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## OFFICE MARKET ANALYSIS

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Nationally the office sector experienced its “best performance in years” according to the National Real Estate Investor as employment in professional and business services sectors continues to grow. Demand in the office market is expect to remain strong in 2015 due to low inflation and the expansion of the US economy. Nationally the demand for office space is its strongest since 2006 with West Coast markets taking the lead. Once again technology firms continue to be a primary driver in the metro Portland office market as companies from San Francisco continue to seek Portland as their new home. Interest from institutional investors continues to grow due to low vacancy rates and increasing rents according to Jones Lang LaSalle, especially due to Portland being seen as a superior value compared to its closets major competitors.

### VACANCY

The overage vacancy rate for the Portland market according to Kidder Mathews ended the fourth quarter at 8.2 percent compared to the previous quarter at 8.6 percent and 9.4 percent at the end of the fourth quarter of 2013. Colliers International reports an average total vacancy of 9.2 percent for the Portland market at the end of the fourth quarter down from 9.6 percent at the end of the third quarter and 10.4 percent at the end of the fourth quarter of 2013. CoStar reports the lowest vacancy rate for the Portland metro office market at 8.1 percent down from 8.5 percent at the end of the previous quarter of 2014. Jones Lang LaSalle reports a total vacancy for the Portland metro office market of 9.6 percent at the end of 2014

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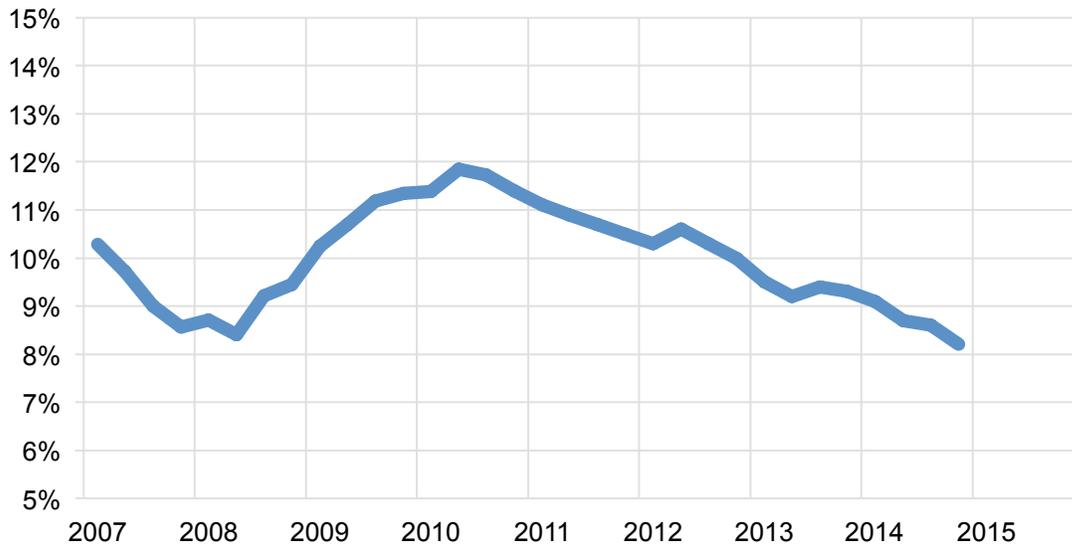
compared to 11.1 percent at the end of 2013. According to Jones Lang LaSalle this is the lowest vacancy rate for the Portland's office market in nine years.

Average vacancy rates for Class A projects was 9.6 percent at the end of the fourth quarter compared to 10.2 percent in the three previous quarters of 2014 and 10 percent in the end of the fourth quarter of 2013 according to CoStar.

CoStar reports that the vacancy rate has remained unchanged for Class B properties in the last two quarters at 8.5 percent. The vacancy rates for the first and second quarters was 9.5 percent and 8.8 percent respectively. Class C properties reported the lowest average vacancy rate, 5.9 percent, for all property types down from 6.6 percent at the end of the third quarter of this year.

