INDUSTRIAL MARKET ANALYSIS

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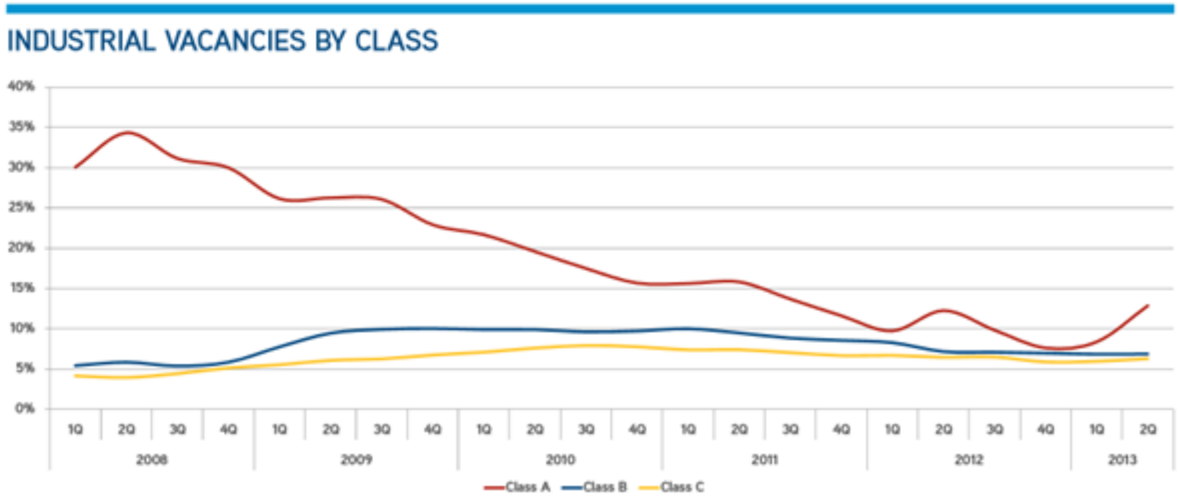
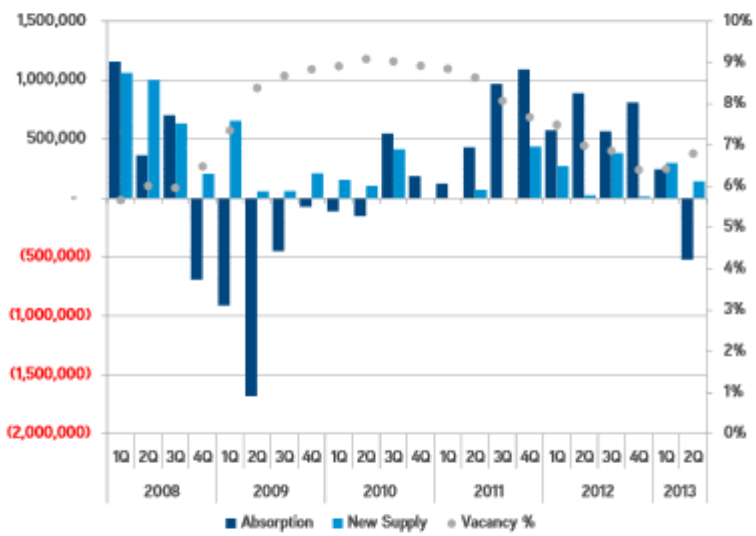
During the month of April the Portland area added 900 new jobs in construction and manufacturing alone. This does translate over to the industrial market, adding some much needed growth pressure to the market. Despite the upward pressure Colliers International is reporting that the Portland industrial market experienced a net absorption of negative 522,075 square feet. Kidder Matthews and CBRE are in the same ballpark with negative 690,716 SF and 257,514 SF, respectively. NAI Norris, Beggs, & Simpson is reporting slightly differently with positive 326,432 SF of absorption. Jones Lang LaSalle is reporting that 184,892 SF of industrial space was delivered last quarter, while Newmark Grubb Knight Frank is reporting zero deliveries last quarter and 34,625 SF delivered on the year.

For the first time in 3 years, vacancy has ticked upward and net absorption has turned negative. Vacancy is up a to 6.8 percent, a 4 basis point increase from last quarter, but still down 2 basis points from a year ago. Rents are up in Class A and B, and holding steady in Class C. The average asking rent stood at 46.2 cents per square foot at the close of last quarter, as reported by Colliers International.

■ Geoff Falkenberg it the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. 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.



