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## OFFICE MARKET ANALYSIS

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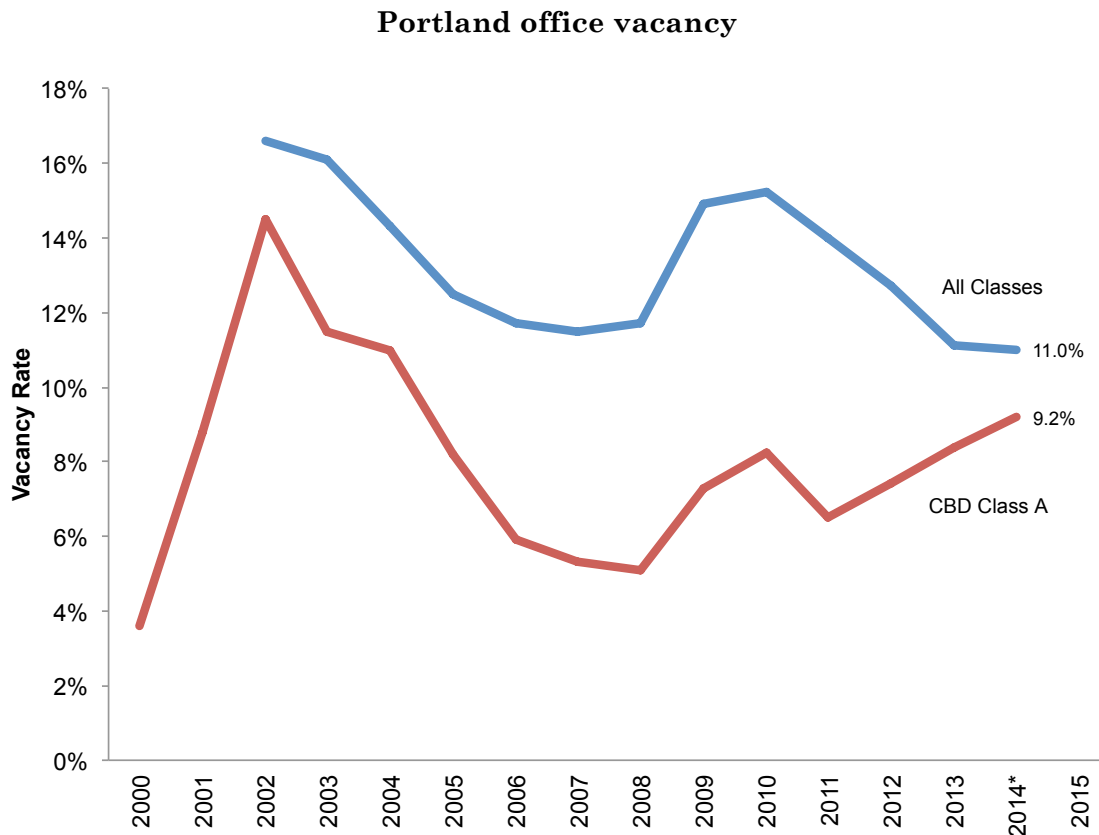
Over the last year, the Portland area added 27,500 new jobs and is project to continue to improve. Employment growth is predicted to put demand pressure on the already strong office market. For example, during the first quarter of 2014, vacancy continued to move down as five building were brought onto the market. Absorption, though relatively flat, remained in positive territory. CoStar reports that rental rates in the Portland area increased by 2.6 percent from fourth quarter 2013.

### VACANCY

According to Jones Lang Lasalle, Portland has nudged out both New York and San Francisco to claim the distinction of having the lowest office vacancy in the U.S. At 11.0 percent, vacancy in Portland is being influenced by two main factors: creative demand and lack of new supply. This juxtaposition is leaving developers scratching their heads on how to bring new product to the CBD.

With the Park Blocks, a considerably large amount of Class A office space will come online relatively soon and absorb a proportionate amount of pent up Class A demand. The majority of new demand lies in tech and industrial office start-up companies, but leave open the question of whether developers can convince banks to lend on projects.

