

# INDUSTRIAL MARKET ANALYSIS

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Portland's industrial real estate market absorbed 2.74 million square feet for the year in 2017 and rents continued rising in the fourth quarter to a high of \$0.66 per square foot according to Kidder Mathews, continuing a trend of strong growth.

The fourth quarter saw a slight increase in vacancy rates up to 3.6 percent according to Capacity Commercial Group. Vacancy has risen the last two quarters after hitting a low of 3.2 percent in the second quarter of 2017. The vacancy rate increase was driven by a delivery of 730,000 square feet of new space and a net absorption of 67,000 square feet according to JLL. In contrast, several other brokerages reporting negative absorption for the quarter.

JLL reported 3.57 million square feet under construction at the end of the fourth quarter, a 400,000 square feet increase from the third quarter, demonstrating developers' bullish outlook on the 2018 market.

The strongest sub-market for leasing activity for the fourth quarter of 2017 was Rivergate. The Rivergate District is at the north end of the east bank of the Portland Harbor and the west end of the Columbia Corridor. This sub-market saw 981,000 square feet leased in the fourth quarter according to Kidder Mathews. With container service returning to Terminal 6 after a year and a half break, this sub-market looks poised to continue its strong 2017 performance into 2018.



Rivergate sub-market (image courtesy of Port of Portland)

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**VACANCY AND RENTS**

Industrial rents in Portland continued growing in the fourth quarter of 2017 while vacancy continued to rise slightly following increasing supply. Industrial rents have risen by 40 percent over the last eight quarters.

Growth in Industrial Rents and Vacancies Over Last Eight Quarters

	Vacancy (%)	Rent (\$/SF)
Kushman Wakefield	3.9	0.71
JLL	3.8	0.62
Kidder	3.6	0.66
Mathews		
Average	3.8	0.66

**ABSORPTION AND DELIVERIES**

After a peak in fourth quarter of 2016, absorption and deliveries have dropped but demand still remains strong.



Data courtesy of Capacity Commercial Group

### LEGISLATIVE CHALLENGES

Portland's industrial market will face a serious land availability problem in the near future if policymakers do not step in to address the situation. The Regional Industrial Site Readiness report classifies industrial land in Portland in three tiers based on the estimated time required to entitle the land for development based on environmental criteria and infrastructure accessibility.

1. Tier 1 property is estimated to have a 6 month entitlement period,
2. Tier 2 is 7-30 months, and
3. Tier 3 is greater than 30 months.

An entitlement period greater than six months makes development difficult as it requires speculation of future market conditions and increases project implementation time thus raising costs.

Portland Business Alliance reassessed the properties identified in the 2014 report in June of 2017, finding that of the 47 identified industrial sites remaining in the region, only 10 of them are classified as Tier 1. Of those 10, seven already have development agreements executed. Additionally, there are zero available Tier 1 sites over 100 acres. This scarcity will likely continue the trend of accelerating rents and has the potential to force smaller, local businesses out of the Portland market. Portland's policymakers will need to address this issue in 2018 for Industrial Real Estate in Portland to remain viable.