As it seems with Portland's office market overall, tech firms continue to drive demand in the Central Business District (CBD). Jones Lang LaSalle recently reported that 30 percent of leasing activity in 2014 can be attributed to high tech firms compared to 18 percent in 2007. Finance firms came in second with 22 percent and professional services at 12 percent.

Norris Beggs and Simpson (NBS) reports the most significant drop in vacancy for the Central City Portland, which includes Portland's CBD, to 9.01 percent at the end of the fourth quarter of 2014 from 10.58 percent at the end of the third quarter. Portland's Northwest area reported the lowest average vacancy rate at 7.77 percent compared to the CBD at 8.84 percent according to NBS. Total vacancy in the CBD according to Colliers International was 9.2 percent at the end of the fourth quarter of 2014. CoStar reports for the CBD, overall average vacancy has dropped to 9 percent at the end of the fourth quarter down slightly from 9.1 at the end of the third quarter of 2014. NBS reports an average vacancy rate for the suburban market of 13.52 percent.

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

Source: Kidder Mathews

## RENTAL RATES

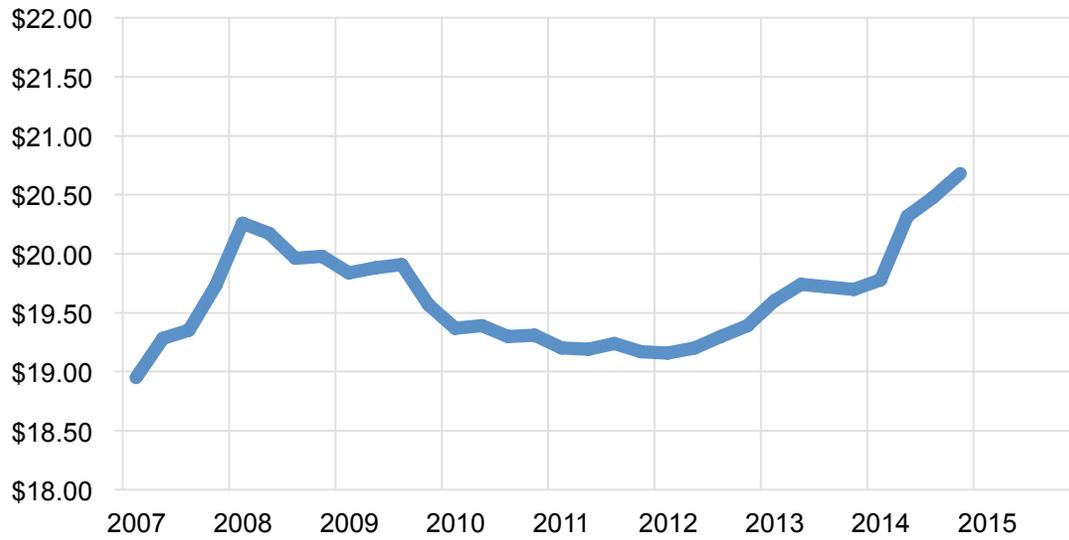
Colliers reports an average annual rental rate of \$21.34 per square foot for the Portland metro office market. The third quarter of 2014 ended with an average annual rental rate of \$21.14 per square foot. The fourth quarter of 2013 ended with an average rate per square foot of \$20.38 all according to Colliers. Kidder Mathews reports an average asking rate of \$20.68 per square foot up slightly from the previous quarter which ended with an average asking rate of \$20.53. The average asking rate a year ago was \$19.73 per square foot according to Kidder Mathews. Jones Lang LaSalle reports a direct average asking rental rate of \$22.49 per square foot at the end of the fourth quarter up from \$21.18 at the end of 2013. CoStar reports an average quoted rental rate of \$20.90 per square foot.

CoStar reports an average asking rental rate of \$24.91 per square foot in Portland's CBD up from \$24.53 at the end of the third quarter. The average annual rental rate for the CBD at the end of the fourth quarter of 2014 was \$25.20 per square foot, according to Colliers.