■ Geoff Falkenberg is 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: Jones Lang Lasalle

Though low vacancy in Portland is dominated by the urban submarkets on both sides of the river vacancy is dropping in the suburban markets as well. Rental rates are on the rise and tenant improvements continue to subside as the CBD remains a landlords market, making suburban tenancy more attractive.

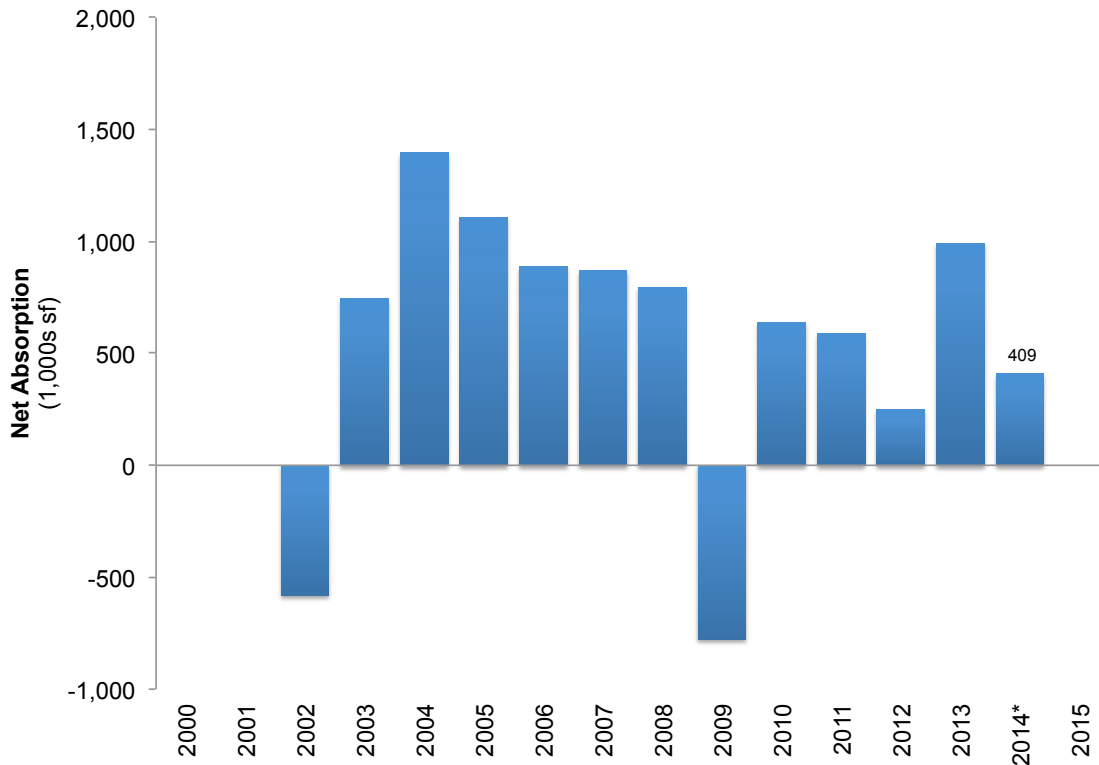
## ABSORPTION AND LEASING

CoStar is reporting absorption for the first quarter of 2014 at 459,667 square feet, while Jones Lang Lasalle is reporting 327,299 square feet. Variances in the definition of Portland aside, tenants are finding their way into the Portland office market despite the lack of large and contiguous spaces. According to CoStar, in the fourth quarter of 2013 absorption stood at 79,109 square feet and at negative 155,629 square feet in the third quarter of 2013. However the first quarter of 2014 showed a relatively strong start.

The renewal of the US Bank lease in the US Bancorp Tower is the largest Portland lease signing in the last 15 years, according to Kidder Mathews, and will result in

increased availability of Class A space as there is a downsizing in the renewal. Puppet Labs has taken interest in the renovations at Block 300 and have signed a nearly 75,000 square foot lease. The Daily Journal of Commerce reports that specialized tenant improvements include modern mechanical and power resources, bicycle parking for all employees, and room for dogs.

