
INDUSTRIAL MARKET ANALYSIS

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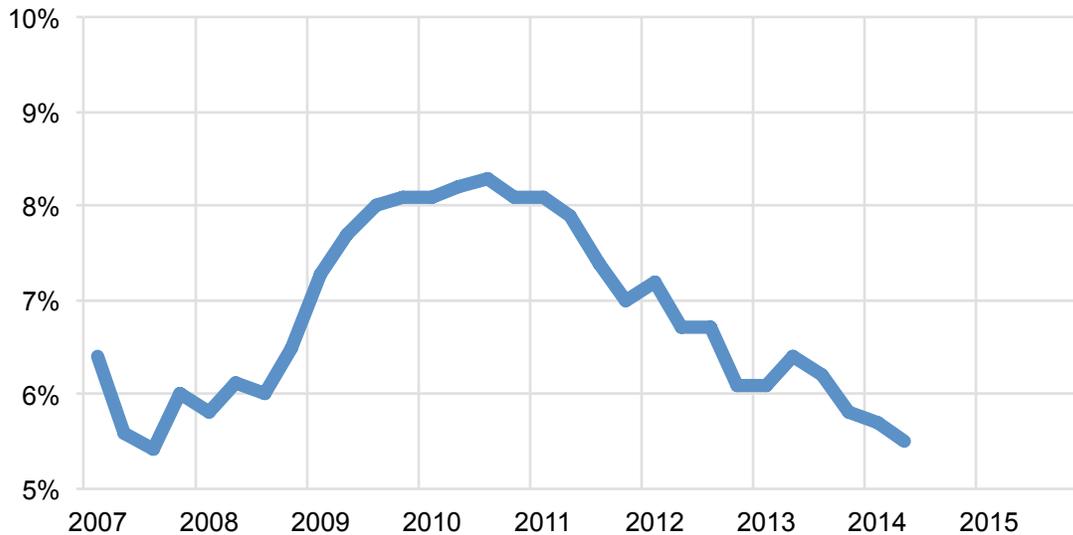
CoStar reports that speculative development in the industrial market in Portland is on the rise due to a lack of inventory. Many of these new sites are being used to satisfy supply chain needs of e-commerce. In a recent article, the Portland Business Journal reports that finding suitable industrial land will become a challenge in the future as Portland city officials predict that the city will run out of industrial sites by 2025.

VACANCY

According to CoStar, at the end of the second quarter, Portland saw a vacancy rate in the industrial market of 5.9 percent compared to 6 percent in the first quarter of this year and the fourth quarter of 2013. During third quarter of 2013, the market experienced a 6.6 percent vacancy rate. Colliers reports a slightly lower total vacancy rate of 5.6 percent at the end of the second quarter compared to 6.6 percent one year ago.

Jones Lang LaSalle states that 2014 could be a record setting year for Portland's industrial market. Portland's submarkets, such as the Sunset Corridor, the I-5 Corridor and the NE Corridor, have vacancy rates below 5.5 percent, according to Jones Lang LaSalle. This will surely benefit owners and landlords as potential tenants continue to search for locations their operations.

■ **A. Synkai Harrison** 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 Industrial Market Vacancy Rate, 2007–2014

Source: Kidder Mathews

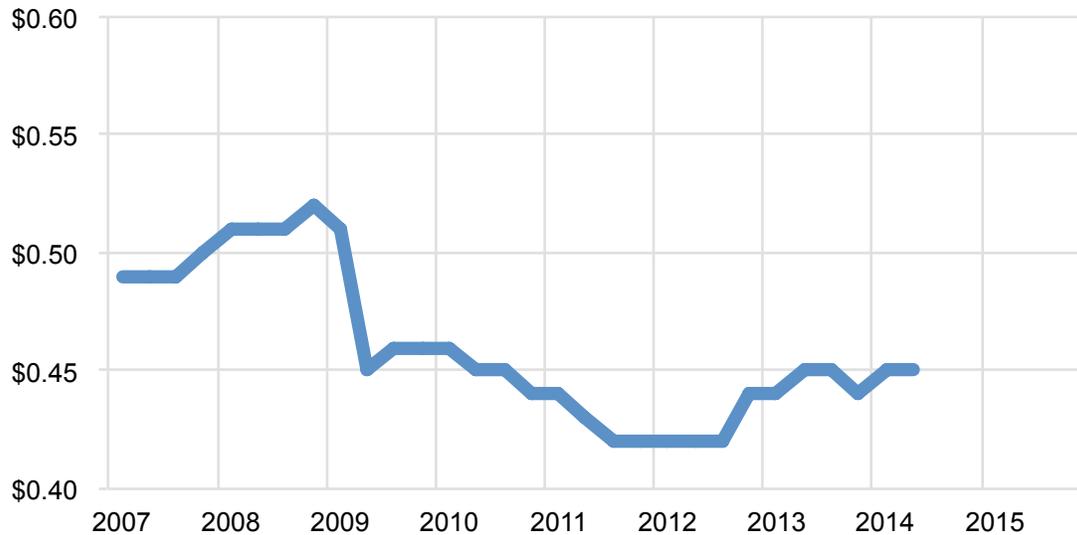
CoStar also reported an 11.1 percent vacancy rate for the flex market at the end of the second quarter which was a slight rise compared to last quarter's rate of 11 percent. Flex vacancy was 11 percent in the fourth of 2013 and 13.2 percent in the third. Colliers reports a total vacancy rate for the flex market of 11.7 percent down from 14.5 percent at the end of the second quarter of 2013.

