
INDUSTRIAL MARKET ANALYSIS

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Industrial development activity continued in the Portland area at a rapid pace, with strong fundamentals despite gradual tapering of leasing and sale activity. The market delivered over 2.4 million square feet in 2016, with an additional 2.5 million square feet under construction and anticipated for delivered during 2017. Due to high-demand and limited available supply, users are seeking space far into the outer reaches of the Portland region. Construction has started at the 43.5 acre Vancouver Portside Industrial Park, and sites as far north as Ridgefield and as far south as Woodburn are coming into play in 2017. Portland's average deal size for 2016 was 19,517 square feet, which is slightly less than 2015 but still significantly higher than the five year average of 17,426 square feet, according to CBRE.

VACANCY AND RENTS

High demand stemming from a strong manufacturing jobs market and limited supply has held vacancy rates steady the CBRE reports a stifling 3.4 percent vacancy rate. Year-over-year, vacancy declined over 26 percent.

■ Andrew Crampton 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 expressed are those of the author solely and do not represent the opinions of any other person or entity.

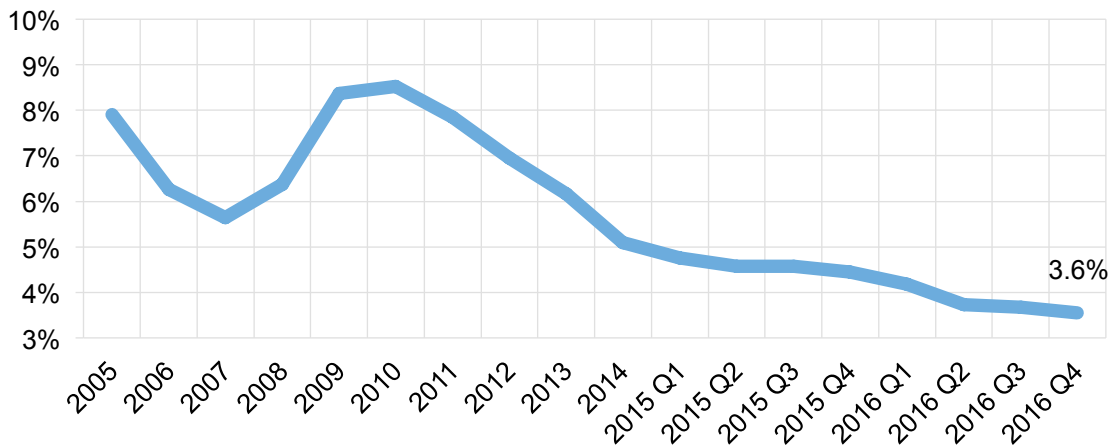
Table 1: Portland Metro Industrial Quarterly Report Survey Q4 2016

	Colliers	JLL	CBRE	Kidder Mathews	Average Q4 2016
Vacancy					
Total Vacancy	3.90%	3.40%	3.40%	3.50%	3.55%
Flex	8.30%	7.60%	-	-	7.95%
Weighted Average	4.30%	3.79%	3.40%	3.50%	3.75%
Rents *					
Industrial Market	\$0.52	\$0.59	\$0.44	\$0.55	\$0.53
Flex	\$1.03	\$0.94	N/A	N/A	\$0.99
Weighted Average	\$0.57	\$0.62	\$0.40	\$0.55	\$0.54

* Asking rents; Industrial = shell space; Flex = shell and office space

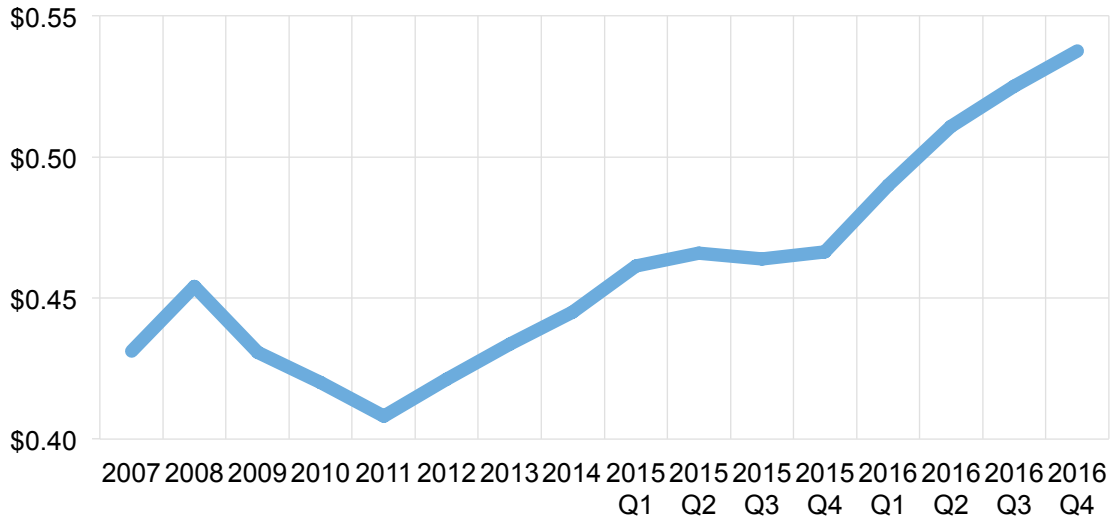
JLL reports that Portland experienced its largest 12-month rent increase on record for 2016, increasing 18% to \$0.59 per square foot. New construction delivered overall 83 percent leased. Lease rates have remain mostly unchanged from last quarter despite significant market absorption, with over 850,000 in the fourth quarter. Vacancy is lowest in the Sunset Corridor/Hillsboro at around 2.2%, close-in Portland markets at 2.2 percent and Clackamas/Milwaukee. Overall vacancy is highest in the Rivergate district at 6.4 percent due to substantial recent delivery.

