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industrial market analysis

MICHAEL LOWES
Portland State University

MICHAEL LOWES is an Associate Broker at Capital Pacific focuses on retail, office, and industrial properties. He is currently a candidate for the PSU Master of Real Estate Development (MRED) degree and a TigerStop Real Estate Student Fellow.

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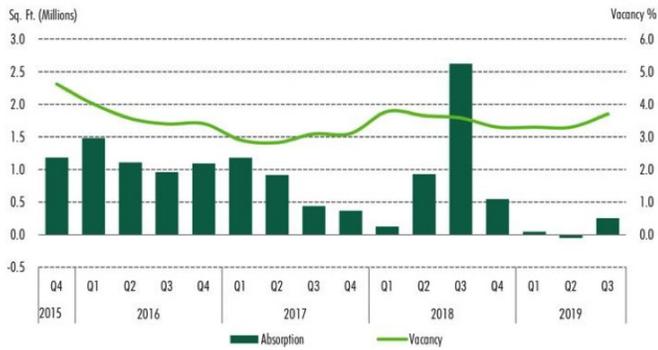
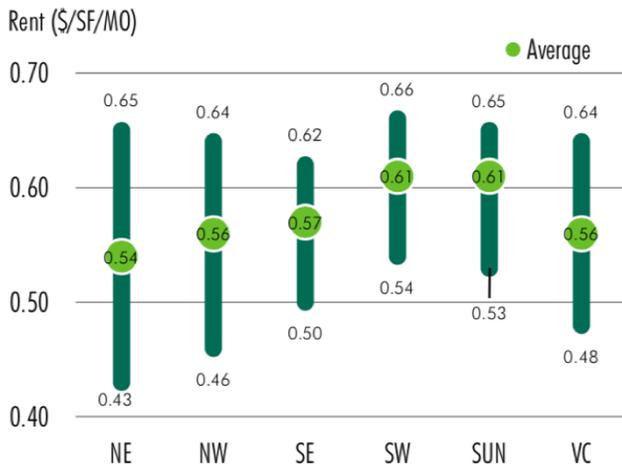


FIGURE 1 - HISTORICAL BASE MARKET TRENDS
 Source: CBRE Research, Q3 2019

An overarching theme of this quarter’s industrial trends is delivery. About 500,000 square feet of newly constructed product was brought online this quarter alone. Much of this space was speculative, leading to increased vacancy rates while leasing brokers searched for tenants to occupy the newly constructed assets. This is in sharp contrast with the recent past where many projects were built to suit with tenants in tow. Vacancy rates jumped nearly 0.5% to 4.2% overall from last quarter.

Along with growing development in the industrial vertical - job growth - which powers much of this area continued an uptick as well. Portland’s job growth, per CBRE, “has increased at an annual rate of 2.6%, compared to 1.8% nationally”, a welcome trend for the Portland industrial market. Much of this is powered by construction, leisure and hospitality, and manufacturing. Manufacturing has been a big player in recent job growth. Portland manufacturing employment is 5% above pre-recession levels, while the national rate is still 5% below those same levels as stated by CBRE.

Both vacancy and absorption saw trends moving upwards - much of which can be attributed to the heavy amount of newly delivered product in the marketplace. Though vacancy is heading into the higher territory, some good absorption in comparison to the rest of 2019 is helping to bridge that gap.



Source: CBRE Research, Q3 2019.

THE IMPACT ON RATES

Asking rates for industrial, as has been the case for the last two years, continue to climb. CBRE projects that rates will continue to grow around 14% over the next five years - a hefty number considering industrial hasn’t seen much of a slow down at all as of late. Southwest Portland and the Sunset Corridor remain the most sought after markets as reflected by their rates. Though Northeast Portland has a wide pricing range, the area delivers the most diverse of product - some older and neglected assets, as well as some that can garner top dollar.

Justin Carlucci of Bridge Development, a leader in the industrial space, spoke on Portland’s barrier to entry being a reason industrial is still so high performing and still so sought after. Since there is limited land and space for new projects to be built the values rise, and the buzz of the market helps the industrial sector continue to grow. This does impact some of the projects that may be done - we may see less spec as land becomes more and more scarce, but development is surely not going to slow.

NOTABLE SALES IN THE INDUSTRIAL SPACE

Solar World - 4050 NE Evergreen / 688,745 SF / \$44,131,105 (\$92.23/SF) / Buyer - RagingWire Data Center / Seller - SunPower Corp.

14000 NW Science Park Dr. / 108,631 SF / \$15,200,000 (\$139.94/SF) / Buyer - Columbia Sportswear / Seller - MKS Instruments, Inc.

16913 NE Cameron Blvd. / 320,795 SF / \$40,100,00 (\$125/SF) / Buyer - Barings / Seller - CBRE Global

Source: Capacity Commercial Group

We've focused on the urban growth boundary in other articles, but that will be something to keep an eye on as well as more and more development is limited by the sheer lack of developable area within our city.

WHAT TO KEEP AN EYE ON

Whenever there are elections, whether on the local or national scale, the real estate market is usually on high alert and may take a pause. With 2020 being a presidential election year, look to this being a bit of a longer more drastic shift in the market. Many in the real estate world are beginning to hold steady and not make any drastic shifts until they have a clearer vision of what may be to come both here in Oregon spreading to the United States and even globally. Any shift in power creates a shift in our economy as well - so be on the lookout.

Capacity Commercial Group points out that as the GDP continues to rise, interest rates stay primarily low and unemployment continues to drop then all signs are pointing to continued growth and a positive quarter to come. If we could see into the future then we would all be extremely successful and swimming in money, but that's not the case, so reading the signs in the economy is one way to foresee what may be to come. There are a lot of positives to look at, but a lot of hurdles and unknowns still on the horizon. There are sure to be changes, hopefully for the good, but changes nonetheless.