block	CBD	20,000	Renewal
Regus	5 Lincoln Center	217 Corridor/Beaverton	19,463	Renewal
Kronos	Tigard Triangle Commons	I-5 South Corridor	19,353	New
Avanti Destinations	Columbia Square	CBD	17,349	New
Barran Liebman LLP	ODS Tower	CBD	16,400	Extension
Stoll Berne	Former Police Headquarters Building	CBD	15,785	Renewal
Compound Photonics	Bank of America Building	CBD/West Vancouver	12,135	New
Pacess Global	2000 SW First Avenue	CBD	12,103	New
Durham & Bates Agencies	Morgan Building	CBD	11,363	Renewal
Walker Macy	111 SW Oak Street	CBD	11,000	Renewal

## CONSTRUCTION AND DELIVERIES

Despite the re-initiation of development at Park Avenue West and the initiation of a new office tower in Northwest Portland at NW 14th & Irving, most of the construction activity in Portland is smaller redevelopment oriented construction. Renovations at 2 & Taylor and the redevelopment of Washington High School began in the fourth quarter.



## RENTAL RATES

The pro-tenant market that has come to dominate the real estate market over the last 5 years is ebbing away as demand for office space has risen dramatically and production has dwindled. Mid-sized occupiers are having to move quickly to acquire space, though large space occupiers have been given a rare opportunity as large federal tenants move back to the Edith Green Building, though rents in the newly vacated locations are still at a premium, up 1.5% from a year ago.

