
OFFICE MARKET ANALYSIS

MELISSA BEH

Portland State University

Oregon's economy has remained strong and steady throughout 2016 with an average 3.0 percent year-on-year growth, which was accompanied by a robust job market—Oregon currently employs 1.83 million people. Jones Lang LaSalle points to Education and Health Services as the leader in job market growth with an average of 6,520 jobs year-to-year thus far. Over the next few years, economic and employment growth in Oregon is expected to be higher than average with non-farm employment growth projected to be 3.5 percent in 2016 and 3.0 percent in 2017.

Oregon's healthy second quarter economy and job market keeps office development growing and active.

- ✧ **JLL** emphasized Oregon's continued economic growth from 2016's first quarter, highlighting job growth and vigorous metro area construction. Deliveries in the metro area in 2016 thus far have equaled 571,605 square feet of office space with 1.37 million square feet currently being built or renovated. Fifty-five percent of buildings under construction are pre-leased. Much of the new construction is focused in the CBD and urban core of Portland.
- ✧ **Colliers** focused on the cost of doing business in the Portland metro area. "Moody's Analytics reports cost of doing business in the metro area has increased, from 91 percent of the U.S. baseline in Q1 to 96 percent in Q2."

■ **Melissa Beh** 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.

Wage growth and high rental rates for office and industrial space are major factors. Potential zoning and inclusionary housing changes, along with the possibility of construction excise and business receipts taxes, is worrying to both business owners and investors.

- ✧ **CBRE** highlighted the extremely low overall market vacancy rate that fell below 10 percent, landing at 9.97 percent, a phenomenon that has not occurred since 2001 according to their records. This rate is especially impressive considering inventory increased by 42 percent in the first half of 2016. CBRE reports a net positive absorption of 444,593 square feet in the Portland office market – the highest since the first quarter of 2013.

VACANCY

CBRE's data show vacancy holding below ten percent, a rate that hasn't been seen since the first quarter of 2001. Downtown vacancy decreased to 8.2 percent from 8.7 percent, while the Lloyd district fell to an astounding low of 2.9 percent vacancy rate. The suburban market vacancy rate officially fell below 12 percent and landed at 12.3 percent. JLL reported total vacancy at 8.8, a slightly higher rate than the 8.3 percent reported in the first quarter.

Table 1: Total Vacancy Rates by Brokerage and Class, Second Quarter 2016

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	9.97%	8.2%	8.7%	7.9%	8.7%	----
Colliers	8.7%	10.0%	10.5%	9.6%	9.3%	8.3%
JLL	8.8%	7.9%	9.0%	9.2%	7.1%	9.7%

Source: JLL; CBRE; Colliers International

Table 2: Portland Vacancy Rate by Market area and Submarket, First Quarter 2016

Location	Q2	Change from Q1
Portland CBD	7.9%	-1.3%
Lloyd District	5.2%	-1.4%
Portland Central City	7.6%	-1.3%
Clackamas / Milwaukie Totals	8.5%	-1.0%
Airport Way/Columbia Corridor	7.1%	-0.3%
Close In Eastside	4.9%	-0.7%
Outer Eastside	9.5%	2.7%
Portland Eastside Suburbs	6.9%	0.3%
217 Corridor / Beaverton	13.5%	0.4%
I-5 South Corridor	13.8%	-0.4%
Kruse Way	10.8%	-3.2%
Northwest	3.8%	-0.1%
Sunset Corridor	10.5%	-2.7%
SW Close In	7.1%	-0.3%
Portland Westside	10.9%	-0.1%
Cascade Park/Camas	6.0%	0.3%
CBD/West Vancouver	9.3%	0.5%
Hazel Dell / Salmon Creek	6.9%	-0.9%
Orchards/Outer Clark	11.1%	0.6%
St. John's Central Vancouver	24.9%	-0.1%
Vancouver Mall	3.9%	1.8%
Vancouver Suburbs	8.8%	0.5%
Portland Metro	8.8%	-0.9%

Source: JLL

RENTAL RATES

JLL reported and overall rent percentage change of 10.4 percent. In the Lloyd District, office rental rates between Class A and Class B spaces are narrowing. Currently Class A rental rates are at \$30.74 and Class B are at \$28.79. This narrowing is occurring because there is a shortage of Class A creative space in the area which is pushing tenants towards new and renovated Class B and C creative office space. CBRE reported CBD asking rates are up 6 percent year-over-year and suburban asking rates, for the fifth continuous quarter, are up, currently at 4.3 percent year-over-year.