Class A office properties in the CBD reported an average annual per square foot rental rate of \$27.25 according to Colliers International. According to CoStar, the average quoted rate for the Class A market overall was \$25.17 per square foot at the end of the fourth quarter.

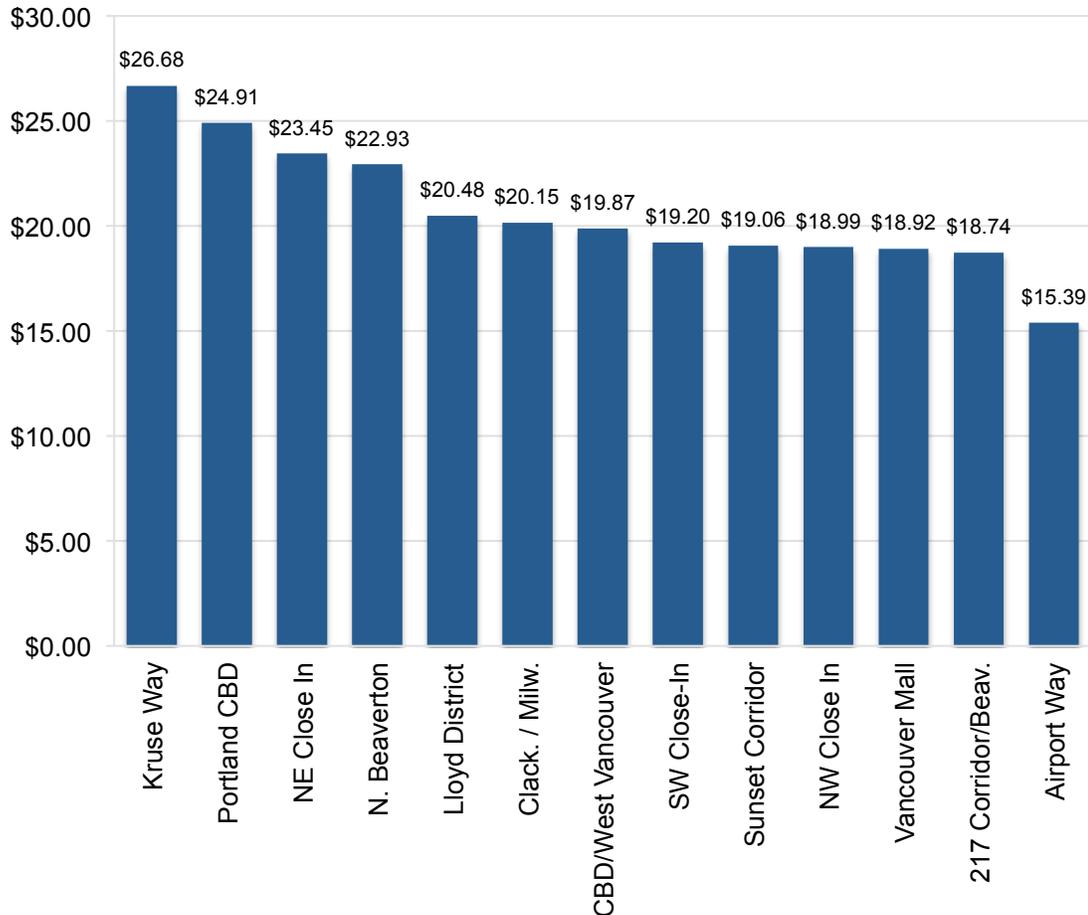
Class B properties reported an average quoted rate of \$19.50, according to CoStar with Class C reporting \$16.89 per square foot.