**Portland office vacancy**

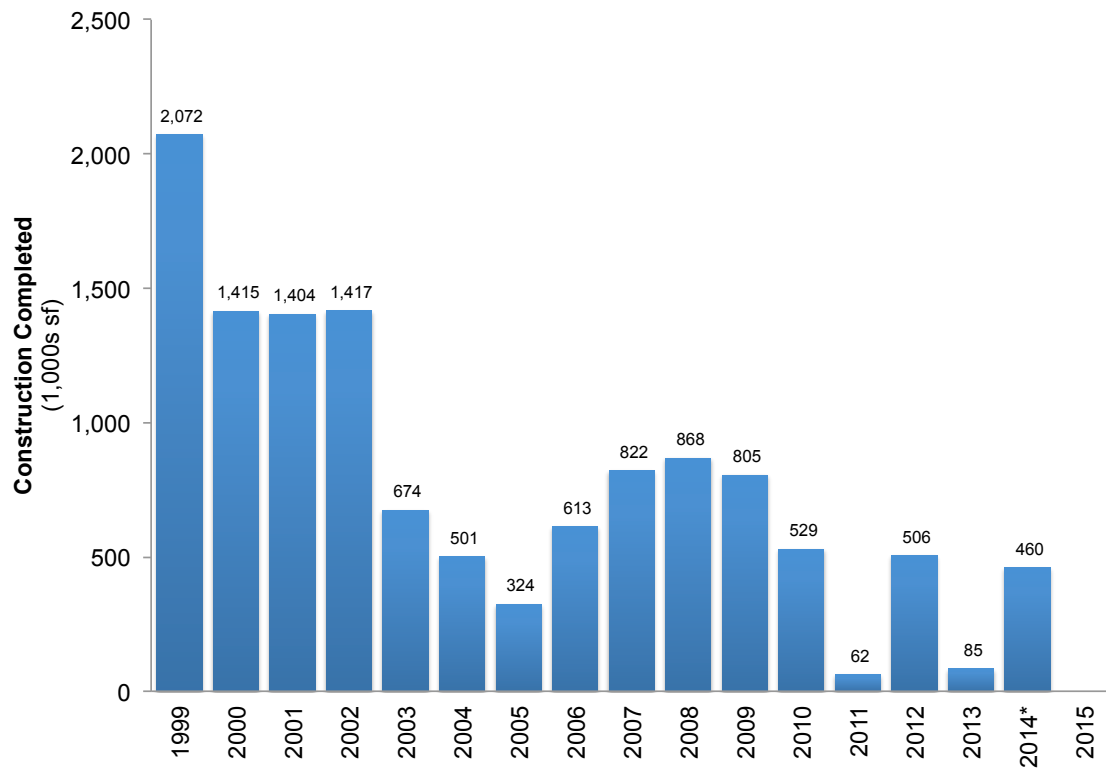


Source: Jones Lang Lasalle, CoStar, Kidder Mathews

**CONSTRUCTION AND DELIVERIES**

Over the course of the first quarter of 2014, CoStar reports 157,601 square feet in five buildings were delivered to the Portland market. During the last three quarters a total of 39,316 square feet were delivered to the market. In particular, 4310 SW Macadam Ave was finalized this last quarter, bringing approximately 100,000 square feet to the market. Park Avenue West Tower is well under way and will bring approximately 273,000 square feet, 77 percent of which are already preleased, to market by 2016.