Source: Colliers Int'l



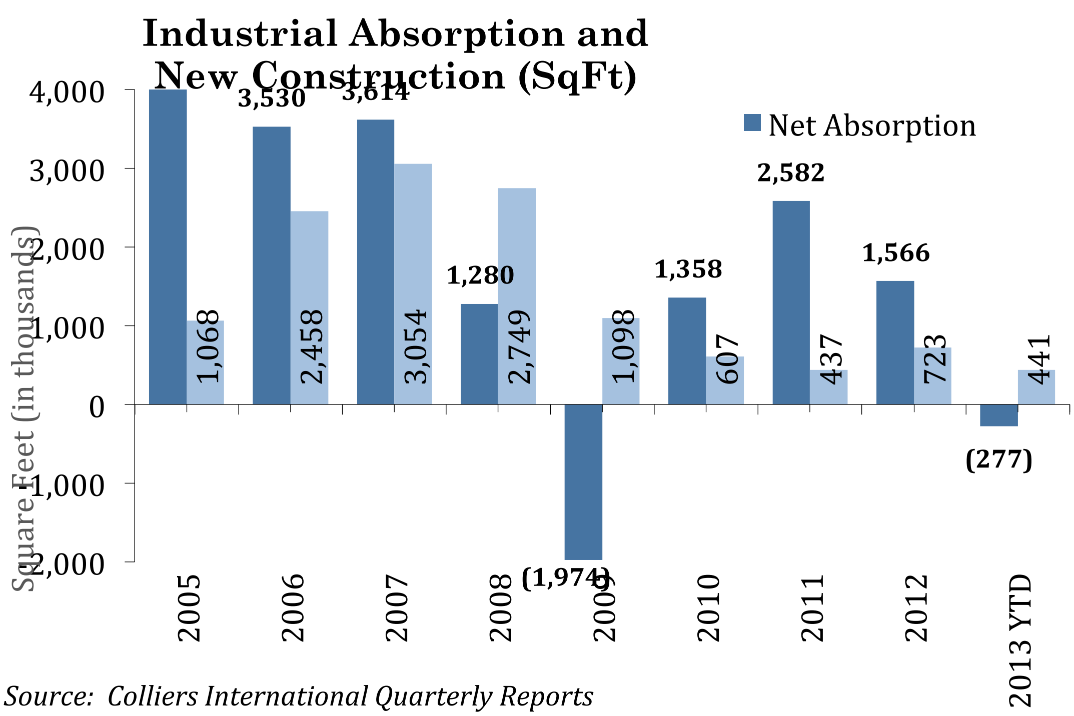
Source: Colliers Int'l

The loss in vacancy and absorption is due to downsizing and market timing. Portland's largest lease signed last quarter was Georgia-Pacific, downsizing from 600,000 SF to 402,450 SF. This alone contributed much to the markets negative movement. GI Joe's Distribution Center was sold this last quarter, but the 300,000 SF will not be absorbed until 1Q 2014. On July 1st both DHL and Bridgestone-Firestone signed new leases that will absorb a total of 409,000 SF of Rivergate Corporate Center 2.

