
OFFICE MARKET ANALYSIS

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Statewide employment is growing at three percent annually according to the State of Oregon Employment Department, a percentage point faster than the rest of the country. The Oregon Office of Economic Management is predicting that job growth should continue at a rate of 2.9 percent in 2015 and continue on that pace for the next few years. In Oregon, professional and business services employment grew by 11,500 jobs over the past year, a 5.3 percent increase. Unemployment in the Portland metro area dropped to 5.2 percent, the lowest in seven years. In addition, wages and income in the state grew faster than the rest of the nation in 2014.

The Portland Business Journal recently reported that Portland is attracting significant interest from institutional investors. Portland's office market continues to benefit from an influx of startup and tech firms locating to the Portland area. With relatively low vacancy rates and steadily increasing rents, institutional investors are investing heavily in the Portland market. The recent sale of the Overton Pearl, at \$500 per square foot, is evident that Portland's office market is robust and continues to grow.

■ **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.

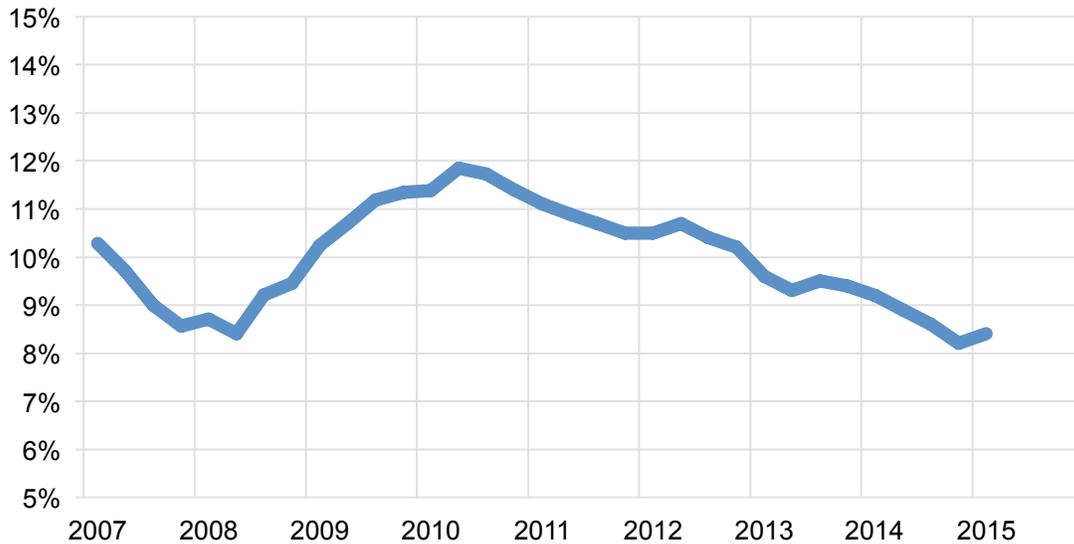
VACANCY

Overall office vacancy continues its downward trend as limited deliveries are unable to keep with demand. Kidder Mathews reports that overall average vacancy rate for Portland's office market at the end of the first quarter of 2015 was 8.4 percent.

This was a slight increase over the previous quarter of 8.2 percent, and a significant improvement over the first quarter of 2014 when the overall average vacancy rate was 9.2 percent. According to CoStar, Class A properties experiencing an overall vacancy rate of 9.9 percent down from 10.1 percent in the previous quarter and 10.7 percent at the end of the first quarter of 2014.

At the end of the first quarter Class B properties reported an average vacancy rate 8.7 percent, up slightly from the previous quarter at 8.6 percent. Vacancy rates for Class C properties reported an average vacancy rate of 5.8 percent down from 5.9 percent at the end of the fourth quarter of 2014.