Table 3: Average Quoted Rates (\$/SF FSG) by Brokerage and Class, First Quarter 2016

Brokerage	Average	CBD	Suburban	CBD Class A	CBD Class B	CBD Class C
CBRE	\$25.00	\$28.90	\$21.85	\$31.04	\$26.81	\$25.15
Colliers	\$23.89	\$28.89	--	\$31.28	\$28.48	\$23.00
JLL	\$25.70	\$29.88	--	\$27.95	\$23.98	\$23.23

Source: CBRE, Colliers International, JLL

Table 4: Portland Average Direct Asking Rent (\$/p.s.f.) Ranked by Market Area and Submarket, Second Quarter 2016

Location	Q2	Change from Q1
Portland CBD	\$30.28	\$0.42
Lloyd District	\$25.95	(\$0.30)
Portland Central City	\$29.96	\$0.36
Clackamas / Milwaukie Totals	\$21.35	\$0.02
Airport Way/Columbia Corridor	\$19.78	\$0.19
Close In Eastside	\$25.44	(\$0.15)
Outer Eastside	\$19.83	\$1.51
Portland Eastside Suburbs	\$21.59	\$0.61
217 Corridor / Beaverton	\$21.25	(\$0.17)
I-5 South Corridor	\$22.26	\$0.42
Kruse Way	\$28.94	\$0.13
Northwest	\$33.98	(\$1.19)
Sunset Corridor	\$20.60	\$0.04
SW Close In	\$19.29	\$0.86
Portland Westside	\$23.61	\$0.47
Cascade Park/Camas	\$19.77	\$0.12
CBD/West Vancouver	\$20.63	\$0.38
Hazel Dell / Salmon Creek	\$21.46	\$0.48
Orchards/Outer Clark	\$19.74	\$0.34
St. John's Central Vancouver	\$19.89	(\$0.01)
Vancouver Mall	\$18.26	\$0.57
Vancouver Suburbs	\$19.99	\$0.12
Portland Metro	\$25.12	\$0.53

Source: JLL

ABSORPTION AND LEASING

CBRE reported all three downtown submarkets ended the second quarter with positive net absorptions (CBD, Northwest, and Lloyd District). The data also shows that Portland suburban markets have maintained a 12-month rolling net absorption above 500,000 for the last six quarters. Q2 ended with the highest absorption thus far at 791,441 square feet. JLL reported the net absorption for Q2 lines up with annual demand projections of 750,000 square feet in 2016 – this amount, once reached, will be the first time supply will exceed demand in six years.

Table 5: Net Absorption (square feet) by Brokerage and Area, Second Quarter 2016

Brokerage	Overall	CBD	Suburban
CBRE	444,593	198,439	213,768
Colliers	539,374	213,976	----
JLL	188,4881	152,470	----

Source: JLL; CBRE; Colliers International

Table 6: Notable Lease Transactions, Second Quarter 2016

Tenant	Building/Address	Market	Square Feet
Elemental Technologies	1320 Broadway	CBD	101,400
Consumer Cellular, Inc.	Tigard Corporate Center	217 Corridor/Beaverton	82,140
KPFF	US Bancorp	CBD	47,788
D+H USA Corporation	1320 Broadway	CBD	45,617
Under Armour	Under Armour	SW Close In	38,698
Energy Trust of Oregon	Lincoln Building	CBD	34,161
Design Within Reach	Stagecraft Building	CBD	28,000
KeyBanc Capital Markets	US Bancorp	CBD	27,714
Centrl Office	Block 75	Close In Eastside	23,00
Kaiser Permanente	Montgomery Park	Northwest	22,114
Cardno, Inc.	Willamette Oaks	SW Close In	20,998
M.J. Murdock Charitable Trust	The Waterfront – Block 6	CBD/West Vancouver	18,000
Digital Trends	US Bancorp Tower & Plaza	CBD	17,869
Moovel North America	The Overland	CBD	17,176
Confidential	Block 300	CBD	17,151
DiscoverOrg	Bank of America Bldg	CBD/West Vancouver	15,975
Neighborhood Health Center	Providence Tanasbourne Health Center	Sunset Corridor	14,979

