

---

## OFFICE MARKET ANALYSIS

---

A. SYNKAI HARRISON

Portland State University

Portland is reporting the lowest metro area office vacancy rates in the county. The area's economy continues to grow with unemployment dropping to 6.1 percent, in June, it's the lowest level since mid-2008. Professional and business services are showing the largest number of jobs gained year-over-year with, education and health services as well as trade, transportation and utilities sectors showing significant growth as well.

### VACANCY

Jones Lang LaSalle reports that the technology sector is driving demand for office space in the Portland area, particularly within the Central Business District, which has led in part to Portland having the lowest office vacancy rate in the nation. According to CoStar, tech firms are leaving areas like San Francisco for cheaper office rental rates in Portland's Central Business District and suburbs.

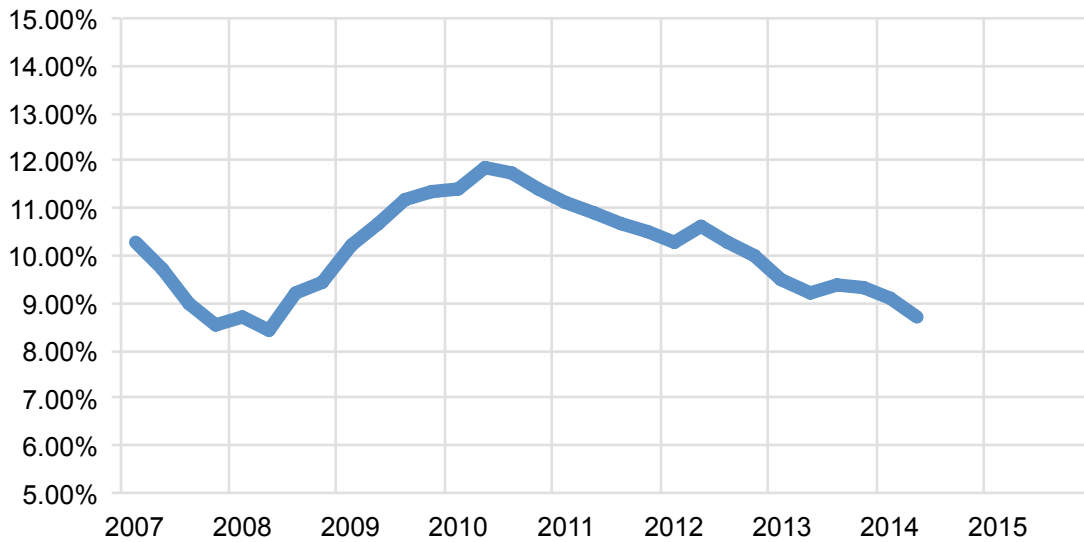
According to Jones Lang LaSalle, 30 percent of the demand for office space is coming from high tech and professional services companies and reports a total vacancy rate of 10.5 percent. CoStar reported a total vacancy rate of 8.6 percent at the end of the second quarter of 2014. Colliers reported a rate of 9.7 percent down from 10.4 percent in the second quarter of 2013. Kidder Mathews is reporting the lowest average vacancy rate for the Portland market at 8.7 percent

According to CoStar, Class A, as of the end of the second quarter of 2014, reported a vacancy rate of 10.3 percent. This was a slight decrease over last quarter

■ **A. Synkai Harrison** 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 are those of the author solely and do not represent the opinions of any other person or entity..

of 10.4 percent. The Class B market fared somewhat better at 8.6 percent equaling the overall market average according to CoStar. This was a significant improvement over the last quarter which ended at 9.2 percent. Class C properties had the lowest vacancy rate at the end of second quarter at 6.7 percent. Rates in the CBD averaged 9.6 percent at the end of the second quarter with Portland's suburban office market experiencing somewhat lower vacancy rates than the CBD, averaging 8.2 percent. According to Colliers, Portland's suburban vacancy rate is one of the lowest in country, surpassing areas such as Silicon Valley, Seattle, Houston, Dallas and Los Angeles.

