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# OFFICE MARKET ANALYSIS

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Colliers International reports that tech firms are continuing to be a major driving force in Portland's office market. According to the Portland Business Journal, tech companies are locating in spaces in and around downtown. As more firms compete for space, rents should continue to rise as choices become limited. If supply is unable to keep up with demand, potential tenants may find it increasingly difficult to fulfill space requirements which should bode well for owners. With decreasing vacancy and few projects currently under construction, large blocks of space will continue to be difficult to find.

The Portland Business Journal reported recently that Portland has jumped to the number eight spot of technology hubs in the country. Referencing a recent report from Jones Lang LaSalle, the Portland Business Journal states that the city has moved up from number 16 last year. This is due in part, according to the Journal, to Portland's "market dynamism" which is a mixture of high tech clustering, a mixture of amenities, walkability and vibrancy.

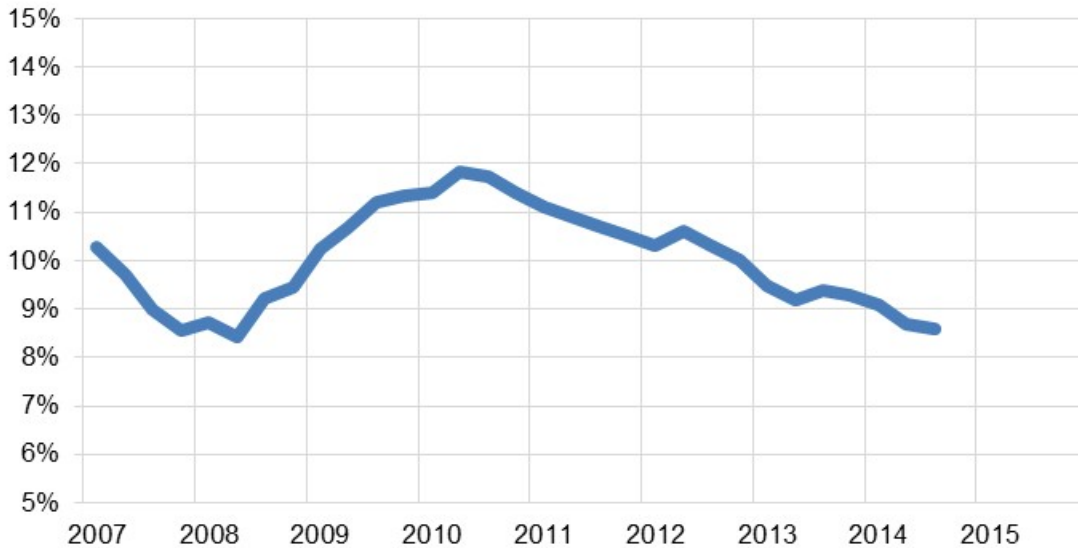
■ **A. Synkai Harrison** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity..

## VACANCY

Kidder Mathews reports an average vacancy rate for the office market of 8.6 percent at the end of the third quarter for the metro area. This is down from 8.9 percent last quarter and 9.5 percent in the third quarter in 2013. Jones Lang LaSalle is reports a total average vacancy of 10.0 percent. Marcus Millichap is reporting an average vacancy rate of 10.8 percent for the metro region. Norris and Stevens is reporting an average vacancy rate of 8.5 percent for the third quarter down from 8.8 percent in the previous quarter. CoStar is reporting an average vacancy rate of 8.5 percent at the end of the third quarter down from 8.8 percent at the end of the second quarter of 2014.

CoStar is reports a 10.2 percent average vacancy rate for Class A which has basically remained unchanged since the beginning of the year. Marcus Millichap has Class A average vacancy at 12.1 percent with Class B/C averaging 10.2 percent. Norris Stevens has Class A at 10.2 percent, Class B at 8.5percent and Class at C 6.7percent for the third quarter.

Norris Beggs and Simpson reports an average vacancy rate of 10.5 percent at the end of the second quarter for the Central City. Norris Beggs and Simpson reports a suburban market average vacancy rate of 14.03 percent. According to Norris Beggs and Simpson, the lowest vacancy rates for the suburban market were Central Beaverton at 8.76 percent, South Waterfront at 9.45 percent and the Sunset Corridor at 10.78 percent. Jones Lang LaSalle reports a total vacancy for the CBD of 7.7 percent down from 8.4 percent last quarter and 8.7 percent in the third quarter of 2013. Vancouver's office market came in at 11.41 percent according to Norris Beggs and Simpson.

