
OFFICE MARKET ANALYSIS

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The fourth quarter finds the Portland office market nearing a sweet spot for developers. Strong absorption, decreasing vacancy, and increasing rates have yet to be met with significant deliveries. While JLL expects 2016 to bring 1.5 million square feet of deliveries—over three times the 477,490 square feet delivered during 2015—over half of the deliveries currently under construction have already been preleased and CBRE reports over 1.7 million square feet of additional demand from tenants in the market looking for 10,000 square feet of space or more. In contrast to the previous cycle, the CBD is driving rental rate increases and new deliveries. Expect the market to remain a developer's market well into 2016.

Leading to further reason for optimistic projections, JLL's 2015 Technology Office Outlook report further propels the idea of Portland as an increasingly attractive city for tech company relocation and expansions. According to the report, tech now accounts for more than 60,000 Portland area jobs, and growth in the sector has supported decreasing office vacancies and increasing rents. JLL's data, related below, show Portland remaining economically attractive for office expansions relative to the major West Coast tech hubs.

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Metro Area	Rent ¹	% Above Portland
Portland	\$24.08	--
Seattle	\$33.7	40%
Silicon Valley	\$41.68	73%
San Francisco	\$66.8	177%

Source: JLL; ¹Average Overall Direct Asking Rent

The fourth quarter brokerage reports focused on strong growth in absorption, sales volume, and rental rates:

- ✧ **Colliers** finds much to be optimistic about in Portland's current office market: finding fourth quarter 2015 absorption at its second highest in the last five years (647,000 square feet), decreasing vacancy (8.85 percent overall), the highest ever CBD Class A direct rental rates (\$30.72 per square foot per year), and increasing foreign investment.
- ✧ **CBRE** summarized the fourth quarter stating, "Office absorption outperforms the 10-year average while asking rates reach new highs." According to CBRE's data, overall vacancy stood at 10.5 percent, its lowest since 2007. In contrast to the previous peak, it is now the CBD driving increased rent and not the suburban market. Noting 1.7 million square feet of demand from tenants in the market, CBRE predicts continued strong absorption and rates. CBRE rounds out its overview with data showing increased sales volume supported by local and national investors.
- ✧ **JLL** finds absorption and deliveries up with strong absorption in the CBD as well as activity in the Westside and Eastside suburbs. JLL notes that while 2015 deliveries (477,490 square feet) surpassed the 10-year average, they will be dwarfed by a total of 1.5 million square feet in 2016. JLL notes the deteriorating distinction between Class A, B, and C as demand for creative office expands to "non-creative" companies. Well-positioned Creative Office Class B office can now command higher rates than traditional Class A space.

LABOR MARKET

The Portland Metro economy continues to grow, with 35,600 jobs added over the year, a 3.2 percent annual growth rate. This is the fastest job growth experienced in nearly 20 years and is the fifth consecutive year job growth has exceeded the national rate. Portland ranked as the 11th fastest-growing large metropolitan area in the nation during 2015. The Portland Metro gained 5,602 jobs in December, 10,021 in November, and 9,783 in October. The professional and business services sector added the most amount of jobs through the year with over 7,100 jobs added, followed by health care and social assistance with 5,400, leisure and hospitality with 4,900, and manufacturing at 4,000 jobs.

The State of Oregon’s Office of Economic Analysis (OEA) shows the unemployment rate on the decline: decreasing to 4.9 percent in December from 5.1 percent in November and 5.3 percent in October (seasonally adjusted). December was the first time Portland’s rate dropped below the national rate—at 5.0 percent in December—since May 2015. JLL highlights Oregon’s continued status as the most moved to state as rated by United Van Lines and points to employment opportunities attracting newcomers as well as the “Oregon lifestyle.” This continued in-migration will add to the labor force in 2016 and test its ability to continue generating new jobs.

VACANCY

Table 1: Total Vacancy Rates by Brokerage, Class, and Quarter-to-Quarter Change, Fourth Quarter 2015

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban	Q-to-Q Change
CBRE	10.5%	9.4%	9.7%	7.2%	8.1%	12.4%	Decrease
Colliers	8.8%	9.2%	9.4%	9.5%	7.9%	8.7%	Decrease
JLL	8.9%	7.0%	7.2%	6.4%	7.5%	10.5%	Decrease

Source: Brokerage Quarterly Reports

CBRE, Colliers, and JLL found vacancy to be back to pre-recession levels and suggest that, despite an uptick in deliveries in 2016, vacancy should remain steady as about 50 percent of the 2016 deliveries are already pre leased and additional demand remains strong. JLL calls its 8.9 percent overall average vacancy rate a record low and the fourth lowest rate in the country. According to CBRE, while downtown vacancy (9.4 percent) leads suburban vacancy (12.4 percent), the suburban rate continues to decline.

