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# INDUSTRIAL MARKET ANALYSIS

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The industrial market was strong in the fourth quarter of 2014. As reported by Kidder Mathews, 444,635 square feet were under construction, deliveries were at 30,065, absorption was at 577,509 and as a result vacancy dropped down to 5.7%. Rents though varied from product type to product type and submarket to submarket, were generally up.

## **ABSORPTION & LEASING**

As the economy continues to improve companies have been expanding their presence in Portland. The largest lease signings occurring in 2013 included: the 402,450-square-foot lease signed by Georgia-Pacific at Rivergate Corporate Center 2 - Phase II in the Northeast market; the 204,550- square-foot deal signed by Bridgestone Tire at Rivergate Corporate Center 2 - Phase II in the Northeast market; and the 165,814-squarefoot lease signed by Microsoft at 26755 SW 95th Ave in the I-5 Corridor market. Clackamas/Milwaukie and the Sunset Corridor submarkets dominated leasing activity with new move-ins.

■ Geoff Falkenberg is the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

**Table 1: Major Industrial Lease Transactions, 4th Quarter, 2013**

Tenant	Property	SqFt	Submarket
GTS Interior Supply	The American Steel - Bldg. A	151,363	A Guilds Lake
Bob's Red Mill	205 Logistics Center - Bldg. 2	123,532	Clackamas/Milwaukie
Charlie's Produce	205 Logistics Center - Bldg. 1	112,320	Clackamas/Milwaukie
Exel Direct	Rivergate Distribution Center	88,800	Rivergate
Columbia Distributing	3250 NW Guam St	80,358	Guilds Lake

