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## OFFICE MARKET ANALYSIS

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The US and Oregon economies remained steady during the third quarter of 2016 despite global uncertainties such as Brexit (the effects of which are still mostly unknown), but with the results of the US presidential election looming over the fourth quarter domestic uncertainties are abound. With that said both the US and Oregon unemployment rates stayed low in Q3 at 4.9 percent and 5.4 percent respectively. Portland's office market was strong in Q3 holding the interest of institutional and out-of-state investors. Most office vacancy rates decreased while rental rates rose, and the unemployment rate in Portland is also down to 5.3 percent.

Portland Metro's healthy third quarter economy and job market keeps office development growing and active.

- ✧ **JLL** emphasized Portland's employment gains were highest in educational and health services and government sectors while the Oregon overall employment rate grew at a rate of 2.4 percent. More talent is needed in the tech sector and the signs of being unable to maintain such high levels of growth are starting to show in the year-over-year data.
  
- ✧ **Colliers** focused on Q3's strong fundamentals which helped support the development of key submarkets. CBD and Westside rental rates were higher than last quarter even with landlords offering few concessions. The office development pipeline is strong compared to the last decade, but has slowed slightly compared to early 2016.

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- ✧ **CBRE** highlighted Portland’s “healthy development pipeline” and notes that a balance may soon be struck between supply and demand, particularly with the nine new projects that are expected to be added to the pipeline. Portland’s suburban market had its eighth consecutive quarter with positive net absorption, proving the strength of the entire Portland market.

**Table 1: Total Vacancy Rates by Brokerage and Class, Third Quarter 2016**

<b>Brokerage</b>	<b>Total</b>	<b>CBD</b>	<b>CBD Class A</b>	<b>CBD Class B</b>	<b>CBD Class C</b>	<b>Suburban</b>
<b>CBRE</b>	10.0%	8.9%	8.8%	8.0%	7.6%	11.4%
<b>Colliers</b>	8.3%	9.8%	10.2%	10.1%	7.7%	--
<b>JLL</b>	9.0%	8.1%	8.9%	7.4%	7.4%	9.7%

Source: JLL; CBRE; Colliers International

## VACANCY

CBRE’s data shows vacancy rates in Portland and the suburbs holding below ten percent, though many rates rose from Q2 numbers. Downtown vacancy rose to 8.9 percent from 8.2 percent. The Lloyd district rose to 4.7 percent from a 2.9 percent vacancy rate in Q2. The suburban market vacancy rate stayed below 12 percent and landed at 11.4 percent. JLL reported total vacancy at 9.7, a slightly higher rate than the 8.8 percent reported in the second quarter.

**Table 2: Portland Vacancy Rate by Market area and Submarket, Third Quarter 2016**

<b>Location</b>	<b>Q3</b>	<b>Change from Q2</b>
Portland CBD	8.2%	-0.3%
Lloyd District	3.8%	-1.4%
<b>Portland Central City</b>	<b>7.7%</b>	<b>-0.1%</b>
Clackamas / Milwaukie Totals	7.6%	-0.9%
Airport Way/Columbia Corridor	15.9%	-8.8%
Close In Eastside	4.2%	-0.7%
Outer Eastside	10.1%	-0.6%
<b>Portland Eastside Suburbs</b>	<b>8.7%</b>	<b>-1.8%</b>
217 Corridor / Beaverton	12.1%	1.4%
I-5 South Corridor	12.5%	1.3%
Kruse Way	9.6%	1.2%
Northwest	3.6%	0.2%
Sunset Corridor	9.0%	1.5%
SW Close In	6.6%	0.5%
<b>Portland Westside</b>	<b>9.7%</b>	<b>1.2%</b>
Cascade Park/Camas	5.2%	0.8%
CBD/West Vancouver	8.2%	1.1%
Hazel Dell / Salmon Creek	6.2%	0.7%
Orchards/Outer Clark	11.1%	0.0%
St. John's Central Vancouver	23.9%	1.0%
Vancouver Mall	4.2%	-0.3%
<b>Vancouver Suburbs</b>	<b>8.1%</b>	<b>0.7%</b>
<b>Portland Metro</b>	<b>8.6%</b>	<b>0.2%</b>

