
INDUSTRIAL MARKET ANALYSIS

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The fourth quarter of 2012 was the tenth straight quarter of positive absorption in the Portland industrial/flex market. It also, however, had the lowest number of leasing deals since the third quarter of 2003. This represents just 38 percent of the average quarterly leasing volume over the past 10 years. Overall economic progress in the area helped spur positive absorption, but a lack of class A warehouse and distribution space is placing limitations on institutional tenants seeking this type of space.

Economic growth has been affected on a national level by fiscal cliff tax code restructuring, natural disasters, and the presidential election. The Federal Reserve has kept interest rates low, and has promised to do so for at least two years. The shrinking of China's economy and the continuing European debt crisis are likely to reduce US exports and affect the national markets as a result. The duration and severity of these issues will have a measurable effect on how markets perform in 2013.

Locally, the economy appears to be improving. Oregon's unemployment rate dropped to 8.4 percent by the end of 2012, and is inching ever closer to the national average. 8.4 percent is the lowest year-end unemployment percentage since its peak in 2009 at 11.1 percent. National unemployment rose in the fourth quarter, while Oregon's continued to drop.

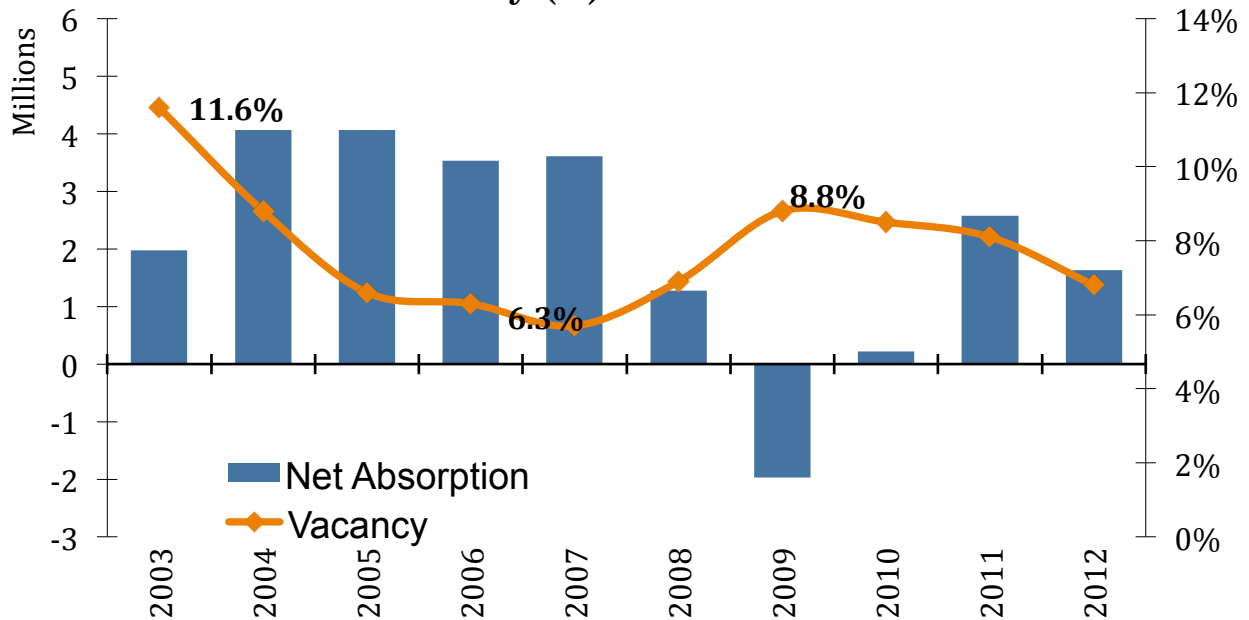
■ George S. McCleary is the owner of MRE properties specializing in commercial real estate investment and development of urban infill properties. He is enrolled in the Master of Real Estate Development program at Portland State University and is an RMLS Fellow in the program. Any errors or omissions 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.

Although there is a lack of space in certain classes, lease rates are generally still not supportive of speculative construction, as has been in the case for the past four years. Developers have constructed facilities, but nearly all development has been built-to-suit. This is expected to continue in the months to come, with market fundamentals eventually arriving at levels that support speculative development.

Colliers Reports that 2012 had a total net absorption of 1,629,782 square feet and ended with a vacancy rate of 6.8 percent. This is the lowest post-recession vacancy rate the market has seen, although net absorption failed to meet expectations from 2011. This positive net absorption occurred despite negative net absorption in three of the five major submarkets. Northeast Portland accounted for 37 percent of all vacant space and posted 308,375 square feet of negative net absorption. This is partly due to the fact that class A space continues to drive current leasing activity. Current vacancy is disproportionately weighted towards class B and C space, presenting challenges in the quarters to come. Much of the inventory in NE Portland is class B and C space.