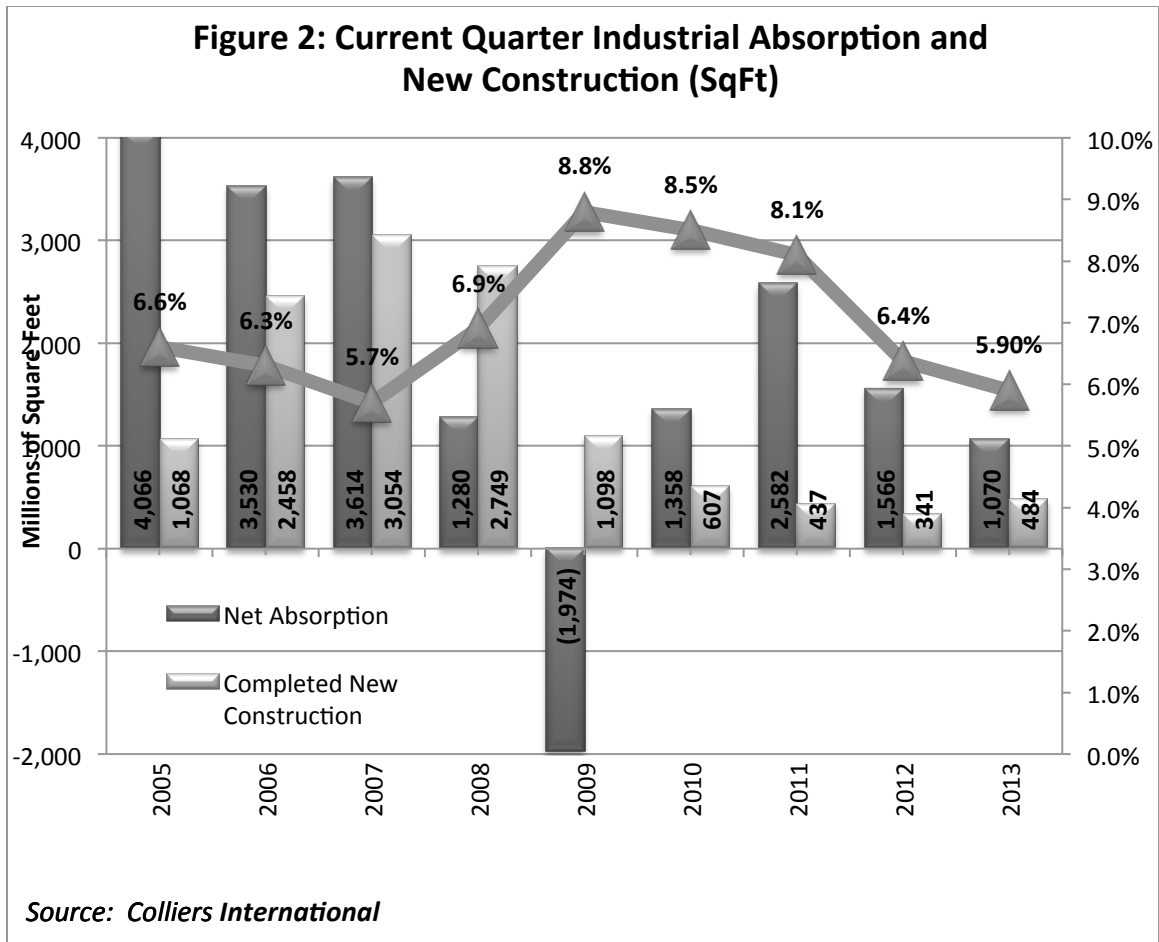
\*Source: Jones Land LeSalle

Large Class A floor plans appear to be in short supply; leading absorption to spill over into Class B and Class C facilities, particularly in the 5,000 to 20,000 square feet range. Of the large leases, Bridgestone Tire has taken up the vacant 204,550 square feet left by Georgia-Pacific in the Columbia Corridor's Corporate Center II. DHL renewed their 109,200 square feet lease on Airport way.

Clackamas County is currently experiencing gains in employment in manufacturing private-sector jobs. This, in turn, has led to a flurry of leasing activity. Wymore Transfer Co. has moved into 137,500 square feet in the Tree of Live Building. Multiple units at 205 Logistics Center, totaling 235,872 square feet, were taken up by Bob's Red Mill and Charlie's Produce. Inmare Logistics moved into 40,250 square feet at Clackamas Commons after being displaced by Wymore Transfer. CoStar is reporting that sublease vacant space is down by 34,343 square feet to 225,622 square feet on the year.

## VACANCY

The vacancy rate in Portland has dropped to 5.90% from 6.40% twelve months prior and 40 basis points lower than the end of the Third Quarter. The vacancy rate in the southeast area of Portland has been driven down to 5.10%, which is the lowest vacancy level of any sector. As limited supply is met with greater demand, the nexus of power is shifting from tenants to landlords, this is leading to less concessions and more interest in development.

