
INDUSTRIAL MARKET ANALYSIS

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The National Real Estate Investor recently reported that 2014 saw the return speculative development in the industrial market in both major and secondary cities. Nationally, food supply, third party logistics and e-commerce firms are searching for spaces between 200,000 and 500,000 square feet with demand leaning towards larger spaces.

According to Jones Lang LaSalle, Portland has seen a significant increase in speculative development in recent months with over 2 million square feet of industrial space under construction at the end of the fourth quarter of 2014. In the first quarter of 2015, Portland should see the delivery of 500,000 square feet of space much of it speculative. Kidder Mathews reports that Portland's industrial market is experiencing its lowest vacancy rate since the third quarter of 2007.

Leverage favors owners in Portland's market as vacancies continue to tighten. Technology and automation are expected to increase demand, US manufacturing production output is at an all-time high, according to CBRE, primarily due to increases in technology and automation. Increased output should spur demand in key manufacturing and supply chain markets.

With the impending legalization of marijuana in Oregon, the marijuana industry is actively competing for industrial space which may put pressure on an already tight industrial market. According to the Oregonian, Portland is home to more big medical marijuana growers than any other city in the state which puts the metro area in the position to be a major producer for the recreational market.

■ **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.

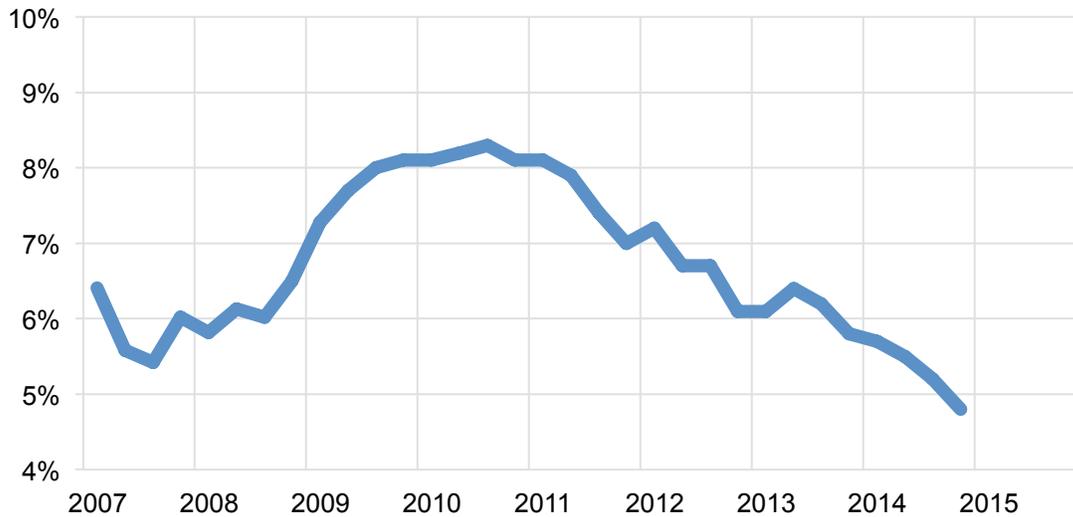
VACANCY

Kidder Mathews reports an overall vacancy rate of 4.8 percent for the fourth quarter of 2014. This is the lowest rate reported since the third quarter of 2007. At the end of the third quarter, Kidder Mathews reported an overall vacancy rate 5.2 percent, at the end of the second quarter it was 5.7 percent and 5.8 percent at close of the first quarter of this year. CoStar is showing a slightly higher overall vacancy of 5.3 percent for Portland's industrial market. As with Kidder Mathews, CoStar has been reporting a downward trend for several quarters. Last quarter ended with a 5.5 percent vacancy rate with the second and first quarters both ending at 5.9 percent.

Norris Beggs and Simpson reports that the vacancy rate in the industrial market has fallen to 6.8 percent with Vancouver having the lowest rate in the region at 2.83 percent. Colliers states that the overall vacancy rate in the Portland market was 5 percent at the end the fourth quarter. The areas with the lowest rates in the industrial sector were Southwest Sunset with 2.83 percent, Southeast with 4.07 percent and Southwest I-5 with 4.67 percent according to Norris Beggs and Simpson. Jones Lang LaSalle reports a 6.5 percent average overall vacancy rate for Portland's industrial market.

Costar reported an overall vacancy rate for the flex market of 11.5 percent for the final quarter of 2014. This was up slightly from the previous quarter at 11.2 percent. The second quarter ended with 10.8 percent and 10.3 percent at the end of the first quarter. Norris Beggs and Simpson reports an 11.02 percent vacancy rate for the flex market at the end of the fourth quarter of 2014.

For the warehouse market, CoStar reports a 4.7 percent average vacancy rate at the end of the fourth quarter of 2014. Warehouse project reported vacancy rates of 4.9 percent at the end of the third quarter, 5.4 percent in the second quarter and 5.5 percent at the end of the first.