RENTAL RATES

Colliers reports an average asking rental rate \$0.44 at the end of the second quarter. This rate has changed little over the past four quarters. During the second and fourth quarters of 2013 the rate remained at \$0.44 but rose only slightly in the third quarter to \$0.45.

Kidder Mathews reports an average asking rate of \$0.45 for the second quarter of 2014 and \$0.45 for the first quarter. At the end of the second quarter of 2013, Kidder Mathews reported an average asking rate of \$0.45. Rental rates are expected to rise as the market waits for new construction to come online. Some see this as positive due to the limited number of properties that are available for lease or purchase.

Rental rates have remained flat over the past six quarters hovering around \$0.44 per square foot. This could be the reason why there has been only modest speculative development so far this year.

Figure 2: Portland Industrial Market Average Quoted Rates, 2007–2014

Source: Kidder Mathews

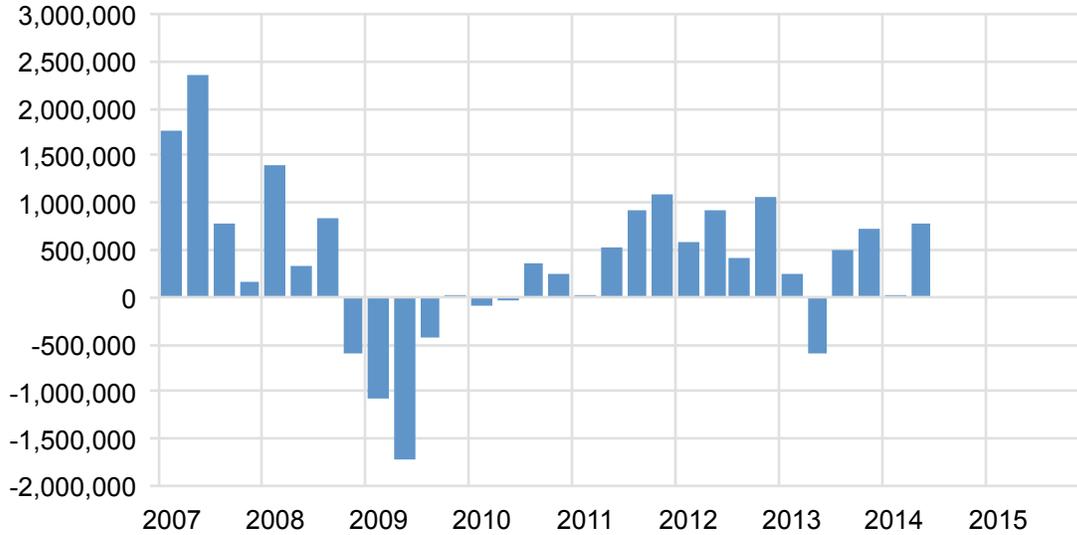
ABSORPTION AND LEASING

There was positive absorption of 679,717 square feet in the second quarter, up from 115,127 in the last quarter according to CoStar. Colliers reports a slightly higher number of 687,359 square feet by the end of the second quarter, 206,118 square feet at the end of the first quarter for a total of 893,477 square feet year to date.

CoStar reports that the flex market experienced negative absorption of 6,671 in the second quarter. The flex market only absorbed 532 square feet during the previous quarter. Colliers also reports negative absorption of 5,114 square feet for the second quarter of this year down from 4,417 square feet during the first quarter of 2014.

