
OFFICE MARKET ANALYSIS

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The U.S. office market in the first quarter of 2017 saw rental rates rise. Class A rent rose 3.5 percent while demand for quality space continues to be steady; though occupancy growth slowed down to 3.6 million square feet. The new year brought the U.S. into a new phase of the economic cycle exposing a shift in supply and demand. While growth continues, companies are seeing a tightening in the labor market—making it hard to find skilled talent. With that said, development is thriving and this boom is forecasted to last until 2018.

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Portland Metro's first quarter

- ✧ **JLL** focused on Portland's lack of affordable Class A options. This deficiency is forcing tenants to either pay higher rents or consider more economic choices such as moving to the suburbs or settling for Class B or C buildings. Tenant size continues to rise and developers are accommodating this demand with larger buildings, over 1.6 million square feet of office space is expected to be delivered over the next 18 months.
- ✧ **Colliers** underlined the prediction that the negative net absorption seen in the first quarter will return to a net positive in the coming months due to the stabilizing job growth rate in Portland and the timing of larger tenants beginning to take occupancy of recently executed leases.
- ✧ **CBRE** highlighted that the average asking rates have risen 7.2 percent year-over-year and have increased 15.9 percent in the past 24 months.

VACANCY**Table 1: Total Vacancy Rates by Brokerage and Class, First Quarter 2017**

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	11.2%	11.7%	10.4%	10.1%	16.8%	12.3%
Colliers	8.8%	10.8%	11.6%	10.6%	8.5%	--
JLL	9.9%	9.4%	9.7%	9.6%	8.3%	--

Source: JLL; CBRE; Colliers International

CBRE's data shows overall vacancy rates in the Portland Metro Area rose by a full percent from 10.12 percent to 11.2 percent, but Class C office space in the CBD was hit the hardest with a 10 percent increase from the end of 2016 until now. JLL reported a rise in vacancy rates across the board except in the CBD Class C space which fell from 9.2 percent to 8.3 percent. Colliers data also supports an overall rise in vacancy rates both downtown and in the surrounding areas.

Table 2: Portland Direct Vacancy Rate by Market area and Submarket, First Quarter 2017

Location	Q1	Change from Q4
Portland CBD	8.9%	(0.2%)
Lloyd District	6.9%	(2.8%)
Portland Central City	8.6%	(0.4%)
Clackamas / Milwaukie Totals	6.7%	0.5%
Airport Way/Columbia Corridor	19.6%	0%
Close In Eastside	5.6%	(0.7%)
Outer Eastside	12.4%	(2.6%)
Portland Eastside Suburbs	10.1%	(0.4%)
217 Corridor / Beaverton	14.0%	(0.5%)
I-5 South Corridor	11.6%	0.4%
Kruse Way	10.8%	(2.3%)
Northwest	6.4%	(1.9%)
Sunset Corridor	8.6%	0.9%
SW Close In	6.0%	0.4%
Portland Westside	10.2%	(0.6%)
Cascade Park/Camas	6.7%	(0.9%)
CBD/West Vancouver	8.2%	(0.3%)
Hazel Dell / Salmon Creek	2.6%	1.1%
Orchards/Outer Clark	12.8%	(0.1%)
St. John's Central Vancouver	23.5%	(0.3%)
Vancouver Mall	4.8%	0.2%
Vancouver Suburbs	8.4%	(0.3%)
Portland Metro	9.3%	(0.5%)

Source: JLL

RENTAL RATES

CBRE reported an overall rise in rental rates (7.2 percent increase year-over-year, and 5.6 percent for downtown rates). Class B rates grew the most with a 13 percent year-over-year increase. Reported rates from both Colliers International and JLL also increased. JLL reported the highest rates both overall (\$28.04) and in the CBD (\$32.61), more than a dollar higher from their Q4 reports. As expected, rates from all sources have continued to trend up, despite the rise in vacancy rates.

Table 3: Average Quoted Rates (\$/sf FSG) by Brokerage and Class, First Quarter 2017

Brokerage	Average	CBD	Suburban	CBD Class A	CBD Class B	CBD Class C
CBRE	\$26.87	\$30.90	\$23.31	\$33.71	\$30.43	\$26.41
Colliers	\$24.11	\$29.99	\$23.31	\$32.03	\$29.84	\$24.15
JLL	\$28.04	\$32.61	--	\$34.94	\$31.82	\$25.32