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



Source: Kidder Mathews

**Figure 3: Office Market Average Asking Rents in Portland Area Submarkets, fourth quarter 2014**



Source: CoStar

## ABSORPTION AND LEASING

Tech firms have become a primary driver in Portland's office market accounting for 35% of leasing activity in the fourth quarter of 2014 according to Jones Land LaSalle. Net absorption for the overall Portland market was 340,094 square feet according to Colliers International up from 102,997 square feet of positive absorption the previous quarter for a total of 1,022,416 square feet for the year. Norris Beggs and Simpson reports 229,146 positive absorption for the CBD and 260,146 square feet for the Central City as a whole. Norris Beggs and Simpson reports only 79,468 square feet of positive absorption for the suburban market. Some submarkets experienced significant positive absorption such as the Sunset Corridor with 92,323 square feet. On the other hand Central Beaverton and Central 205



**Table 1: Notable Lease Transactions**

<b>Tenant</b>	<b>Address</b>	<b>Market</b>	<b>Size</b>
Portland Energy Conservation	First & Main	CBD	41,310
CLEAResult	First & Main	CBD	28,426
Lattice Semiconductor	US Bancorp Tower	CBD	23,680
Aruba Networks	Block 300	CBD	22,181
VelaPoint	AmberGlen Corp Cen	Sunset/HBO	17,667
Schrodinger, LCC	One Main Place	CBD	16,554

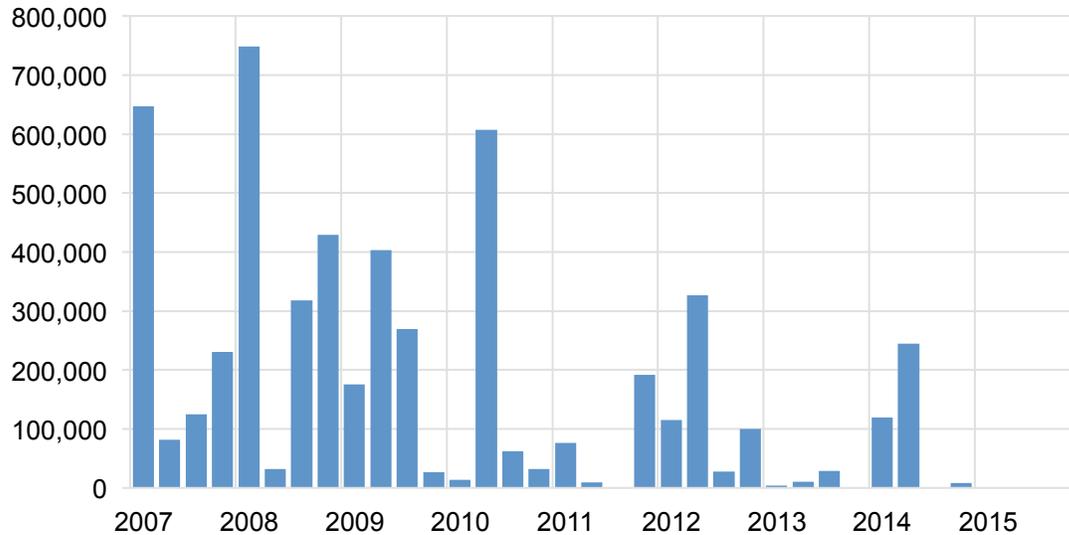
Source: Colliers International

**Table 2: Notable Sales Transactions**

<b>Tenant</b>	<b>City</b>	<b>Price</b>
One Main Place	Portland	\$87,300,000
Historic US Nat. Bank Block	Portland	\$40,000,000
The Yeon Bld	Portland	\$29,750,000
Mt. Scott Professional Ctr II	Portland	\$11,000,000

Source: Colliers International

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



Source: Kidder Mathews

## DELIVERIES AND CONSTRUCTION

Kidder Mathews reports that one building was delivered during the fourth quarter 2014 compared to three at the end of the third quarter, six at the end of the second quarter and four at the end of the first. CoStar also reports only one building was delivered at the end of the fourth quarter of 2014 totaling 36,000 square feet compared to 7,560 square feet in the third quarter.

Currently there are 9 buildings totaling 582,296 square feet under as reported by Kidder Mathews. The largest office projects under construction according to CoStar are the Park Avenue West Tower and Pearl West. Approximately 67 percent of Park Avenue West's 221,380 square feet is preleased. Pearl West, at 160,000 square feet, is 30 percent preleased. ■