This subdued activity in these market sectors is expected to improve in 2013, as fundamentals remain upwardly mobile. The improvement or refurbishment of class B and C spaces could lead to a lower supply, and lower vacancy factor in these submarkets.

Figure 1: Overall Industrial Net Absorption (SqFt) and Vacancy (%) for Portland Market



Source: Colliers International

Bybee Lake Logistics received both a new tenant and large lease renewal in Q4. All told, there were no significant lease transactions that significantly impacted net absorption in the fourth quarter. Sales volume declined significantly quarter by quarter in 2012, with the peak reached in Q3 and Q4 of 2011.

Inventory levels have remained relatively consistent over the past three years, with slight increased at the end of 2010 and beginning of 2011.

No significant sale transactions were recorded in Q4, although there were several deals in the \$10 million+ category, reports Kidder Mathews.

UPDATE: SIGNIFICANT LEASES & SALES					
LEASE ACTIVITY					
PROJECT	SUBMARKET	TENANT	SIZE SF	DATE	TRANSACTION TYPE
Bybee Lake Logistics, Phase II	Rivergate	OIA Global Logistics SCM, Inc.	167,305	12/12/2012	Renewal
Bybee Lake Logistics, Phase I	Rivergate	Exel Inc.	130,255	10/25/2012	New Deal
Birtcher Center at Townsend Way	East Columbia Corridor	Communications Test Design, Inc.	124,154	11/01/2012	New Deal
PDX Corporate Center East	East Columbia Corridor	CEVA Freight, LLC	64,977	11/05/2012	New Deal

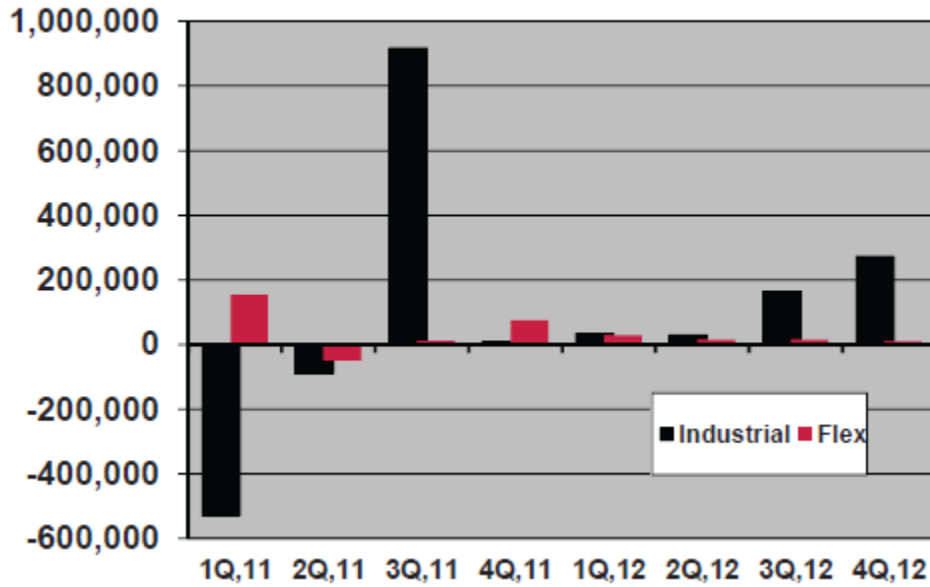
2012 Sale Activity of Note

Property Name	Location	Size (SF)	Vacancy	Date of Sale	Sale Price	Price Per SF
217 Distribution Center	Beaverton	449,245	3%	May 2012	\$23,350,000	\$52
Prologis Park Southshore & Northgate Industry Center	Portland	676,608	5%	Feb 2012	\$40,350,000	\$60
Integrated Device Technology Fabrication Facility	Hillsboro	245,000	0%	Mar 2012	\$25,500,000	\$104
Foster 205 Commerce Center	Portland	272,146	0%	Jun 2012	\$17,385,000	\$64
212 Corporate Center	Clackamas	223,175	70%	Apr 2012	\$9,500,000	\$43