**Figure 1: Portland Office Market Vacancy Rate, 2007–2014**

Source: Kidder Mathews

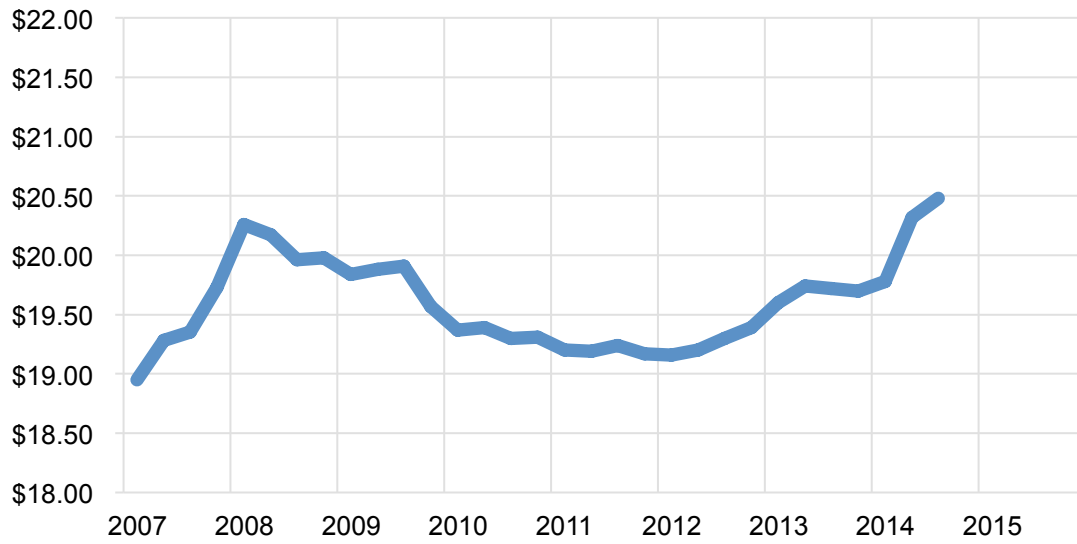
## RENTAL RATES

CoStar is reporting an average office rental rate of \$20.66 per square foot which is a slight increase from the previous quarter of \$20.55 per square foot. Kidder Mathews reports average asking rental rate (FSG) of \$20.48 per square foot, up from \$20.27 last quarter and \$19.66 a year ago. Jones Lang LaSalle is reporting an average rate of \$29.47 per square foot.

Kidder Mathews reported average rates within the CBD are \$24.34 per square foot. Close in East side rental rates were averaging \$20.29 during the third quarter. The I-5 Corridor averaged \$22.40 per square foot. According to CoStar the average rental rate at the end of the second quarter for the CBD was \$24.53 per square foot with suburban markets reporting in at \$19.35 per square foot.

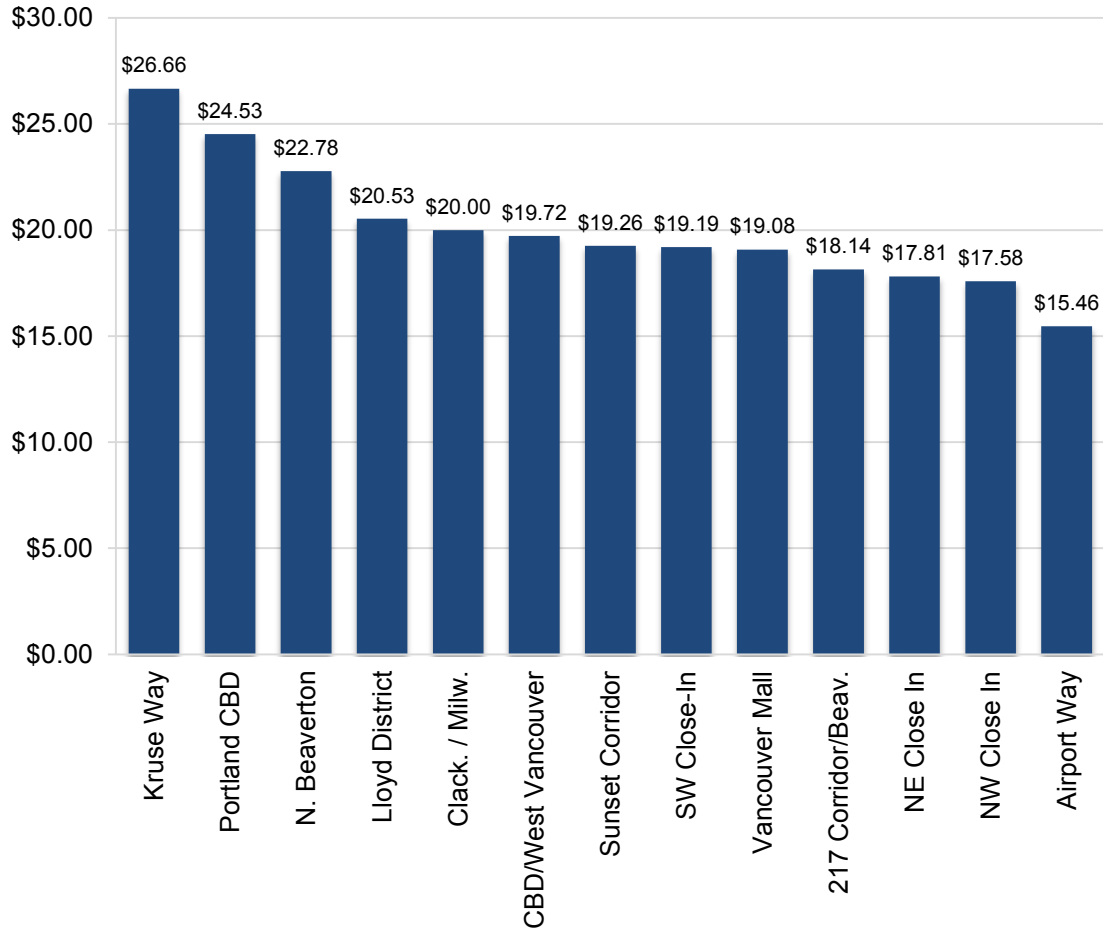
Class A office quoted rates according to CoStar averaged \$24.89 per square foot for the third quarter of this year, up slightly from last quarter at \$24.85 per square foot. Class B came in at \$19.36 per square foot for the quarter up from \$19.16 per square foot in the previous quarter. Class C improved slightly from \$16.14 in the second quarter to \$16.49 at the end of the third quarter as reported by CoStar.