Source: JLL; CBRE

SALES TRANSACTIONS

Colliers International data show \$375 million in transactions in the second quarter. JLL reported a total of over \$500 million within the first half of 2016 with both urban and suburban areas showing strong assets.

Table 7: Notable Sales Transactions, Second Quarter 2016

Building Address	Submarket	Price	Price/SF	SF
Commonwealth Building	CBD	\$69,000,000	\$316	218,499
Evergreen Corporate Center	Sunset Corridor	\$45,500,000	\$171	266,000
South Center I-IV	I-5 Corridor	\$44,250,000	\$129	342,316
Tanasbourne Commerce Center	Sunset Corridor	\$31,100,000	\$169	183,907
Hanna Andersson Building	Lloyd District	\$31,031,486	\$259	119,948
Oswego Pointe I	Lake Oswego/West Linn	\$3,920,000	\$290.28	13,504
14300 SE First Street	Cascade Park	\$3,500,000	\$192.67	18,165

Source: JLL; Colliers International

DELIVERIES AND CONSTRUCTION

Two notable deliveries during Q2 were Park Avenue West and Pearl West, but even with such large spaces demand is still higher than supply – a trend that does not seem to be slowing as of yet. JLL reports 50 percent of active construction is happening within the CBD. JLL data show Portland tenants are bigger than in recent history. In 2007 the average size leased space for office tenants was 6,500 square feet, now that number is more than 9,000 square feet. The number of signed leases for 20,000 square feet or more has grown 66 percent in the last five years. JLL anticipates this trend will carry on and is currently tracking 3.85 million square feet of demand. Much of this growth comes from the technology sector (currently at 25 percent) that makes up the largest portion of tenants in need of office space.

Class A creative office space is in high demand in city as well as the suburbs. CRBE highlighted the demand for quality office space in both the downtown and metro markets. Over 46 percent of the market's negative absorption in Q2 was from Class B buildings. Tenants are looking to upgrade, particularly in the CBD, Northwest, Close In Eastside, and Lloyd District.

Construction costs are rising and building timelines are getting longer, a fact developers need to be aware of. Developers are also using new and renovated projects to attract Class A tenants by offering more and more high-end amenities. Though rental rates are rising, new construction is allowing more price-conscious tenants to grab up non-renovated Class B and C spaces.

Table 8: Portland Office Market Construction and Deliveries by Submarket, Second Quarter 2016

Location	Deliveries	% of Total Deliveries	Under Construction	% of Total Construction
Portland CBD	441,109	77%	686,903	50%
Lloyd District	28,563	5%	181,594	13%
Portland Central City	469,672	82%	868,497	63%
Clackamas / Milwaukie Totals	--	--	16,720	--
Airport Way/Columbia Corridor	--	--	--	--
Close In Eastside	72,000	12.5%	112,785	8%
Outer Eastside	--	--	--	--
Portland Eastside Suburbs	72,000	12.5%	129,505	9%
217 Corridor / Beaverton	--	--	--	--
I-5 South Corridor	--	--	--	--
Kruse Way	--	--	--	--
Northwest	29,933	5.2%	56,000	4%
Sunset Corridor	--	--	--	--
SW Close In	--	--	110,120	8%
Portland Westside	29,933	5.2%	166,120	12%
Cascade Park/Camas	--	--	206,000	15%
CBD/West Vancouver	--	--	--	--
Hazel Dell / Salmon Creek	--	--	--	--
Orchards/Outer Clark	--	--	--	--
St. John's Central Vancouver	--	--	--	--
Vancouver Mall	--	--	--	--
Vancouver Suburbs	--	--	206,000	15%
Portland Metro	571,605	100%	1,370,122	100%

Source: JLL