Figure 1: Portland Industrial Market Vacancy Rate, 2007–2014

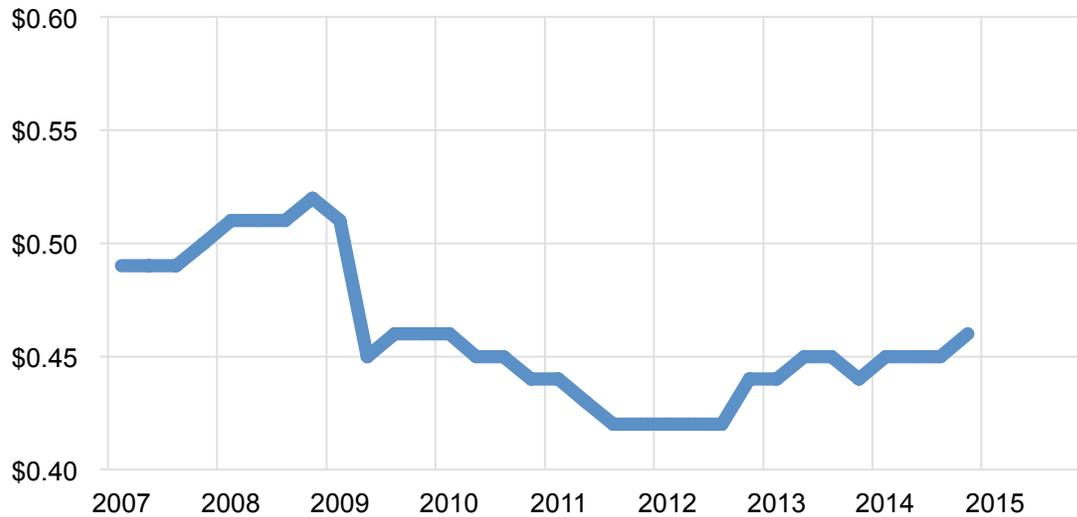
Source: Kidder Mathews

RENTAL RATES

CoStar is reporting an average annual industrial rental rate of \$6.63 per square foot, approximately \$.55 per square foot monthly, for the fourth quarter of 2014. According to CoStar, this was a 3.9 percent increase from the previous quarter of \$6.38 or approximately \$.51 per square foot monthly. Colliers International reports an average monthly rental rate of \$.44 per square foot. Average monthly rental rates have remained unchanged since the first quarter of this year according to Colliers. Kidder Mathews reports an average annual asking rental rate of \$5.48 for the Portland market an increase of 4 percent since the fourth quarter of 2013. The fourth quarter of 2013 reported an average annual rental rate of \$5.26 per square foot according to Kidder Mathews.

The flex sector ended the fourth quarter at \$11.68 per square foot annually according to CoStar. This is up from \$11.24 per square foot annually from the previous quarter.

The warehouse sector's average annual rental rate was \$5.69 per square foot annually up slightly from the third quarter at \$5.59 per square foot.

Figure 2: Portland Industrial Market Average Quoted Rates, 2007–2014

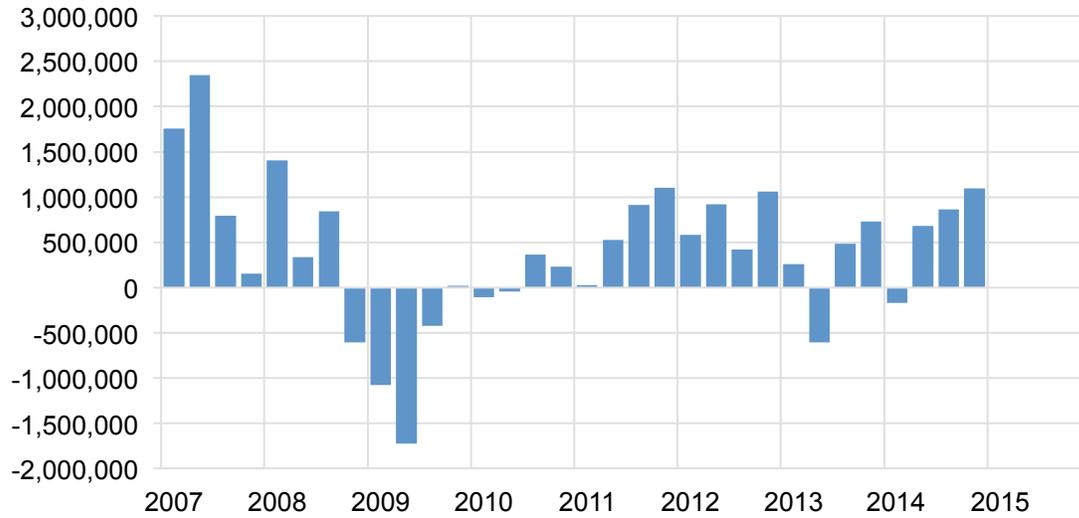
Source: Kidder Mathews

ABSORPTION AND LEASING

Absorption was up significantly in the fourth quarter compared to the third quarter of 2014 according to Kidder Mathews. The fourth quarter ended with 1,098,195 square feet up from 863,882 square feet at the end of the third quarter. The fourth quarter of 2013 experienced 827,047 of positive absorption according to Kidder Mathews. According to CoStar, overall net absorption for the Portland industrial market was positive 952,749 up from 746,963 in the previous quarter. The second and first quarters saw 582,457 and negative 33,447 respectively. Jones Lang LaSalle reports 406,896 square feet of positive absorption at the end of the fourth quarter of 2014 for a total of 2,491,006 for 2014.