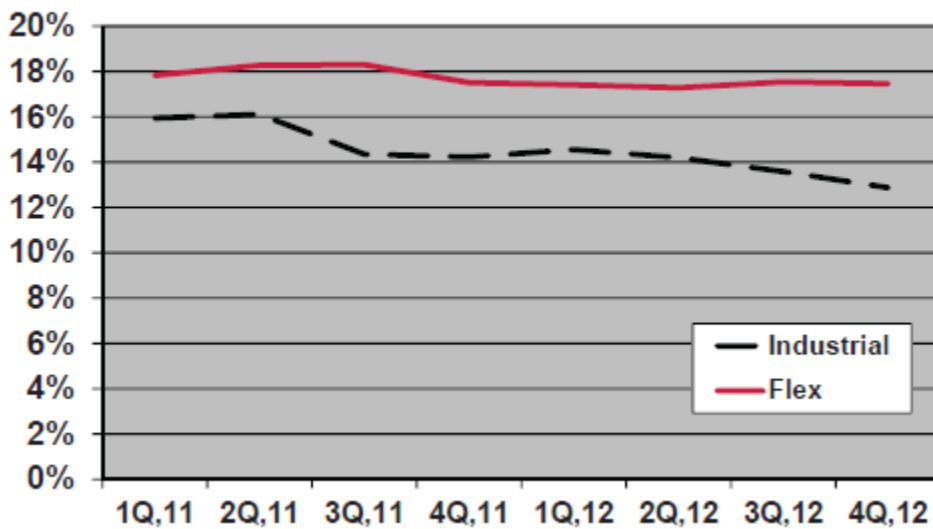
Major Sale Transactions			
Buyer:	Building:	Price:	Submarket:
Killian Pacific	1010 SE 11th Avenue	\$2,850,000	Southeast
J & S Ventures LLC	1212 W. Fourth Plain Boulevard	\$2,600,000	Vancouver
JV Property Investments LLC	802 SE 199th Avenue	\$2,600,000	Southeast

Source: CoStar

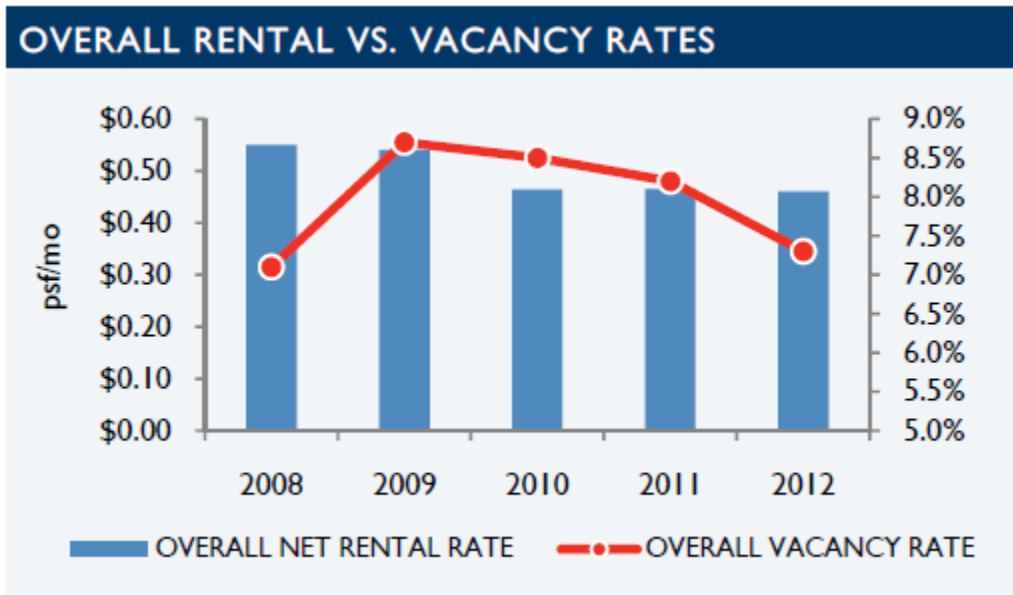
Absorption Comparison (SF)