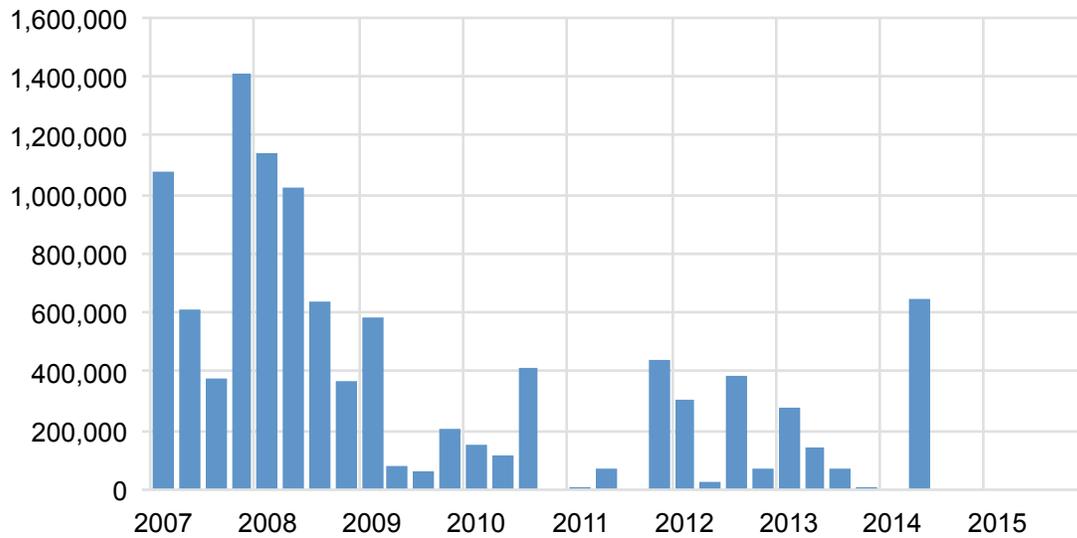
Industrial employment is doing well and is continuing to experience growth. Portland's growing industrial sector has led to increased absorption, over 3 million square feet this year to date according to Jones Lang LaSalle, and continues to put pressure on the demand for industrial land. Limited supply is spurring new construction with much of it being speculative.

Figure 3: Portland Industrial Market Net Absorption, Square Feet, 2007–2014



Source: Kidder Mathews

Figure 4: Portland Industrial Market Deliveries, Rentable Building Area, Square Feet, 2007–2014



Source: Kidder Mathews

Table 1: Notable Industrial Lease Transactions

Tenant	Address	Market	Size
Seterus	Millikan Business Center	N Beaverton	152,398
DHL Global Forwarding	PDX Corp. Center East I/1	East Col Corr	80,850
Dayton Natural Meats	18544 SW Teton Ave	Tualatin	78,000
Spicers Paper	Prologis Park Southshore	East Col Corr	75,000
Pathfinder Logistics	Columbia Corp Park I/Bldg 1	East Col Corr	65,800
Hydro Farm	PDX Corporate Center	East Col Corr	64,977
First Inc	2455 SW NW 26th Ave	Guilds Lake	55,000

Source: Colliers International

Table 2: Notable Industrial Sales Transactions

Tenant	City	Price	Type
Airport Way Industrial Park	Portland	\$35,800,000	Investment
6845 N Cutter Cir	Portland	\$13,212,500	Investment
6447 N Cutter Cir	Portland	\$9,500,000	Investment
10515 SW Allen Blvd	Beaverton	\$7,200,000	Owner/User

Source: Colliers International

DELIVERIES AND CONSTRUCTION

The lack of inventory is fueling speculative development. CoStar reports 505,601 square feet of industrial space were delivered during the second quarter of 2014. Kidder Mathews reports deliveries of 647,937 square feet. Colliers reported 206,118 for the second quarter of 2014 compared to a negative absorption of 567,660 during the same period last year.

Colliers reports 1.8 million square feet of flex space under construction as of the end of the second quarter.

Almost 550,000 square feet of industrial space was delivered during 2013 according to Colliers. Portland's industrial market has already surpassed that amount for a total of 562,963 year to date according to Colliers' numbers.

CoStar reported over 2.6 million square feet were under construction at the end of this past quarter though it is unclear how much of that is speculative verses owner occupied space. Large amounts of owner occupied space could be a good sign

for the overall market as this could spur increased speculative development. Colliers reports a more modest amount of 592,750 square feet under construction and states that it appears that supply, at least for the foreseeable future, will not meet market demand. If this turns out to be the case, perhaps rates will finally begin to rise as the market tightens. ■