**Portland area office construction completed**



Source: CoStar

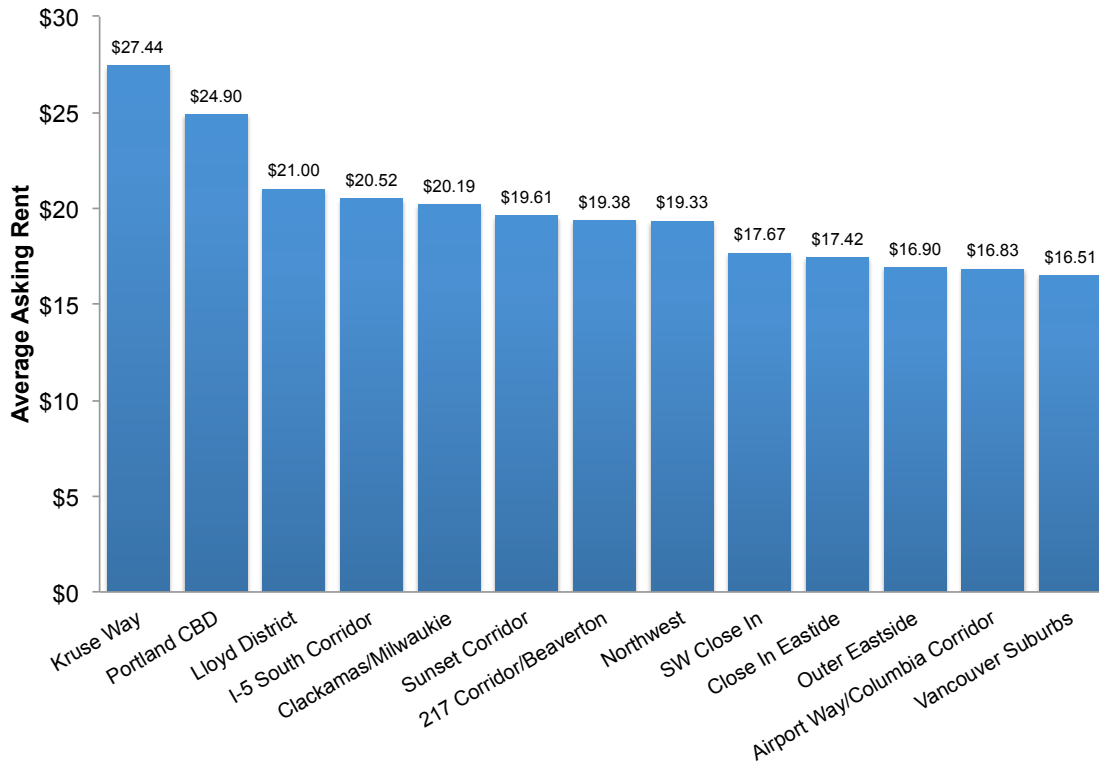
Completed lease transactions				
Tenant	Building/Address	Submarket	SF	Type
Stoel Rives	Park Avenue West	CBD	131,906	New
Nike	Greenbrier Court	Sunset Corridor	74,677	New
Coaxis	1510 SE Water Avenue	Close in Eastside	40,000	New
US Army Corps of Engineers	1201 Lloyd Building	Lloyd district	37,811	New
AT&T Mobility	South Place Office Building	I-5 South Corridor	27,529	Renewal
K&L Gates LLP	Umpqua Bank Plaza	CBD	21,200	New
Fios Inc	Pittock Block	CBD	20,000	Renewal
Regus	5 Lincoln Center	217 Corridor/Beaverton	19,463	Renewal
Kronos	Tigard Triangle Commons	I-5 South Corridor	19,353	New
Avanti Destinations	Columbia Square	CBD	17,349	New
Barran Liebman LLP	ODS Tower	CBD	16,400	Extension
Stoll Berne	Former Police Headquarters Building	CBD	15,785	Renewal
Compound Photonics	Bank of America Building	CBD/West Vancouver	12,135	New
Pacess Global	2000 SW First Avenue	CBD	12,103	New
Durham & Bates Agencies	Morgan Building	CBD	11,363	Renewal
Walker Macy	111 SW Oak Street	CBD	11,000	Renewal

Source: Jones Lang Lasalle

### RENTAL RATES

Rents are increasing in many bright spots across the metro area. In particular the Brewery Blocks are welcoming new tenants at \$38 per square foot and Park Avenue West is signing new leases above \$40 per square foot. Class B rents are up 3 percent from a year ago as the trend to convert traditional office space to creative space continues.

Portland area office average asking rent



Source: Jones Lang Lasalle