Figure 1: Portland Metro Distribution/Warehouse Vacancy Rate, 2007–2016 Q4



Sources: Average of Quarterly Reports from CBRE, JLL, Colliers, Kidder Matthews

Figure 2: Portland Metro Distribution/Warehouse Asking Rents, 2007–2016 Q3



Sources: Average of Quarterly Reports from CBRE, JLL, Colliers, Kidder Matthews

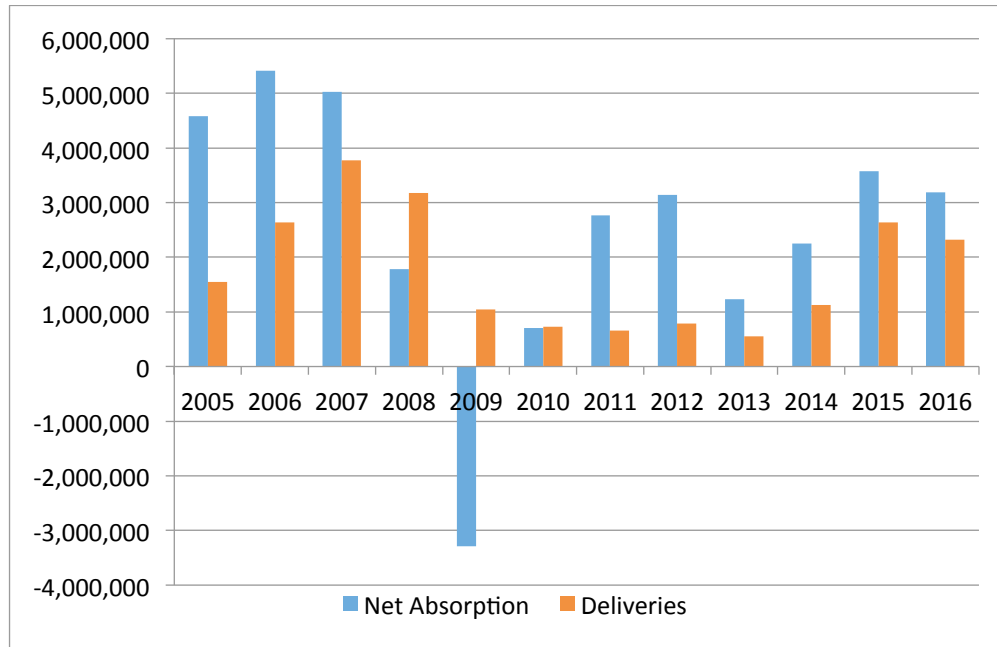
ABSORPTION AND DELIVERIES

Colliers reports that excluding build-to-suit and owner/user, six buildings totaling 635,835 square feet were delivered in the fourth quarter, with a 92 percent leased at delivery. Dermody properties is nearing completion of two out of three planned buildings at the LogistiCenter in the Airport Way corridor.

Table 1 Portland Metro Industrial Net Absorption Last 4 Quarters (Source: JLL)

	Distribution/Warehouse	Flex	Total
Q1 2016	573,104	5,696	578,800
Q2 2016	671,376	97,354	768,730
Q3 2016	427,411	174,317	601,728
Q4 2016	1,299,376	99,682	1,399,058
2016 Total	2,971,267	377,048	3,348,315

Source: JLL

Figure 3: Portland Metro Industrial Net Absorption & Deliveries, 2005–2016

Sources: 2006-2016 Colliers Quarterly Reports

INVESTMENT ACTIVITY

Investment activity continued a strong face even while facing increasingly limited available opportunities. Lincoln Property Company acquired Commerce Park portfolio, consisting of five industrial parks. Capacity Commercial reports that the 1,392,407 square foot portfolio sold for \$80.66 a square foot, with a cap rate of about 6 percent. Other major transactions include the sale of the Terminal 1 site in NW Portland to Lithia Motors for \$12 million to development a 395,000 square foot manufacturing hub on the 14-acre waterfront site.

Table 4: Notable Portland Metro Industrial Lease Transactions Q4 2016**Notable Leases****Q4 2016**

Tenant	Building	Submarket	Size (s.f.)	Type
USA Warehousing & Logistics Inc.	Rivergate Logistics Center	Rivergate	101,131	New
Aaron's Inc.	Rivergate Logistics Center	Rivergate	97,625	Renewal
Malarky Roofing Company	10603 N Lombard Street	Rivergate	65,369	New
Bridgetown Trucking	7726 NE 33 rd Drive	Airport Way	51,650	Expansion
PODS Enterprises	Clackamas Commons	Clackamas/Milwaukee	45,165	New

Sources: CBRE and Colliers

LOOKING AHEAD

The industrial market has begun to follow the office market trend of supplying co-working space. The largest fourth quarter lease was co-working warehouse NW Flex Space, delivering 205,000 square feet in Milwaukie. This venture allows smaller companies access to expensive equipment such as forklifts.

Additional trends in the industrial market are the rise of third-party logistics. JLL reports that 58.9 percent of current Industrial Market demand is from logistics and distribution tenants.

Major projects on the horizon for 2017 include Specht's Vista Logistics and Trammell Crow's Glisan Corporate Park, which both have accommodations for 150,000 square feet and larger users.

Although substantial supply is scheduled for delivery to the market in 2017, demand remains high and vacancy will continue to remain at record lows; pushing rents even further upwards. The industrial market will continue its strong performance in 2017, with little drop-off on the horizon. ■