INDUSTRY MARKET ANALYSIS: GUEST CONTRIBUTOR

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Well, we've arrived. Amazon has now hit the Portland/ Vancouver industrial market database. For years I've been able to share how we're doing with considerable certainty due to our quite sophisticated data base. Those days are over, at least for the next year or so (and then who knows what Amazon will be up to). In the past, I've identified that we've been running at about 3 million square feet of net absorption per year for the last few years and adding a little more than 2 million square feet per year of new construction. Not surprisingly, our vacancy rate has been dropping.

This past quarter we absorbed 2.2 million square feet (almost 9 million square feet at an annual rate) and completed 1.9 million square feet of new construction. Definitely an interruption to our normal process.

During the past quarter, Amazon completed and occupied two buildings in the greater Portland/Vancouver area. A 918,000 square foot building in Rivergate (North Portland) and an 857,000 square foot building in Troutdale. The Troutdale building actually has two additional complete floor mezzanines inside of it, resulting in about 2.2 million

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square feet of floor space for Amazon. Additionally, Amazon is constructing 1.0 million square feet in Salem, has 300,000 square feet in Hillsboro, 100,000 square feet in NW Portland, making it difficult to track the real world through the Amazon noise.

Our data base tracks leased space. Amazon leases, while developers and institutional owners that end up doing the work and owning the product. I've heard that one national owner of industrial real estate (think tens of millions of square feet) has had to quit investing in Amazon occupied buildings because Amazon has grown to more than 10 percent of what should be a very diversified portfolio.

As with most new concepts, speed to market is very important. When Amazon decided to build essentially a three-story product in Troutdale (as in very heavy footprint) on old riverbed, the structural engineers identified an issue with soft soils. No problem: Amazon told the developer to solve the problem and they would pay for it. The solution was over 4,000 concrete columns drilled around 50 feet deep to reach solid bedrock. I guess you pay what's needed to provide two-hour delivery.

Backing out the Amazon impact, it appears we had around 500,000 square feet of absorption with little new "conventional" product delivered, resulting in the vacancy rate dropping to 3.5 percent for warehouse-type product.

The "last mile" delivery demand for close-in warehouse space is driving urban vacancies down and causing close-in land prices to rise to the point where some industrial properties can potentially be torn down and redeveloped with modern industrial product. Examples of this effect would include:

- Rivergate vacancy has dropped to below 2 percent because it has quick access to downtown;
- Tualatin vacancy is below 1 percent because it has quick access to the southwest Portland metro purchasing power;
- Wilsonville vacancy has risen from less than 2 percent to more than 5 percent because with increased congestion, you can't get there anymore;
- Not tracked due to the small data base, but I estimate northwest Portland is less than 0.5 percent vacant.

Lease rates continue to slowly creep northward, still being in the low $0.50s on Portland's eastside and low $0.60s on the westside. Building prices are almost impossible to peg, as there are so few clean examples available to transact. Let's just say they are in the $100 to $150 per square foot range, which is still cheaper than new construction. Cap rates continue to get depressed, generally running around 5 percent for institutional grade product and 6-7 percent for smaller properties purchased by local individuals.

Getting around town continues to be a problem, although I've noticed that heading south on I-5 at the Hwy 217 interchange during afternoon rush hour has gotten better. Oregon Department of Transportation has just finished adding a new freeway lane from Hwy 217 to the I-205 interchange. Contrary to what I heard the head of Metro say recently, possibly adding capacity to a constrained system can increase throughput. Who'd of thunk it.

Discussions appear to be re-beginning on the Columbia River Crossing, mostly spurred on by the Washington side. At the same time, TriMet is looking to put the funding for a new southbound $2.2 billion light rail line on the ballot in 2020. Along with these big projects, the state seems to be moving forward on tolling I-5 and I-205.

Despite my concerns about industrial vacancy and the potential for transportation gridlock, I'm glad I don't do retail real estate. Industrial real estate seems to be in great shape, and with the tax cuts, should be doing well for at least a couple more years, if not longer. Absent

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the Amazon impact, I think we're still on course to meet my forecast of 2.5 million square feet absorbed this year—we already have more than 1.5 million square feet to date—and expect next year to be healthy also. We've got almost 4 million square feet under construction, so hopefully we won't run out of space anytime soon. ■