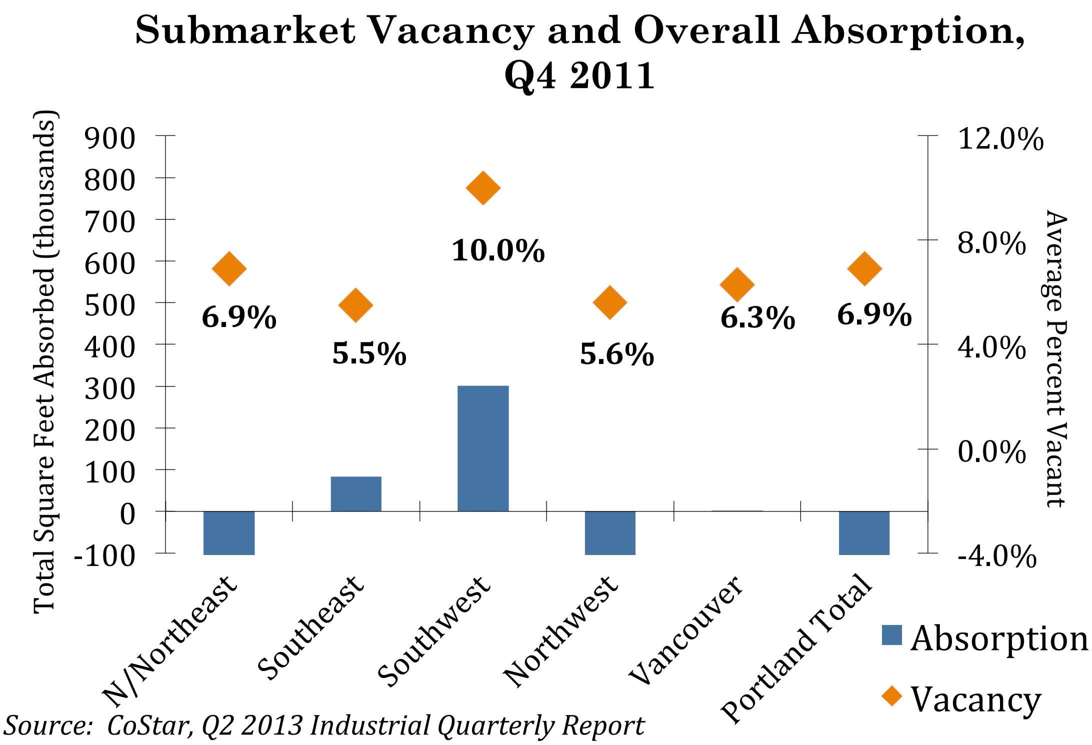
Q2 2013 Sale Activity of Note

Property Address	Location	Size (SF)	Date of Sale	Sale Price	Price Per SF
9805 SW Boeckman Road	Wilsonville	298,361	Apr 2013	$17,850,000	$59.83
18201 NE Portal Way	Portland	264,984	May 2013	$19,950,000	$75.29
7100 SW McEwan	Portland	110,250	May 2013	$6,800,000	$61.68
19700 SW 124th Avenue	Tualatin	83,500	Jun 2013	$3,000,000	$35.93
3725 SW Hocken Avenue	Beaverton	76,941	Mar 2013	$4,300,000	$55.89
21101-21149 SW 115th Avenue	Tualatin	48,000	Mar 2013	$3,880,000	$80.83
3777-3783 SE Naef Road	Milwaukie	33,000	Apr 2013	$1,900,000	$57.58
2117 NE Oregon Street	Portland	32,000	May 2013	$2,200,000	$68.75
2747 NW Rogers Circle	Troutdale	22,500	Jun 2013	$3,750,000	$166.67

