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Industrial Market Analysis

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The industrial market in the Portland metropolitan area started off 2019 stable in the major categories - there was decreased vacancy, a slight uptick in lease rates, and net absorption was in the positive. CBRE Econometric Advisors forecasts 2019 to be a positive year for the industrial market, and for the major categories mentioned above to stay on track. One major shift expected from 2018 to 2019 is from build-to-suit projects leading the way to this year the expectation will be for more speculative developments. A major problem Portland metro area consistently faces in the industrial market is the scarcity of developable industrial zoned land. As a result, speculative developments will be a major key for tenant expansion. With the lack of land available the demand will remain high for projects and space.
Source: CBRE

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FIGURE 1: NET ABSORPTION COMPARISON

Source: CBRE

FIGURE 2: SUBMARKET BREAKDOWN

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Avail. Rate (%)	Q1 2019 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
[illegible]								
Northeast	45,668,958	2,574,436	5.6	5.4	(171,727)	(171,727)	1,081,616	213,788
Northwest	29,520,774	1,075,118	3.7	3.6	(295,495)	(295,495)	17,000	0
Southeast	30,615,838	424,209	1.4	5.3	372,942	372,942	799,500	0
Southwest	58,030,569	1,159,802	3.0	3.5	88,267	88,267	362,486	171,139
Sunset	29,546,555	711,822	2.4	3.7	17,728	17,772	75,000	0
Clark County	23,558,634	578,134	2.6	5.8	89,371	89,371	340,733	0
[illegible]	[illegible]	[illegible]	3.2	4.2	[illegible]	[illegible]	[illegible]	[illegible]

Source: CBRE

FIGURE 3: QUARTER OVER QUARTER TRENDS

Source: CBRE

ABSORPTION

2019 started off with modest though positive numbers in absorption. The quarter ended with 101,130 square feet of positive net absorption. This is significantly down from the past three quarters. New product in the Northeast and Southwest came online equaling 384,927 square feet of industrial assets - reflecting the completion of Columbia Industrial Park and Duck Delivery. There is still upwards of 2.0M square feet of industrial product currently under construction.

As you can see the year started off positive, but net absorption had been way up since the second quarter of 2018. The overall net absorption and that of business parks remains about the same. The local industrial markets are considered to be supply constrained with unusually low vacancy, and as a result net absorption has largely been limited to the introduction of new supply.

Net absorption during the first quarter in the Southeast submarket at 372,942 square feet, along with Clark County at 89,371 square feet and the Southwest with 88,267 square feet helped keep Portland in the positive for net absorption. Both the Northwest at negative 295,495 square feet and Northeast with negative 171,727 square feet struggled in terms of absorption during the quarter.

VACANCY

Vacancy rates dropped from 3.8% in the first quarter of 2018 to 3.2% during the same time in 2019 - and relatively stable from the end of 2018 to now. Continuing its strong start to the year the Southeast submarket saw the lowest vacancy rate in Portland at 1.4% with Sunset coming next, but a full percentage higher at 2.4%. The Northeast continued its slow start to the year with a 5.6% vacancy rate - a full 2.6% higher than the Southwest which was next at 3.0%.

The changes in these vacancy rates for year over year can be shown in the increase in leasing activity within these submarkets. Clark County saw a vacancy rate decrease of 220 basis points, with the Southeast and Northeast just behind at 130 basis points and 120 basis points each. The Northwest had a significant increase in vacancy rate of 1.0% since the beginning of 2018, although still only 3.6% overall.

Source: CBRE

RENTAL RATES

Per NGKF rental rates have continued to rise here at the start of 2019. Currently average shell rates are at $0.72 per sq. ft NNN lease. Up from $0.69 at the end of 2018 and $0.66 this time last year. With vacancy rates continuing to stay low, asking rates have sustained their steady increase.

FIGURE 4: ASKING RENT AND VACANCY

Source: NGKF

NOTABLE LEASE TRANSACTIONS

Wymore Transfer Company / Clackamas, OR / 161,654 sq. ft.

CJ Logistics (Hankook Tires) / Portland, OR / 130,800 sq. ft.

Imperial Brown, Inc. / Hillsboro, OR / 113,144 sq. ft.

Source: CBRE and NGKF

NOTABLE SALES TRANSACTIONS

Colony Capital Transaction / Nationwide (54 total assets/5 in Portland) / $1.16BN

Sunshine Dairy Foods Portfolio / NE/Columbia Corridor / 44,448 sq. ft. building & Adjacent Parcels on 1.2 acres of land / $8.1M

920 SE Stark / Southeast / 14,864 sq. ft. / $5.8M

Source: CBRE and NGKF

Per Kidder Matthews, although very little leasing activity has taken place to start the year in this submarket, the Sunset Corridor/Hillsboro leads the way in rental rates at $1.05. Clark County on the other end of the spectrum had the lowest rates at $0.54 with significant leasing activity. The most leasing activity was in the Northeast submarket and they saw rental rates right around $0.61. As you would expect the smaller the size of the building the higher the rate and so on - with rates around $1.00 for buildings up to 9,999 sq. ft. and $.53 for building over 200,000 sq. ft.

Source: Kidder Matthews

WHAT TO KEEP AN EYE ON

As mentioned above, speculative development will be a major component of industrial development in 2019 in comparison to build to suits. Due to the lack of industrial zoned land, speculative development will help fit the majority of tenants vs. building assets that are meant for one single use. Lots of focus has been on a “new” sort of industrial product - shifting away from just ceiling heights and loading docks and bringing in more tech and robotics. Mark Childs of Capacity Commercial Group said, “robotics are going into buildings, but little of that impacts the shell”. Much of these new operational measures or features will be brought on by the tenant themselves. Some firms will have more difficulty fitting into existing shells, such as Amazon who utilizes 45-foot-high building with two levels of storage and mezzanines for a total of three levels within their structure.

Another main reason build to suit may be lessening this year is due to the niche needs for some clients and the impact that can have for the building on the secondary market. Mr. Childs said, “most build to suits for users are for manufacturing companies that need specialty items - floor drains, bridge cranes, electrical, unique building configuration/height/office, etc.”. Developing an asset with such distinct features for certain companies can lead to some problems. “Most add little value, some can detract. While one user can over build a parcel (more than 50% site coverage) and make it work for them, sometimes part of the building needs to be torn down to make the site more generic and usable by a greater percentage of the market”. Based on Mark’s comments above, this is a significant reason developers, with the little industrial land accessible, want to keep buildings more generic. This way they can build product that appeals to a higher percentage of users. As tenants grow, and the lack of product and usable land stays minimal brokers need to get creative to solve the ongoing problem of - where to next? “You relieve constraints until you find what they want - geography, price, size, new vs. used”. Sacrifices may have to be made as Portland continues to struggle with industrial inventory. But as the sector continues to grow and our city continues to expand there surely will be some creative solutions that will need to take place.

Source: Interview with Mark Childs of Capacity Commercial Group