**Figure 1: Portland Office Market Vacancy Rate, 2007–2014**



Source: Kidder Mathews

## RENTAL RATES

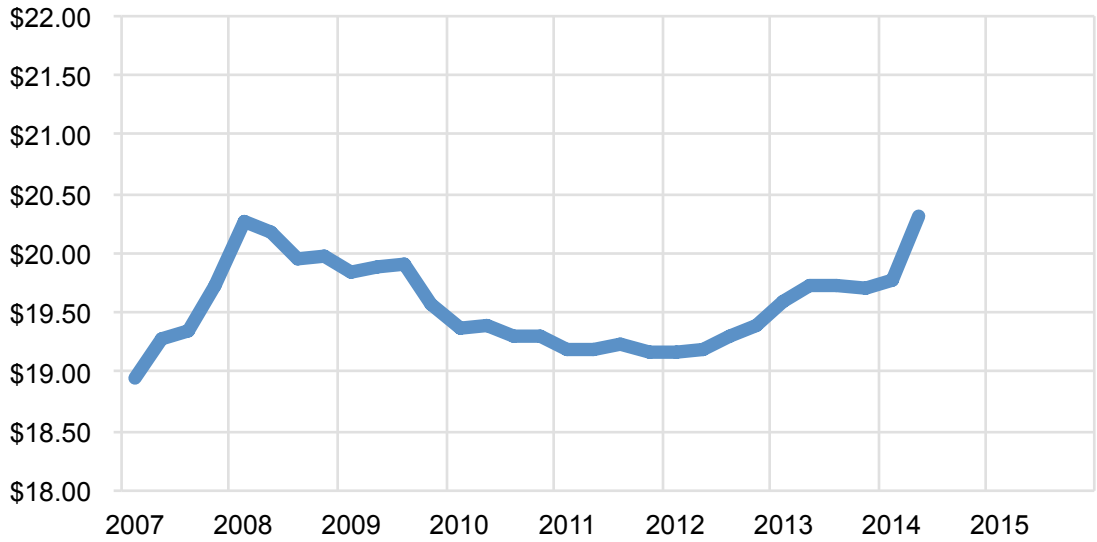
Portland's annual job growth rate, at 2.8 percent, is beating the national average of 1.8 percent. As the area's economy continues to grow and unemployment falls, this will continue to drive demand for more office space. Colliers estimates that the supply of new construction over the next two years may not meet the growing demand which should continue to put upward pressure on rental rates.

CoStar reports a slight improvement in average office rental rates from the first quarter. At the end of the first quarter of 2014, rents averaged \$20.44 per square foot whereas at the end of the second quarter, rates averaged \$20.59. CBRE reports an average rental rate of \$21.89 topping a fourth quarter 2008 peak of \$21.86. Colliers reported an average annual rental rate of \$21.07 per square foot. Jones

Lang LaSalle reported the highest average market rental rate of \$ 21.87. According to CoStar Class A averaged \$24.95 per square foot with Class B and C averaging \$19.18 and \$16.15 respectively.

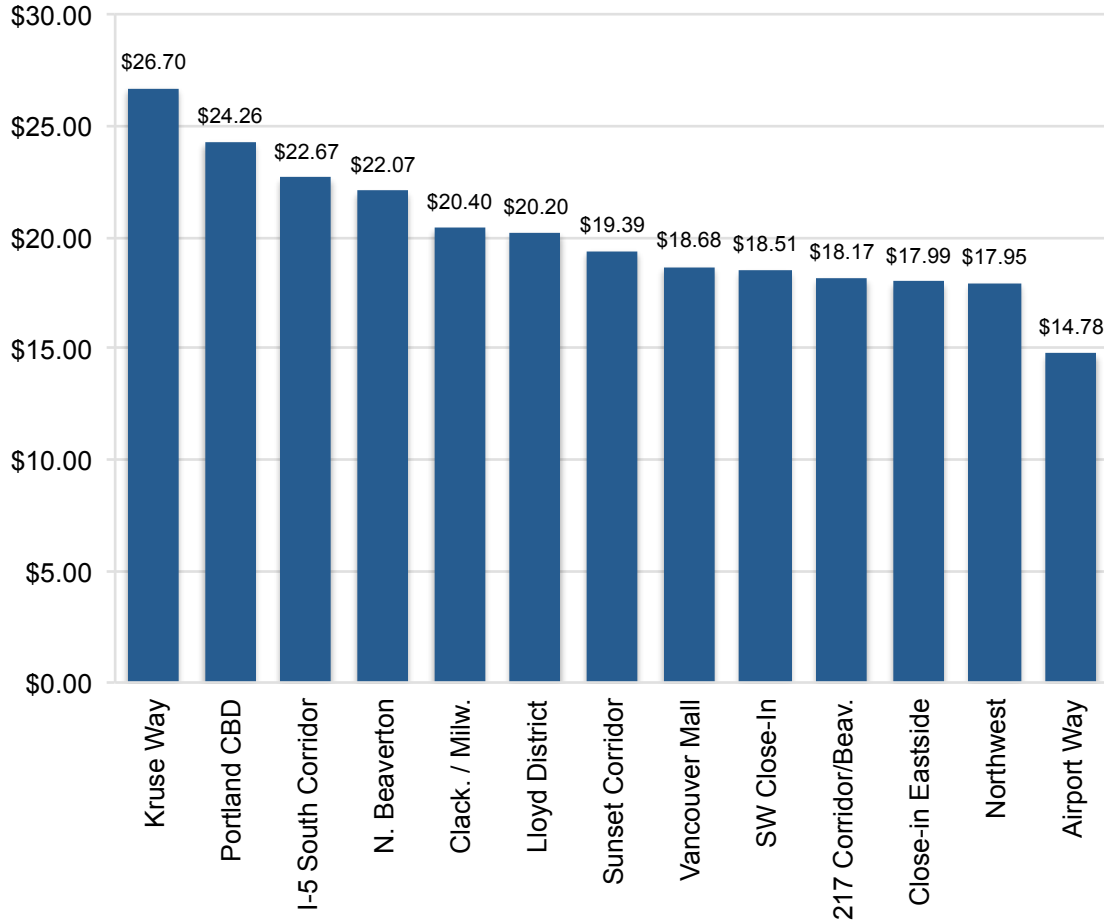
CoStar reports that the average rate in Portland’s Central Business District came in at \$24.26 compared to the suburban market’s average of \$19.30 at the end of the second quarter.