Source: Kidder Matthews

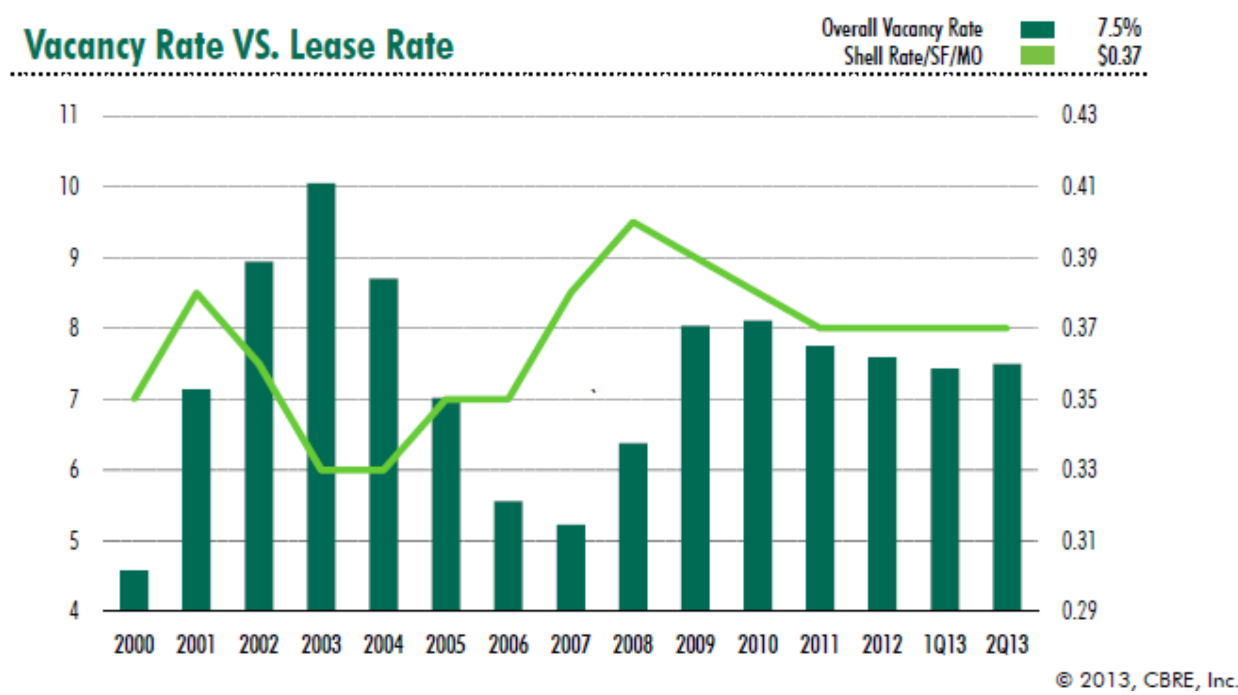


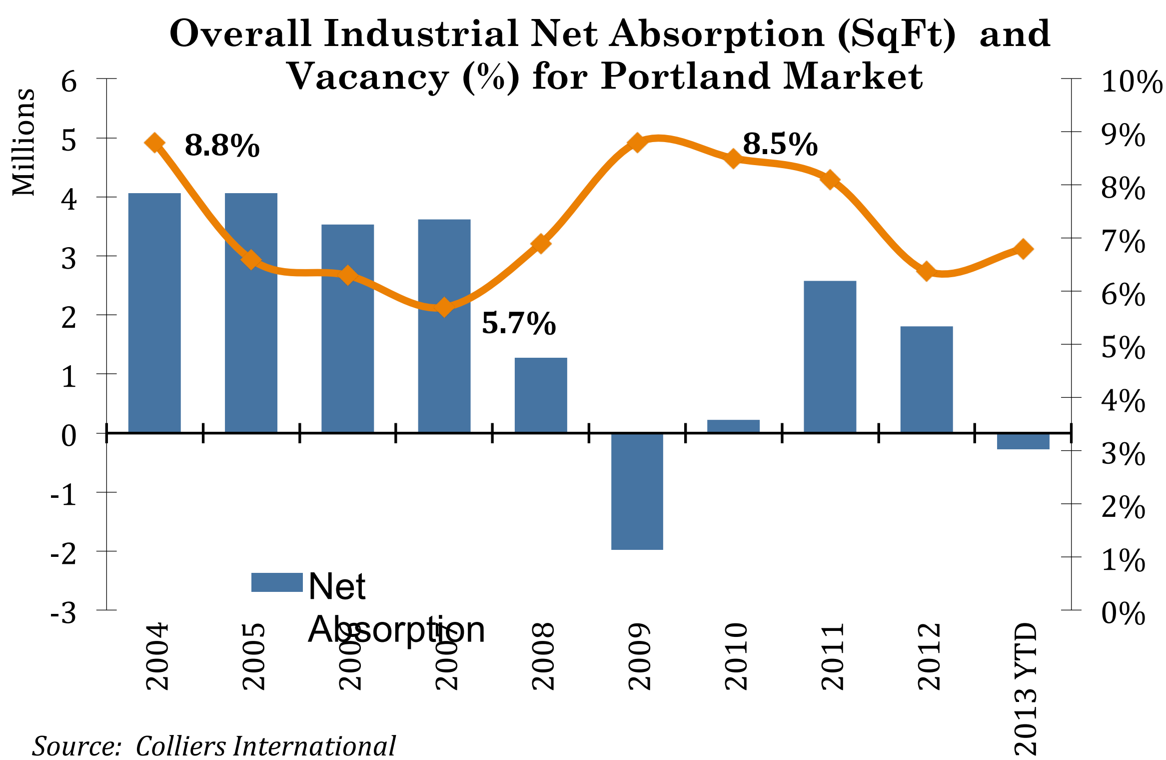
Source: Colliers International Quarterly Reports



Source: CoStar, Q2 2013 Industrial Quarterly Report

Despite the large variance in reporting between the major reporting companies on deliveries and absorption the overall consensus is that deliveries are low and absorption has turned negative. The I-5 corridor was the highlight of last quarter. NGKF is reporting a total net absorption of 283,540. The Sunset Corridor comes in second with 245,151 SF of net absorption, while Rivergate was the main drag on the Portland market with a negative 285,393 SF of net absorption. Again, much of the negative activity is due to downsizing during resigning (at least firms are staying in the market) and leases signed after the end of the quarter (absorption to be registered later).





Source: Colliers International

Even though absorption has tipped towards the negative and 2Q was the first quarter since 2010 that vacancy increased, the markets have held steady on lease rates. All in all the movements in absorption and vacancy could be considered 'lingering' more than moving in a negative direction. Usually, in this environment of single digit vacancy and modest movement in absorption we would anticipate rental rates to go up and a push for new development. This has yet to materialize due to lack of anticipation in demand growth beyond a slow and steady pace. As the overall job and product demand market continues to incrementally improve, demand for more industrial product will continue to remain pinned up.

In the last year Portland's economy has added 23,500 new jobs, at a rate of 2.3% growth, as compared to the national average of 1.6. The industrial market has experienced 3 consecutive years of positive absorption and vacancy decline as a result of this growth. Despite the fact that the growth run in the industrial market flattened and even reversed a bit last quarter, rents continue to grow ever so slightly and sentiment is that growth of the industrial market will continue as recent leases signed turn into absorption in the following 3 quarters. Also, as China begins to transition beyond a developing economy their interest rates will rise, exchange rate will flatten, and disposable income will increase, this may increase demand for American products, adding the potential of sustained future growth to the Portland industrial market. ■