**Figure 2: Portland Office Market Average Asking Rents, 2007–2014**



Source: Kidder Mathews

**Figure 3: Office Market Average Asking Rents in Portland Area Submarkets, 2007–2014**



Source: CoStar

## ABSORPTION AND LEASING

Kidder Mathews reports net positive absorption of 154,715 square feet during the third quarter down from 187,810 square feet last quarter. This is a significant improvement from the third quarter of 2013 where the market experienced negative absorption of 109,335 square feet. According to Colliers International, net absorption was positive 100,609 square feet overall for the Portland office market down from 315,595 in the second quarter and 262,487 in the first quarter of this year.

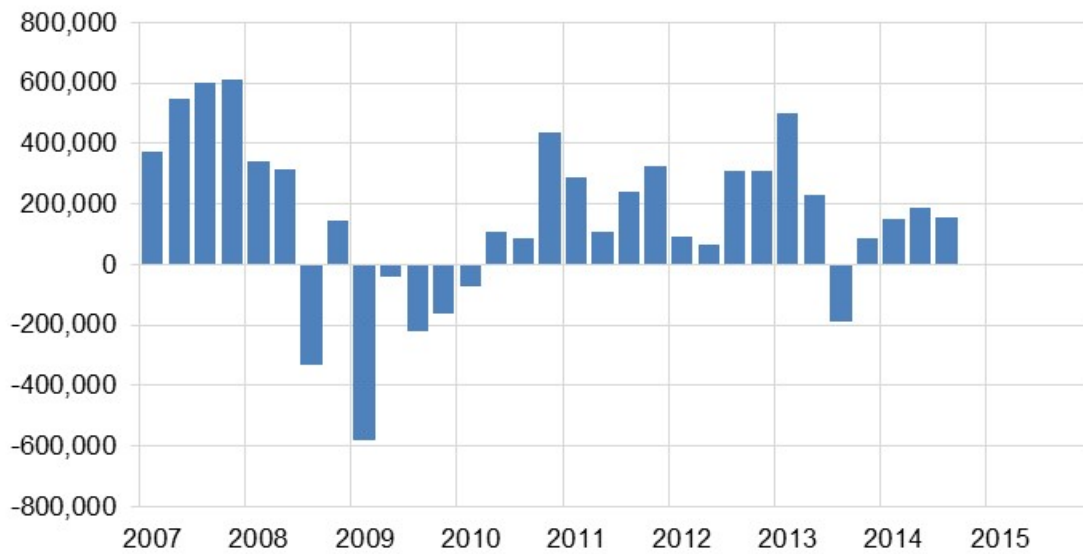
According to CoStar the Class A Portland office market recorded a net positive absorption of 1,954 square feet at the end of the third quarter as opposed to the

second quarter where there was positive absorption of 14,520 square feet and negative 68,289 square feet in the first quarter.