Source: JLL

## RENTAL RATES

**Table 3: Average Quoted Rates (\$/SF FSG) by Brokerage and Class, Third Quarter 2016**

<b>Brokerage</b>	<b>Average</b>	<b>CBD</b>	<b>Suburban</b>	<b>CBD Class A</b>	<b>CBD Class B</b>	<b>CBD Class C</b>
<b>CBRE</b>	\$25.27	\$28.35	\$22.04	\$30.91	\$27.18	\$24.44
<b>Colliers</b>	\$23.89	\$28.89	--	\$32.74	\$27.74	\$23.54
<b>JLL</b>	\$26.00	\$30.22	\$23.14	\$32.05	\$29.55	\$25.76

Source: CBRE, Colliers International, JLL

CBRE reported an overall rise in rental rates (5% increase year-over-year), and while Colliers International reported a decrease in some markets they still account for a year-over-year increase. JLL reported the highest rates both overall (\$26.00) and in the CBD (\$30.22), a full dollar more than CBRE or Colliers International. Rates, from all sources, are expected to keep trending up, though perhaps more slowly than in the beginning of the year.

**Table 4: Portland Average Direct Asking Rent (\$/p.s.f.) Ranked by Market Area and Submarket, Third Quarter 2016**

<b>Location</b>	<b>Q3</b>	<b>Change from Q2</b>
Portland CBD	\$30.22	(\$0.6)
Lloyd District	\$28.75	\$2.8
<b>Portland Central City</b>	\$30.11	\$0.15
Clackamas / Milwaukie Totals	\$20.55	(\$0.8)
Airport Way/Columbia Corridor	\$19.89	\$0.11
Close In Eastside	\$25.55	\$0.11
Outer Eastside	\$18.00	\$1.83
<b>Portland Eastside Suburbs</b>	\$21.73	\$0.14
217 Corridor / Beaverton	\$22.33	\$1.08
I-5 South Corridor	\$23.61	\$1.35
Kruse Way	\$29.64	\$0.7
Northwest	\$33.05	(\$0.93)
Sunset Corridor	\$22.70	\$2.1
SW Close In	\$20.20	\$0.91
<b>Portland Westside</b>	\$23.56	\$0.95
Cascade Park/Camas	\$20.26	\$0.49
CBD/West Vancouver	\$22.89	\$2.26
Hazel Dell / Salmon Creek	\$22.63	\$1.17
Orchards/Outer Clark	\$19.00	(\$0.74)
St. John's Central Vancouver	\$19.07	(\$0.82)
Vancouver Mall	\$16.85	(\$1.41)
<b>Vancouver Suburbs</b>	\$20.41	\$0.42
<b>Portland Metro</b>	\$26.00	\$0.88

Source: JLL

## ABSORPTION AND LEASING

**Table 5: Net Absorption (square feet) by Brokerage and Area, Third Quarter 2016**

<b>Brokerage</b>	<b>Overall</b>	<b>CBD</b>	<b>Suburban</b>
CBRE	176,177	158,406	58,074
Colliers	299,260	43,878	----
JLL	232,341	28,924	----

Source: JLL; CBRE; Colliers International

CBRE reported positive net absorption in all Portland Metro markets, as did Colliers International. And both agencies forecast this trend continuing into Q4. Both in-state and out-of-state companies are still attracted to the Portland area, wanting to move and/or expand their companies in the area, but this trend could be effected by the results of Measure 97.

**Table 6: Notable Lease Transactions, Third Quarter 2016**

<b>Tenant</b>	<b>Building/Address</b>	<b>Market</b>	<b>Square Feet</b>
Virginia Garcia Memorial Health Ctr.	3305 NW Aloclek Dr.	Sunset Corridor / Hillsboro	40,294
Kaiser Permanente	AmberGlen Corporate Ctr.	Sunset Corridor / Hillsboro	20,988
Perry Ellis International	Jantzen Office Building	Lloyd	18,760
Shari's Management Corp.	Nimbus Corporate Ctr.	217 Corridor / Beaverton	17,875
Shelter Products. Inc.	4560 SE Intl. Way	Clackamas / Milwaukie	14,371
World Pulse Voices	Jantzen Office Building	Lloyd	8,522
Merrill Lynch	Jantzen Office Building	Lloyd	35,200
Waggener Edstrom	M Financial Plaza	Pearl District	16,394

Source: Colliers International; CBRE

## SALES TRANSACTIONS

Colliers International noted one of the largest transactions in Q3, Fremont Place I & II at a price point of \$31,500,000. Most major transactions, according to CBRE and Colliers International, occurred in two markets, the CBD and the Sunset Corridor.