Table 2: Portland Direct Vacancy Rate by Market area and Submarket, Fourth Quarter 2015

Location	Q4	Change from Q3
Portland CBD	6.7%	-0.5%
Lloyd District	4.5%	0.4%
Portland Central City	6.4%	-0.5%
Clackamas / Milwaukie Totals	10.2%	-0.7%
Airport Way/Columbia Corridor	7.4%	-0.4%
Close In Eastside	4.3%	-0.3%
Outer Eastside	14.3%	0.8%
Portland Eastside Suburbs	7.7%	-0.4%
217 Corridor / Beaverton	13.6%	-1.1%
I-5 South Corridor	12.2%	-1.8%
Kruse Way	8.1%	0.9%
Northwest	14.5%	1.7%
Sunset Corridor	7.6%	2.1%
SW Close In	8.7%	-0.7%
Portland Westside	10.6%	0.1%
Cascade Park/Camas	7.9%	-3.1%
CBD/West Vancouver	11.0%	0.6%
Hazel Dell / Salmon Creek	8.0%	-1.8%
Orchards/Outer Clark	12.2%	-3.3%
St. John's Central Vancouver	25.1%	10.7%
Vancouver Mall	5.3%	0.2%
Vancouver Suburbs	10.4%	-0.2%
Portland Metro	8.5%	-0.2%

Source: JLL

RENTAL RATES

Table 3: Average Quoted Rates (\$/SF FSG) by Brokerage, Class, and Quarter-to-Quarter Change, Fourth Quarter 2015

Brokerage	Average	CBD	Suburban	CBD Class A	CBD Class B	CBD Class C	Q-to-Q Change
CBRE	\$24.50	\$28.15	\$21.51	\$30.76	\$25.99	\$24.37	Increase
Colliers	\$23.03	\$28.00	--	\$30.72	\$27.67	\$21.84	Increase
JLL	\$24.59	\$29.86	--	\$31.26	\$29.28	\$26.64	Increase

Source: Brokerage Quarterly Reports

JLL data show the overall Portland Metro average direct asking rent at \$24.59, a 10.7 percent year-to-date increase. Colliers reported an average CBD Class A rate of \$30.72 per square foot; the first time the average has surpassed \$30. Colliers also reports that overall CBD rental rates grew by 1.4 percent from the third quarter and overall suburban rates grew by 1.9 percent during the same period. CBRE projects that several projects, including Pearl West, Towne Storage, and 12th & Morrison, will attempt to surpass the \$40 per square foot FSG level once delivered. Continued strong demand for creative office is skewing the distinction between Class A and Class B creative and the pipeline indicates developers are keen to exploit this demand with features more akin to Class B creative office than conventional Class A space.

Table 4: Portland Average Direct Asking Rent (\$ per square foot) Market Area and Submarket, Fourth Quarter 2015

Location	Q4	Change from Q3
Portland CBD	\$29.86	\$0.91
Lloyd District	\$26.25	\$1.33
Portland Central City	\$29.60	\$1.00
Clackamas / Milwaukie Totals	\$21.33	(\$0.82)
Airport Way/Columbia Corridor	\$19.59	\$0.30
Close In Eastside	\$25.59	(\$4.13)
Outer Eastside	\$18.32	(\$0.76)
Portland Eastside Suburbs	\$20.98	(\$2.05)
217 Corridor / Beaverton	\$21.42	\$0.42
I-5 South Corridor	\$21.84	\$1.18
Kruse Way	\$28.81	\$0.21
Northwest	\$35.17	\$11.72
Sunset Corridor	\$20.56	(\$1.67)
SW Close In	\$18.43	\$0.14
Portland Westside	\$23.14	\$1.19
Cascade Park/Camas	\$19.65	(\$0.90)
CBD/West Vancouver	\$20.25	(\$0.22)
Hazel Dell / Salmon Creek	\$20.98	\$0.00
Orchards/Outer Clark	\$19.40	\$1.39
St. John's Central Vancouver	\$19.90	\$0.03
Vancouver Mall	\$17.69	\$0.92
Vancouver Suburbs	\$19.87	(\$0.25)
Portland Metro	\$24.59	\$0.51

Source: JLL

ABSORPTION AND LEASING

Table 5: Net Absorption (square feet) by Brokerage and Area, Fourth Quarter 2015

Brokerage	Overall	CBD	Suburban
CBRE	249,636	63,845	141,189
Colliers	647,260	208,486	344,062
JLL	368,818	147,559	206,293

Source: Brokerage Quarterly Reports

Absorption picked up in the fourth quarter for both the CBD and the suburbs. Notable transactions in the CBD include: Simple, the Oregon Department of Justice, and Providence Health Services. Colliers notes that fourth quarter absorption is 1,120 percent higher than the third quarter's and is the second highest quarterly absorption rate in the last five years. CBRE found overall absorption for 2015 of 877,150 square feet to be well above the 10-year average of 513,552.

Strong absorption should continue into 2016 with CBRE reporting a total of 1.7 million square feet of demand from over 50 active tenants in the market. Based on estimates that 50 percent of the pipeline has been preleased—only 750,000 square feet of projected 2016 deliveries remain available. While firms relocating within the Portland area will create additional availability, the market looks to remain a developer's market for the time being.