The Class B market experienced 102,266 square feet of positive absorption during the third quarter compared to positive 292,273 square feet at the end of the second quarter of 2014. Absorption was positive during the first quarter as well with 265,163 square feet of absorption according to CoStar.

The Class C office market experienced a modest 28,040 square feet of positive absorption during the third quarter compared to 85,723 of negative absorption at the end of the second quarter and positive absorption of 59,988 square feet in the first quarter according to CoStar.

**Figure 4: Portland Office Market Net Absorption, Square Feet, 2007–2014**



Source: Kidder Mathews-Values were adjusted to represent most recent report data

**Table 1: Notable Lease Transactions**

<b>Tenant</b>	<b>Address</b>	<b>Market</b>	<b>Size</b>
Columbia Sportswear	Cornell Oaks Corp Center	Sunset/HBO	48,885
Hanna Anderson	Jantzen Park	CBD	47,640
ASML US Inc	Two Tech Center	Lloyd District	48,893
State of Oregon	Valley Plaza Center	Sunset/HBO	43,519
Umpqua	72 <sup>nd</sup> Corp Center	Tigard	24,000
Kaiser Permanente	Montgomery Park	NW Close In	24,000

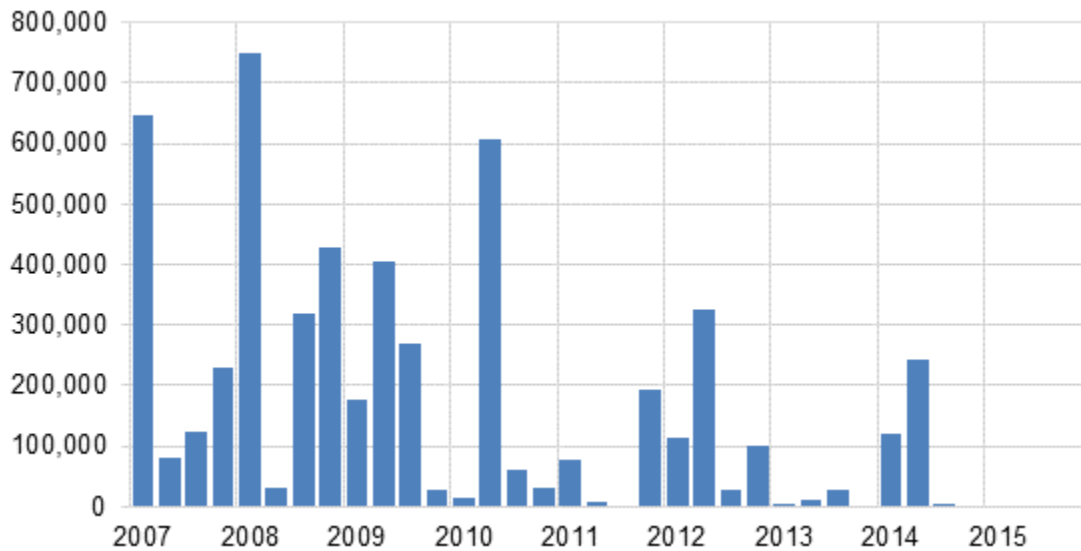
Source: Colliers International

**Table 2: Notable Sales Transactions**

<b>Tenant</b>	<b>City</b>	<b>Price</b>
American Bank Building	Portland	\$45,100,000
PeaceHealth Building	Vancouver	\$25,700,000
Executive Bldg	Portland	\$21,100,000
Cornell West	Beaverton	\$18,224,000
1320 SW Broadway St	Portland	\$14,150,000
14 <sup>th</sup> Overton Bldgs	Portland	\$14,100,000
Main Place Bldg	Vancouver	\$12,150,000

Source: Colliers International

**Figure 5: Portland Office Market Deliveries, Rentable Building Area, Square Feet, 2007–2014**



Source: Kidder Mathews

## DELIVERIES AND CONSTRUCTION

Norris Stevens reports no new buildings were completed by the end of the third quarter compared to six buildings at the end of the second quarter. There were 438,935 square feet of office space under construction at the end of the third quarter according to Norris and Stevens up from 258,290 last quarter. According to Kidder Mathews there were no completions during the third quarter and that there are 438,935 square feet currently under construction. Marcus & Millichap reports that 81,000 square feet of office space has been brought to market so far in 2014.

Jones Lang LaSalle reports that much of the construction that is taking place in the office market is clustered in the Central City. Buildings are being renovated into "functional, unique spaces" and according to JLL, many of these projects are a mix of office, retail and multifamily. ■