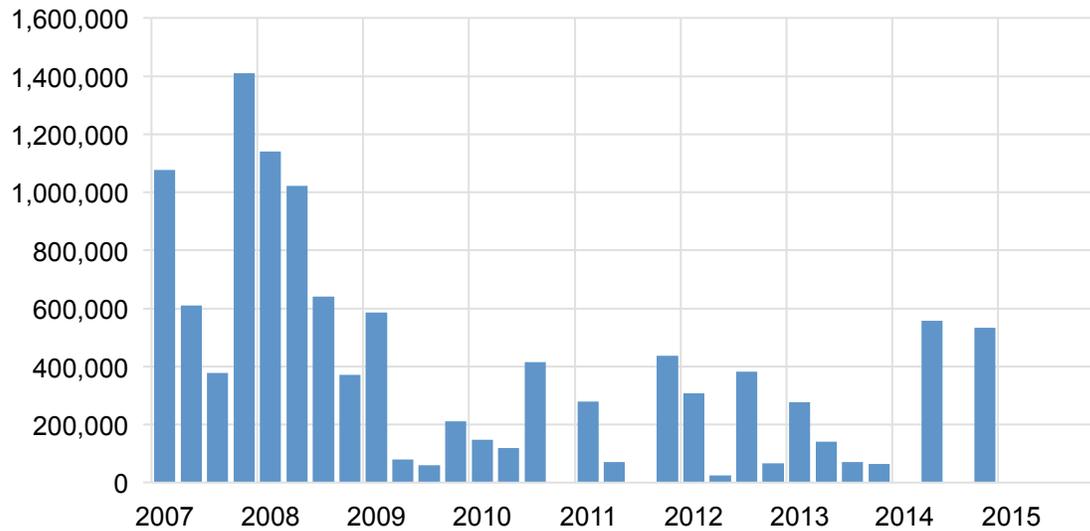
The Flex market ended the fourth quarter with 17,417 square feet of positive absorption according to CoStar. This was a slight improvement over the third quarter with negative absorption of 65,568 square feet. Norris Beggs and Simpson reported 1,141,522 positive absorption for the Flex market.

Figure 3: Portland Industrial Market Net Absorption, Square Feet, 2007–2014



Source: Kidder Mathews

Figure 4: Portland Industrial Market Deliveries, Rentable Building Area, Square Feet, 2007–2014



Source: Kidder Mathews

Table 1: Notable Industrial Lease Transactions

| Tenant | Address | Market | Size |
|------------------------|---------------------------------|-----------------|-------------|
| Grocery Outlet | Cascade Distribution Center | East Col. Corr | 184,860 |
| Bay Valley Foods, LLC | Kelly Point Distribution Center | Rivergate | 150,000 |
| Wymore Transfer Co. | Columbia Commerce Park | Airport Way | 73,928 |
| Intl. Paper Company | Riviera Bldg | 217Corr | 60,000 |
| Expeditors | Stockyards Comm. Cir | Hayden/Swan Is. | 49,265 |
| Pinnacle Exhibits | Sunset Corr. Ind Bldg | Sunset Corr | 47,565 |
| Three J's Distributing | Comm. Park Clackamas | Clack/Milwaukie | 40,960 |
| Daimler Trucks | 4859 N Lagoon Ave | Hayden/Swan Is. | 37,700 |
| Cash & Carry Food Serv | 1958 NW Upshur St | NW Close-in | 34,000 |

Source: Colliers International

Table 2: Notable Industrial Sales Transactions

| Building | City | SF | Price | Price/SF |
|------------------------------|-------------|-----------|--------------|-----------------|
| 5000-5130 N Basin Ave | Portland | 346,612 | \$12,600,000 | \$36.35 |
| 23810 NW Huffman St | Hillsboro | 80,000 | \$7,550,000 | \$94.38 |
| 2850 NW 31 st Ave | Portland | 71,868 | \$6,740,000 | \$57.05 |
| 2828-2840 NE Riverside Way | Portland | 49,150 | \$3,650,000 | \$74.26 |
| 15561 SW Oregon ST | Sherwood | 48,000 | \$3,275,000 | \$68.23 |

Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

CoStar reports five buildings were delivered by the end of the fourth quarter for a total of 590,700 square feet. No buildings were brought to market in the third quarter and first quarters compared to the second quarter where six buildings were completed for a total of 505,601 square feet. Five buildings were delivered during the fourth quarter according to Kidder Mathews for a total of 534,200 square feet. Six buildings were delivered in the second quarter of 2014 for a total of 557,963 square feet whereas the third and first quarter saw no deliveries. Jones Lang LaSalle reports that 534,200 square feet was delivered during the fourth quarter of 2014, all of which was speculative. This brought the total amount of industrial space for 2014 to 1,184,233 square feet with an additional 2 million square feet under construction. ■