

INDUSTRIAL MARKET ANALYSIS

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Portland's industrial market slowed considerably in the first quarter of 2018. Absorption for the quarter was flat, coming in at negative 27,998 square feet according to Kidder Mathews. This followed a strong 2017 that saw 2.77 million square feet absorbed over the year. While the first quarter started fairly flat, the outlook for 2018 is still bright for the industrial sector. According to JLL, there is currently 2.7 million square feet under construction with 71.2 percent of that already pre-leased. Developers are still building speculative industrial buildings as well. JLL projects that 2018's absorption may outpace the rate of 2017.

The first quarter saw an increase in vacancy rates up to 4 percent according to an average of major brokerages. Vacancy has risen the last three quarters after hitting a low of 3.2 percent in the second quarter of 2017. The vacancy

rate increase continues to be driven by the strong rate of deliveries to the market as opposed to a reduction in demand so the rising rate is most likely not yet a cause for concern.

Cap rates for industrial buildings continue to be squeezed downward as the Portland market becomes attractive to larger investors. According to Capacity Commercial Group, cap rates for industrial buildings in Portland are now routinely in the 5 percent range, a significant decrease from years past.

The strongest sub-market for leasing activity for the first quarter of 2018 was NE Columbia Corridor. The Columbia Corridor sub-market saw nearly 1.5 million square feet leased in the first quarter according to Kidder Mathews.



Proposed Industrial space along Columbia Blvd (rendering courtesy of LoopNet)

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VACANCY AND RENTS

Industrial rents in Portland continued growing in the first quarter of 2018 while vacancy continued to rise slightly following increasing supply. The rate of rent increase slowed, increasing by only 10 basis points over the fourth quarter of 2017, but the steady growth indicates a market that is still thriving.

First Quarter 2018 Vacancy Rate & Average Rent

Firm Name	Vacancy (%)	Rent (\$/SF)
Cushman Wakefield	4.2	0.71
JLL	3.7	0.64
Kidder Mathews	4.2	0.66
Average	4.0	0.67

ABSORPTION AND DELIVERIES

While the first quarter of 2018 saw fairly flat absorption, the outlook for the year is still very positive. With 2.7 million square feet under construction and the high pre-leased rate mentioned above, 2018 looks to be another positive year for absorption rates. Project sizes are increasing along with asking rental rates.

The strongest sub-market for absorption for the first quarter according to Kidder Mathews was the Columbia Corridor, absorbing nearly 1.5 million square feet with the East and NE Corridor sub-markets. The Southeast sub-market experienced the largest negative absorption with (825,060) for the quarter.

While the inventory of industrial properties is fairly evenly distributed among building sizes, the larger properties are experiencing the most positive absorption rates currently. With expanding warehouse demand and growing facility requirements, we should expect to see the average size of industrial deliveries and absorption continue to increase through the year.

SALES & CAP RATES

Industrial sales rose in the first quarter of 2018 crossing above \$100 per square foot according to Kidder Mathews. This continued increase shows the increasing attractiveness of the Portland market to Industrial users. As larger users move into the market, new projects can raise asking prices. This trend is encouraging new construction to continue in the market sector. Sales volume for the quarter was 1.25 million square feet according to Kidder Mathews. This figure was about a million square feet lower than the previous quarter but the outlook for 2018 remains strong.

Cap rates in Portland industrial market remained similar to the end of 2017, landing just below 6 percent according to Kidder Mathews. These rates are much lower than the historical averages for the market and again indicate the level of investment coming into the market. Portland is becoming an established industrial real estate market and as larger institutional money enters the marketplace, we can expect cap rates to stay at these low rates for a while.