Table 6: Notable Lease Transactions, Fourth Quarter 2015

Building/Address	Tenant	Market	Square Feet
Clay Creative	Simple	Close-In Eastside	62,187
100 at Park Square	OR Department of Justice	CBD	58,524
Lloyd Center Mall	Providence Health Services	Lloyd District	45,098
CDK Plaza	Zones	CBD	31,329
The Lovejoy	Ruby Receptionist [Renewal/Expansion]	Northwest	27,621
Fremont Place II	Benson Industries [Renewal]	CBD	24,896
Overton Buildings	West Coast Event Productions [Extension/Expansion]	CBD	22,000
Commonwealth Building	City of Portland [Extension]	CBD	20,600
Five Centerpointe	United HealthCare Services, Inc. [Renewal]	Kruse Way	19,989
Pine Street Market	GuideSpark, Inc.	CBD	19,810
2030 Pettygrove	Connective DX	Northwest	18,266
Bank of America Financial Center	Farleigh Wada Witt PC [Extension]	CBD	18,117
Block 6	M.J. Murdock Charitable Trust	Cascade Park/Camas	18,000
Lincoln Building	CareOregon	CBD	17,686
First & Main	Travel Portland	CBD	16,502
Block 75 Phase 1	Centrl Office	Central Eastside	14,545
CDK Plaza	Examworks	CBD	14,504
1220 Main	Regus	Vancouver	14,433
Crown Plaza	PacificSource	CBD	11,975
Cascade Square	Dell	217 Corr/Beaverton	10,732

Sources: JLL; Colliers International

SALES TRANSACTIONS

CBRE reports a total of \$123 million in fourth quarter sales transactions involving 24 trades. The largest transaction saw the University of Oregon purchase the Skidmore Building from Venerable Properties. Colliers notes the strong presence of foreign capital in recent transactions highlighting the purchase of the US Bancorp Tower by a Swiss investor, the purchase of the Moda Tower by UBS, and a Hong Kong investors partnership with Beam Development to buy the Mason Ehrman Buildings. Colliers suggests that the relative strength of the United States economy in a turbulent global economic environment should lead to continued foreign interest.

Table 7: Notable Sales Transactions, Fourth Quarter 2015

Building Address	City	Price	Price/SF	SF
White Stag Block	Portland	\$42,600,000	\$310.00	137,559
Tidewater Cove	Vancouver	\$14,000,000	\$135.00	103,246
Captain Couch's Square (3 buildings)	Portland	\$12,188,000	\$145.59	83,715
2030 NW Pettygrove	Portland	\$7,300,000	\$399.65	18,266
Orenco Park Building	Hillsboro	\$4,068,555	\$145.00	28,059
2233 SW Jefferson St	Portland	\$3,900,000	\$243.75	16,000
Vancouver Square Building B	Vancouver	\$3,860,911	\$226.79	17,024
Jones & Roth Building	Hillsboro	\$2,790,000	\$232.50	12,000
7707 SW Capitol Highway	Portland	\$2,210,000	\$329.75	6,702
Oak & Third Building	Hillsboro	\$2,200,000	\$151.72	14,500
Madison Office Condos Unit 400	Portland	\$1,950,000	\$314.87	6,193
5711 E Burnside Street	Portland	\$591,500	\$660.16	896

Source: Colliers International; JLL

DELIVERIES AND CONSTRUCTION

JLL reported a total of 477,490 square feet of new or renovated office space delivered in 2015. The brokerage notes that this is over the 10-year average of 444,399 square feet. JLL projects a total of 1.5 million square feet to be delivered in 2016 and 500,000 in 2017.

Table 8: Portland Office Market Construction and Deliveries by Submarket, Fourth Quarter 2105

Location	Deliveries	% of Total Deliveries	Under Construction	% of Total Construction
Portland CBD	195,116	41%	899,763	57%
Lloyd District	24,400	5%	206,940	13%
Portland Central City	219,516	46%	1,106,703	71%
Clackamas / Milwaukie				
Totals	--	--	--	--
Airport Way/Columbia Corridor	--	--	--	--
Close In Eastside	99,154	21%	98,600	6%
Outer Eastside	--	--	--	--
Portland Eastside Suburbs	99,154	21%	98,600	6%
217 Corridor / Beaverton	--	--	--	--
I-5 South Corridor	--	--	--	--
Kruse Way	--	--	--	--
Northwest	--	--	85,933	5%
Sunset Corridor	98,820	21%	--	--
SW Close In	--	--	70,000	4%
Portland Westside	98,820	21%	155,933	10%
Cascade Park/Camas	12,000	3%	206,000	13%
CBD/West Vancouver	48,000	10%	--	--
Hazel Dell / Salmon Creek	--	--	--	--
Orchards/Outer Clark	--	--	--	--
St. John's Central Vancouver	--	--	--	--
Vancouver Mall	--	--	--	--
Vancouver Suburbs	60,000	13%	206,000	13%
Portland Metro	477,490	100%	1,567,236	100%

Source: JLL