**Figure 2: Portland Office Market Average Asking Rents, 2007–2014**



Source: Kidder Mathews

**Figure 3: Office Market Average Asking Rents in Portland Area Submarkets, 2007–2014**

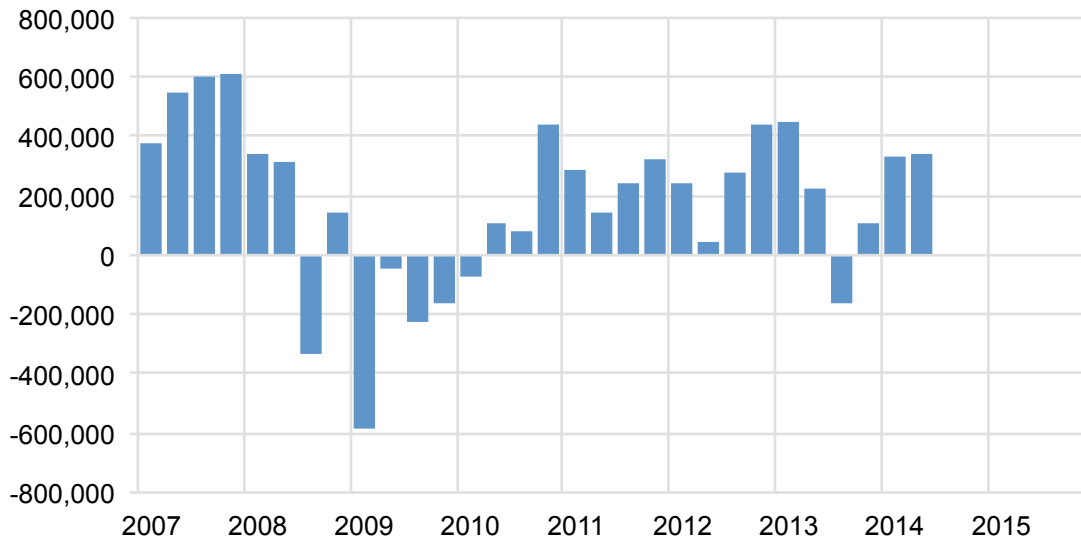


Source: CoStar/Colliers International

## ABSORPTION AND LEASING

According to CoStar, at the end of the second quarter of 2014, the Portland Office market experienced 358,112 square feet of positive absorption. This is a slight decrease compared to the first quarter of 2014 when the market experienced positive absorption of 429,407 square feet.

According to Colliers, the Portland office market absorbed over 787,000 square feet of space last year. Year to date total absorption at the end of the second quarter of 2014 was 671,577 square feet, so it would appear that Portland's office market is on track to exceed last year's totals.

**Figure 4: Portland Office Market Net Absorption, Square Feet, 2007–2014**

Source: Kidder Mathews

CoStar reports in the Class A office market, net absorption increased from 30,741 in the first quarter to 36,846 in the second according to CoStar. Absorption in the Class B market continues to improve. In the third quarter of 2013, Class B experienced positive absorption of 122,214 and decrease slightly to a positive 101,318 in the fourth. By the end of the first quarter of 2014 the market showed positive absorption of 331,438 square feet but dropped slightly in the second quarter to 306,526 square feet.