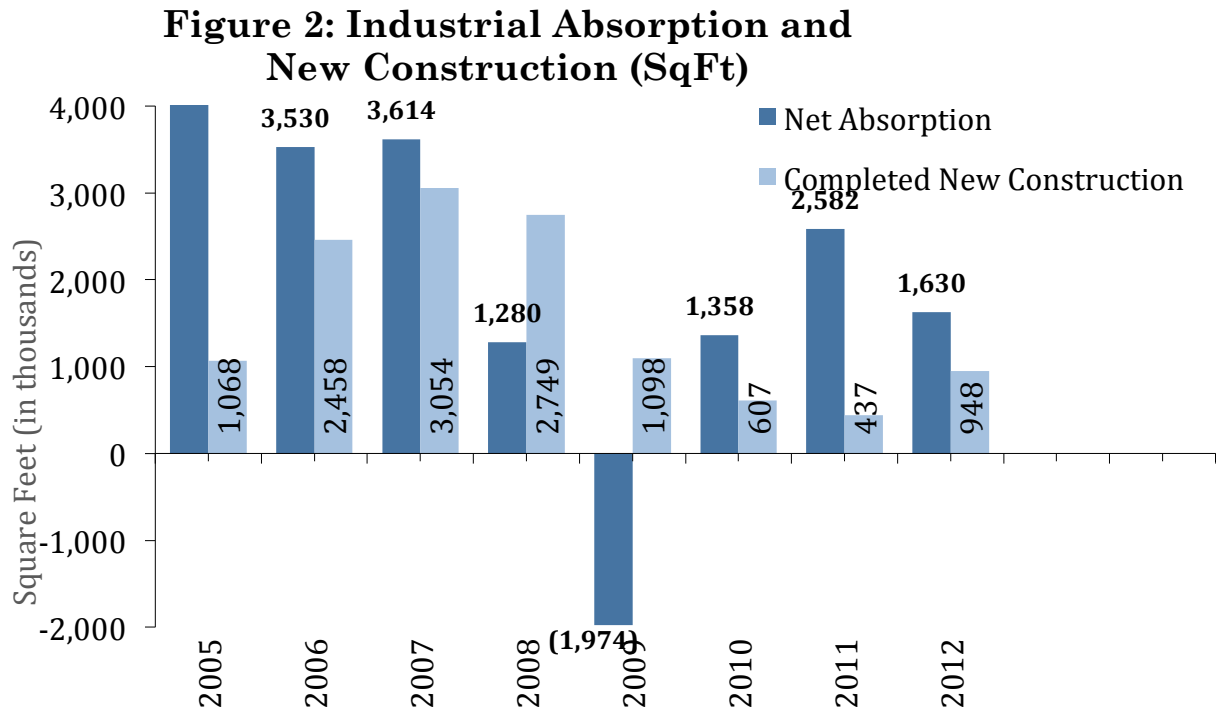
Vacancy Comparison (%)



Source: Norris, Beggs & Simpson



Source: Cushman & Wakefield

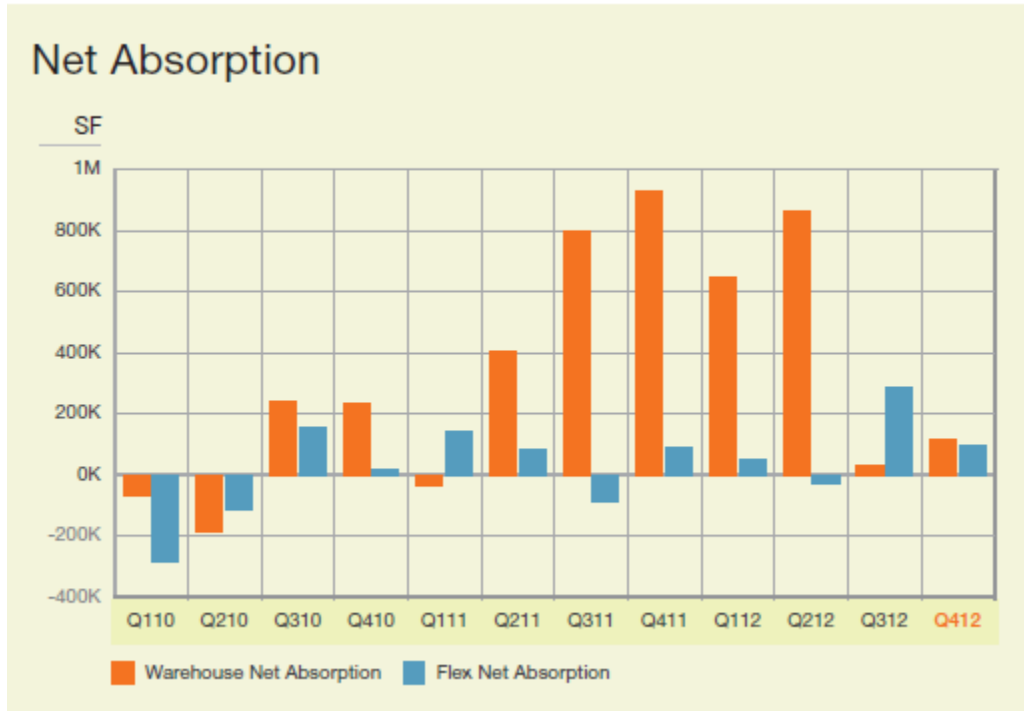


Source: Colliers International Quarterly Reports

Portland has enjoyed its tenth consecutive quarter of positive net absorption since Q3 2010. Although not as strong as 2011 in terms of overall net absorption, 2012 made a strong showing despite difficult external factors such as the election and natural disasters.