**Table 7: Notable Sales Transactions, Third Quarter 2016**

<b>Building Address</b>	<b>Submarket</b>	<b>Price</b>	<b>Price/SF</b>	<b>SF</b>
Fremont Place I & II	CBD	\$31,500,000	\$259.26	121,499
Board of Trade Building	CBD	\$18,000,000	\$204.14	88,174
Beaverton Creek BP Phase III	Sunset Corr./Hillsboro	\$9,500,000	\$138.12	68,780
Beaverton Creek Office Bldg +Land	Sunset Corr./Hillsboro	\$8,430,000	\$162.63	51,835
Modish Building	CBD	\$2,950,000	\$122.92	23,999
Twin Oaks Executive Center	Sunset Corr./Hillsboro	\$2,560,000	\$179.72	14,244
NW Center for Orthopedics	CBD	\$16,500,000	\$497	33,290
25 <sup>th</sup> & Lovejoy Medical Bldg	CBD	\$10,000,000	\$250	40,000

Source: CBRE; Colliers International



## **DELIVERIES AND CONSTRUCTION**

CBRE's data shows that 652,754 SF of office space has been delivered in 2016 and Colliers International reports 1.4 million SF of office space is currently under construction. Three notable projects started during Q3 are Leland James Center, Fair-Haired Dumbbell, and Field Office. Together these projects total 523,565 SF of the 1.4 million SF being developed in the Portland area. CBRE reports that Ninth & Northrup and Broadway Tower were also started in Q3 and are expected to be delivered in the next 18 to 24 months. Much of the office space being built is Class A space, a fact that is helping Portland stay competitive with high-end tenants, particularly in the tech sector.

Data on all fronts also show that office space supply and demand are starting to catch up with each other. Absorption rates are still on the rise, but they are slowing, as are rental rates, vacancy rates, and the like. Developers may need to start focusing on Portland submarkets if current demands start to flatten. Portland is becoming a more and more expensive city, something that is pushing some, if not many, local and small business out of the city and into the surrounding areas – a fact that will need developer's attention sooner rather than later.

**Table 8: Portland Office Market Construction and Deliveries by Submarket, Third Quarter 2016**

<b>Location</b>	<b>Deliveries (YTD)</b>	<b>Under Construction</b>	<b>% of Total Construction</b>
Portland CBD	605,983	584,329	36%
Lloyd District	28,563	81,594	5%
<b>Portland Central City</b>	<b>634,546</b>	<b>664,923</b>	<b>41%</b>
Clackamas / Milwaukie Totals	16,720	0	--
Airport Way/Columbia Corridor	0	0	--
Close In Eastside	82,800	352,924	21%
Outer Eastside	0	0	--
<b>Portland Eastside Suburbs</b>	<b>99,520</b>	<b>352,924</b>	<b>21%</b>
217 Corridor / Beaverton	0	0	--
I-5 South Corridor	0	0	--
Kruse Way	0	0	--
Northwest	29,933	476,454	30%
Sunset Corridor	0	0	--
SW Close In	0	110,120	7%
<b>Portland Westside</b>	<b>29,933</b>	<b>586,574</b>	<b>37%</b>
Cascade Park/Camas	206,000	0	--
CBD/West Vancouver	0	0	--
Hazel Dell / Salmon Creek	0	0	--
Orchards/Outer Clark	0	0	--
St. John's Central Vancouver	0	0	--
Vancouver Mall	0	0	--
<b>Vancouver Suburbs</b>	<b>206,000</b>	<b>0</b>	<b>--</b>
<b>Portland Metro</b>	<b>571,605</b>	<b>1,605,421</b>	<b>100%</b>

Source: JLL