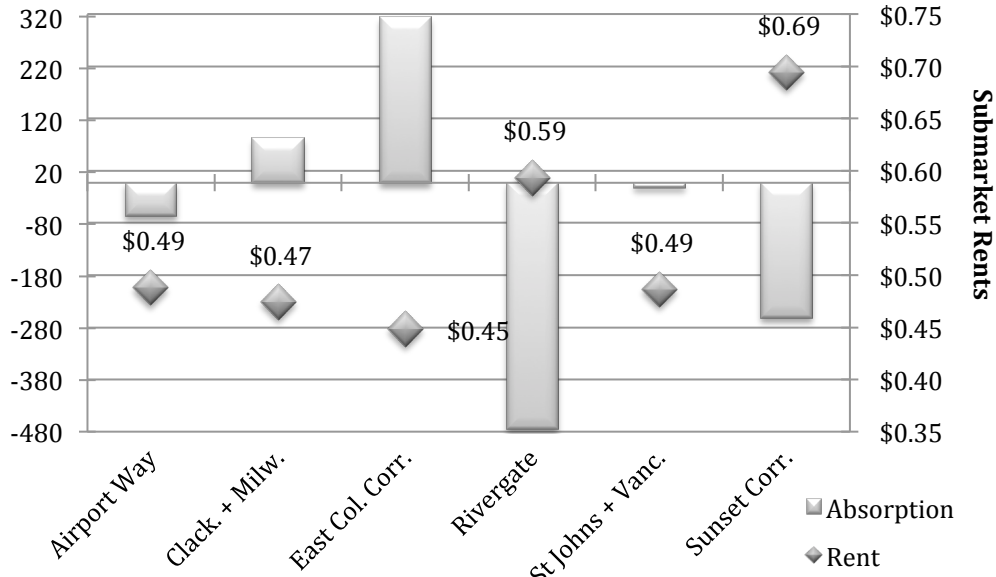


## DELIVERIES & CONSTRUCTION

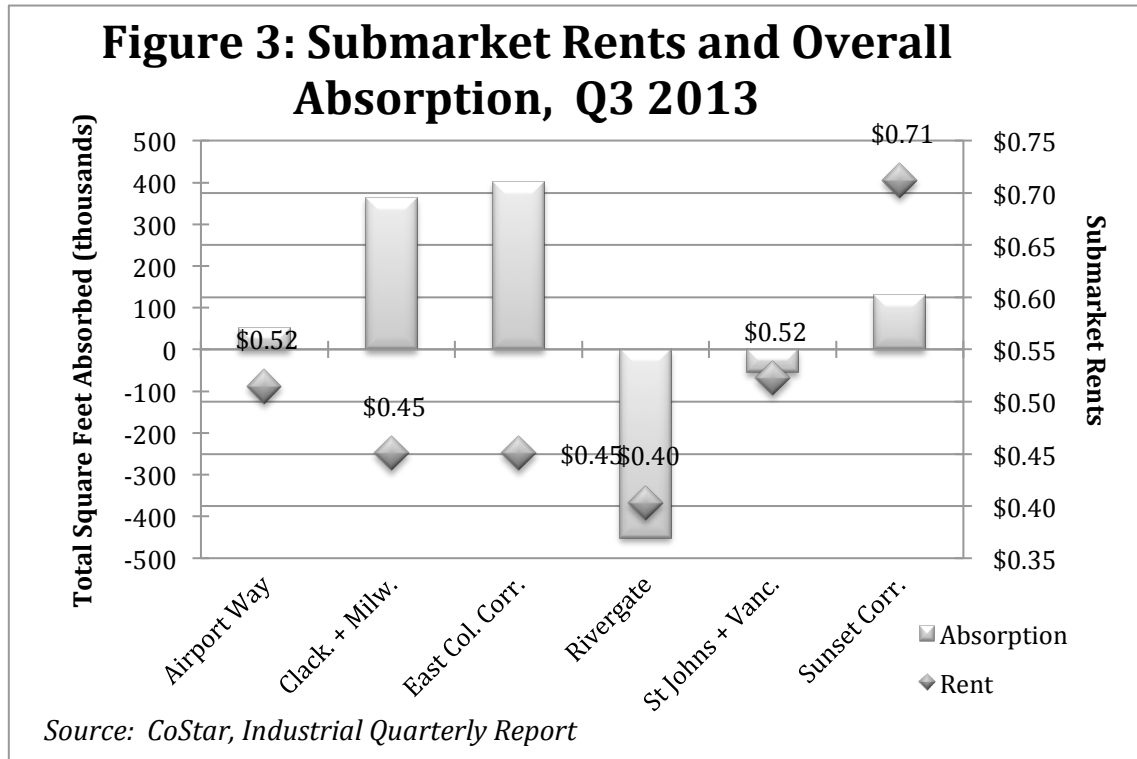
The year ended with a total of 486,980 square feet of new construction having been delivered, 82,273 of this coming from the fourth quarter. This compares to six buildings totaling 135,973 square feet that were completed in the third quarter 2013, one building totaling 109,985 square feet completed in the second quarter 2013, and

Almost 250,000 square feet in three buildings completed in the first quarter 2013. As rents rise and vacancies fall the desire for new construction is keeping pace, despite the rise in hard costs. Triad Machinery recently purchased 7.02 acres at NE Riverside Parkway in the Airport Way submarket. They intend to be a user/owner in an approximate 75,000 square foot building. The largest projects underway at the end of fourth quarter 2013 were Intel Ronler Acres - D1X, a 1,800,000-square-foot building with 100% of its space pre-leased, and PDX Logistics. Center - Building 1, a 383,040-square-foot facility that has yet to pre-lease.

**Figure 3: Submarket Rents & Overall Absorption, Q3 2013**



Source: CoStar, Industrial Quarterly Report



## RENTAL RATES

The City of Portland recently decided that the west end of Hayden Island is not to be used for industrial purposes but the held in environmental trust. This too will add to the increasing demand on current land use for more industrial space, potentially adding to rent increases. Specific to the fourth quarter, rental rate growth was seen to be segmented by submarket and product type. ■