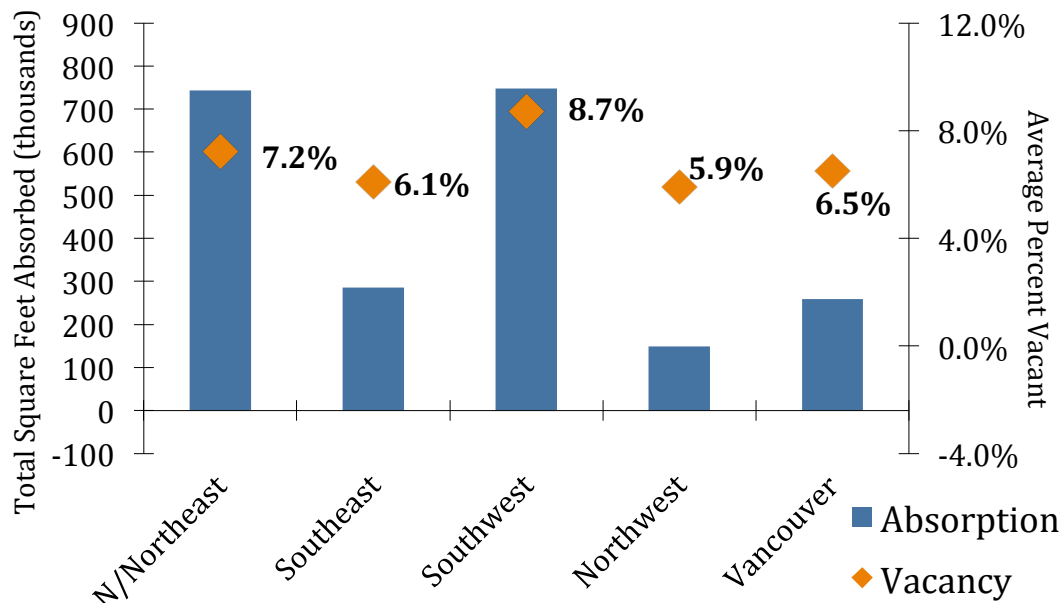
Construction has picked up to the highest level since 2009, although it is safe to assume that most of the projects completed in 2009 were initiated pre-recession. The tightening supply of large, quality warehouse and distribution space should have positive implications for increasing rates and renewed construction activity, reports Colliers International. Additionally, there is a shortage of developable land for industrial projects. Expect refurbishment, repurposing or demolition of existing spaces in 2013.

Redevelopment of existing properties, combined with the urban growth boundary and the robust demand for class A space should lead to a transfer between the ample supply of class B and C spaces and the short supply of class A spaces. This should occur as fundamentals improve and the market tightens.



Source: Kidder Mathews

Figure 3: Submarket Vacancy and Overall Absorption, Q4 2012



Source: Cushman and Wakefield, Q4 2012 Industrial Quarterly Report

Vacancy has been decreasing in all submarkets over the past three years, but has held steady at about 6.5 percent for the past three quarters, reports Cushman and Wakefield. The market was decidedly more active during the second half of 2011 and the first half of 2012, which lead to an overall less robust year for 2012 in terms of absorption.

Rental rates have stabilized in Q4. The blended (including shell and office surcharge) average asking rental rate in the market was \$0.45 per square foot per month, NNN, up from \$0.43 per square foot during the first three quarters, reports Kidder Mathews. Kidder Mathews reports that Hillsboro has seen a rise in rents as a result of demand from contractors for warehouse space near the Intel Ronler Acres expansion project.

One of the hardest hit markets has been spaces offering less than 10,000 square feet, which are commonly found in business parks. These spaces charge a larger amount per square foot, and have had higher vacancy rates in recent quarters.

Overall, very little improvement was shown in the last half of 2012, but indicators have remained on the plus side despite a flurry of shaky economic news. Rental rates for flex space have been unstable, while shell/warehouse rates have trended steadily upwards, which is overall good news for the market as a whole. With speculative construction remaining largely out of the picture, it is likely that renovations will be filling the void for class A space in the months to come. For 2013, it is expected that these trends will continue a slow, upward grind. ■