The Class C market experienced only 41,740 square feet of positive absorption at the end of the second quarter of 2014. At the end of the first quarter absorption was negative at 34,595.

As stated previously, much of the demand for office space is being driven by technology firms. Tech companies such as Smarch, Simple and VTech are just a few of the notable lease transactions that took place during the second quarter.

**Table 1: Notable Lease Transactions**

<b>Tenant</b>	<b>Address</b>	<b>Market</b>	<b>Size</b>
Genesis Financial Solutions	The Atrium	Sunset/HBO	72,574
Smash	Pacific Tower	CBD	47,640
Survey Monkey	US Bancorp Tower	CBD	38,288
Simple	905 NW 12th	CBD	37,441
Audio Precision, Inc	5750 SW Arctic	217 Corridor	27,900
VTech Comm. Inc	Nimbus Corp Ctr-Bld 3	217 Corridor	26,658
Lifewise Insurance	CH2M/ Parkside Center	CBD	20,301
Inovation Inc	US Bancorp Tower	CBD	18,426

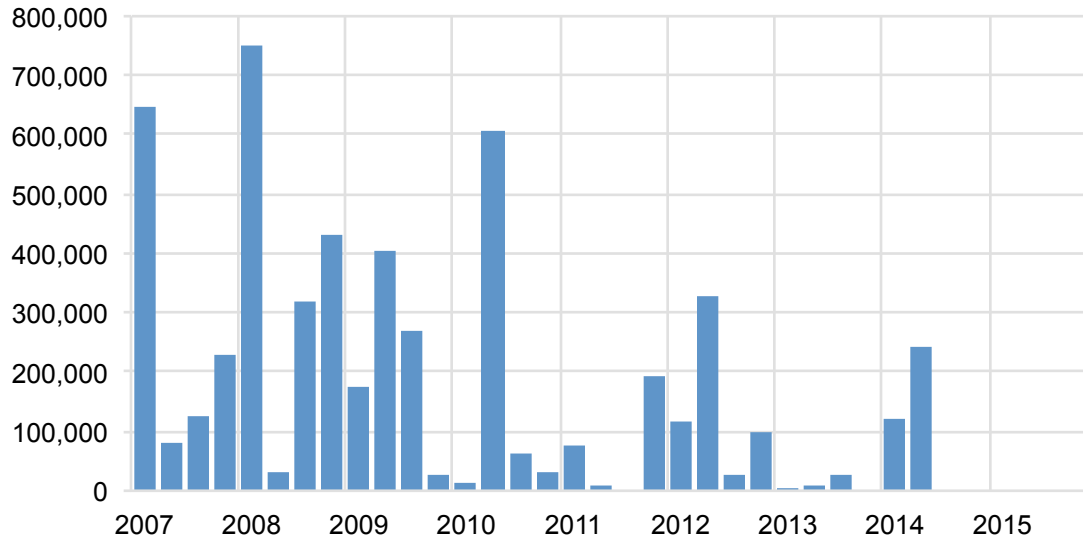
Source: Colliers International

**Table 2: Notable Sales Transactions**

<b>Tenant</b>	<b>City</b>	<b>Price</b>
Cascade Station I & II	Portland	\$30,000,000
Washington Center	Portland	\$9,000,000
811 NW Naito Parkway	Portland	\$8,550,000
Woodlark Bldg	Portland	\$6,850,000
Columbia Shores Off Bldg	Vancouver	\$6,750,000
George Lawrence Bldg	Portland	\$6,210,000
Orchards Center	Orchards	\$5,650,000

Source: Colliers International

**Figure 5: Portland Office Market Deliveries, Rentable Building Area, Square Feet, 2007–2014**



Source: Kidder Mathews

## DELIVERIES AND CONSTRUCTION

CoStar reports only 24,257 square feet of office space was delivered by the end of the second quarter compared to 119,521 in the first quarter of 2014. The market saw no deliveries during the fourth quarter of last year and only 20,000 at the end of the third according to CoStar. According to Jones Lang LaSalle, less than 100,000 square feet of space has come online this year and only 350,000 square feet will be delivered by the end of the year. With so little supply being delivered, if the trend of positive absorption continues this should continue to put upward pressure on rents which in turn could spur new development in the future.

CoStar identifies two notable projects in the works. The One North Radiator Building and the Park Avenue West Tower. Park Avenue West Tower reported being 69 percent pre-leased at the end of the quarter. One North-Radiator Building was reported as 54 percent pre-leased. Jones Lang LaSalle reports that Pearl West should break ground during the third quarter of this year. Also the renovation of 2&Taylor (the former Yamhill Marketplace) continues and should be completed by the end of this year. ■