Source: CBRE, Colliers International, JLL

**Table 4: Portland Average Direct Asking Rent (\$/sf)
Ranked by Market Area and Submarket, First Quarter 2017**

Location	Q1	Change from Q4
Portland CBD	\$32.61	\$0.79
Lloyd District	\$27.49	\$0.16
Portland Central City	\$32.22	\$0.93
Clackamas / Milwaukie Totals	\$23.46	\$0.98
Airport Way/Columbia Corridor	\$20.52	\$0.59
Close In Eastside	\$30.55	(\$0.27)
Outer Eastside	\$20.55	\$2.01
Portland Eastside Suburbs	\$25.67	(\$1.34)
217 Corridor / Beaverton	\$22.26	\$1.51
I-5 South Corridor	\$23.87	\$1.12
Kruse Way	\$29.77	\$2.77
Northwest	\$37.38	\$10.15
Sunset Corridor	\$22.74	\$1.15
SW Close In	\$22.36	\$1.65
Portland Westside	\$26.26	\$4.07
Cascade Park/Camas	\$21.00	\$2.75
CBD/West Vancouver	\$23.33	\$0.18
Hazel Dell / Salmon Creek	\$20.33	(\$0.48)
Orchards/Outer Clark	\$18.01	\$0.00
St. John's Central Vancouver	\$19.47	\$0.40
Vancouver Mall	\$14.96	\$1.11
Vancouver Suburbs	\$20.55	\$1.2
Portland Metro	\$28.04	\$2.60

Source: JLL

ABSORPTION AND LEASING

Table 5: Net Absorption (square feet) by Brokerage and Area, First Quarter 2017

Brokerage	Overall	CBD	Suburban
CBRE	(259,747)	(214,567)	(45,180)
Colliers	(154,735)	(56,051)	----
JLL	(107,390)	(22,329)	----

Source: JLL; CBRE; Colliers International

CBRE, JLL, and Colliers reported an overall negative net absorption in all Portland Metro markets in the first quarter. This trend should correct itself in the coming quarters as leases are renewed and/or executed.

Table 6: Notable Lease Transactions, First Quarter 2017

Tenant	Building/Address	Market	Square Feet
City of Portland	Congress Center	CBD	67,438
City of Portland	400 Sixth Avenue Building	CBD	60,507
City of Portland	Columbia Square	CBD	41,381
Cloudability	334 NW 11 th Ave	CBD	22,591
Zapproved	Machine Works	CBD	19,258
CLEAResult	First & Main	CBD	39,507
POWER engineers, Inc	*3 Centerpointe	Kruse Way	61,660
Social Security Administration	Block 300	Lloyd District	22,338

Source: CoStar; CBRE; Colliers International

SALES TRANSACTIONS

Colliers International and CoStar both noted one of the largest transactions in Q1 as the Umpqua Bank Plaza in the CBD. With a total price of \$90,000,000 it is one of the most notable transactions of the quarter. Congress Center was also a significant transaction within the CBD coming in at over \$85,000,000.

Table 7: Notable Sales Transactions, First Quarter 2017

Building Address	Submarket	Price	Price/SF	SF
Umpqua Bank Plaza	CBD	\$90,000,000	\$325.29	276,676
Congress Center	CBD	\$85,125,000	\$221.13	384,951
American Bank Building	CBD	\$53,000,000	\$313.00	169,329
Riverside Centre & 5550 Macadam	SW Portland	\$27,500,00	\$193.00	142,298
Gresham State Medical Plaza	Gresham	\$23,500,000	\$234.00	100,419
One Embassy Centre	217 Corridor/Beaverton	\$16,750,000	\$193.18	86,706
1881 SW Naito Pkwy	CBD	\$14,000,000	\$348.05	40,224

Source: CoStar; CBRE; Colliers International

DELIVERIES AND CONSTRUCTION

The City of Portland has officially started reconstruction on the Portland Building—though it is not scheduled to be completed until 2020. CoStar focused on three main deliveries: The Dairy Building on the east side, Mason Ehrman Annex, developed by Beam Development, in the CBD, and 3514 NE Sandy Blvd. in the Lloyd District. CBRE notes a number of new construction and renovation projects underway that are scheduled to be completed in the second quarter, such as, the Leland James building in NW, Towne Storage in the Central Eastside, the the Ballou & Wright Building in the CBD, and 6430 SE Lake Rd. in Clackamas/Milwaukie area.

**Table 8: Portland Office Market
Construction and Deliveries by Submarket, First Quarter 2017**

	Deliveries (YTD)	Under Construction
Portland CBD	28,000	618,480
Lloyd District	45,098	0
Portland Central City	73,098	618,480
Clackamas / Milwaukie Totals	0	17,495
Airport Way/Columbia Corridor	0	0
Close In Eastside	51,729	370,150
Outer Eastside	0	0
Portland Eastside Suburbs	51,729	387,645
217 Corridor / Beaverton	0	21,000
I-5 South Corridor	0	0
Kruse Way	0	0
Northwest	0	465,767
Sunset Corridor	0	0
SW Close In	0	110,120
Portland Westside	0	596,887
Cascade Park/Camas	0	0
CBD/West Vancouver	0	0
Hazel Dell / Salmon Creek	0	0
Orchards/Outer Clark	0	0
St. John's Central Vancouver	0	0
Vancouver Mall	0	0
Vancouver Suburbs	0	0
Portland Metro	124,827	1,603,012

Source: JLL