Figure 1: Portland Office Market Vacancy Rate, 2007–2015



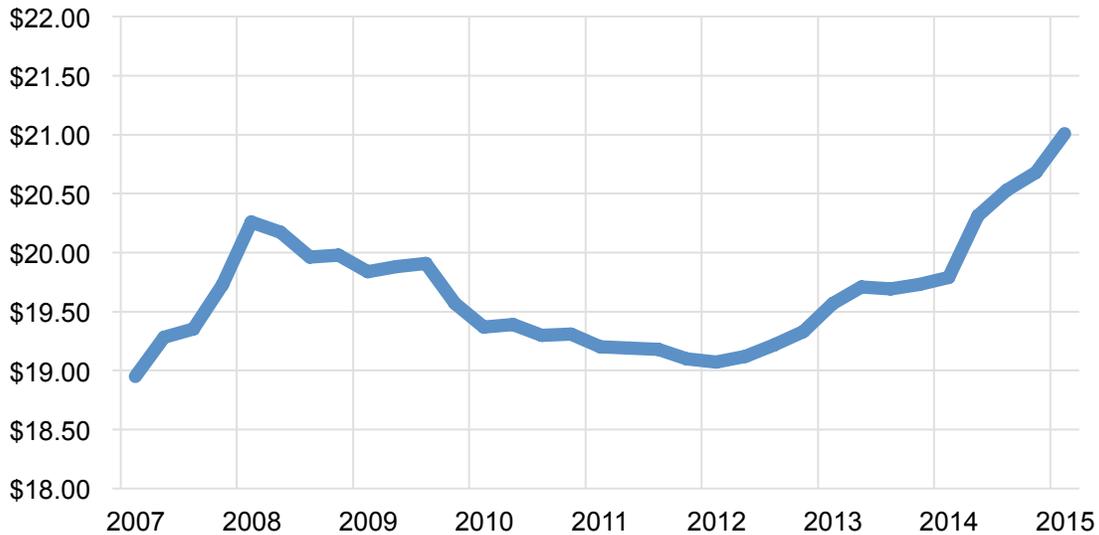
Source: Kidder Mathews

RENTAL RATES

The average quoted asking rental rate for the first quarter of 2015 was \$21.01 per square foot up from \$20.68 per square foot at the end of the fourth quarter of 2014 according to Kidder Mathews. The first quarter of 2014 ended with an average asking rental rate of \$19.79 per square foot.

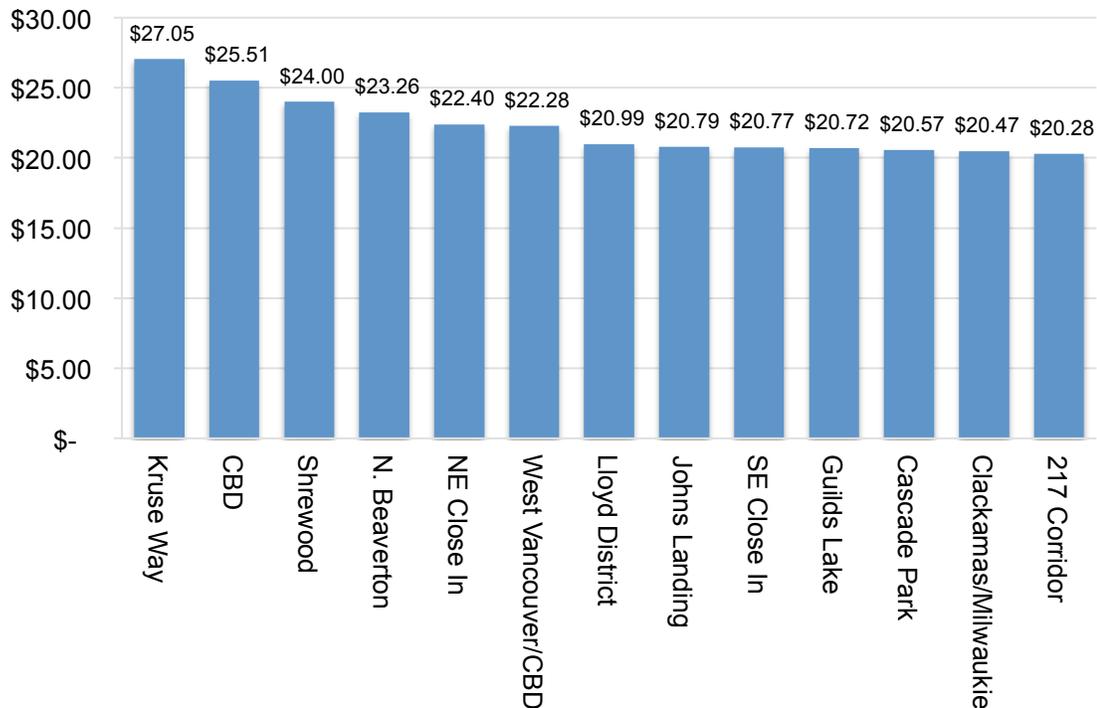
Class A properties reported an average asking rental rate of \$25.46 per square foot during the first quarter of 2015 compared to \$25.15 per square foot at the end of the fourth quarter of 2014. Class B properties reported an average asking rates of \$20.36 per square foot as opposed to the previous quarter where properties reported an average asking rate of \$19.37 per square foot. Class C properties reported an average asking rate of \$16.84 per square foot for the first quarter of this year. Properties in the CBD reported an average asking rental rate of \$25.51 per square foot compared to suburban markets which reported \$19.97 per square foot.

Figure 2: Portland Office Market Average Asking Rents, 2007–2015



Source: Kidder Mathews

Figure 2: Highest Office Market Average Asking Rents in Portland Area Submarkets, first quarter 2015



Source: CoStar

ABSORPTION AND LEASING

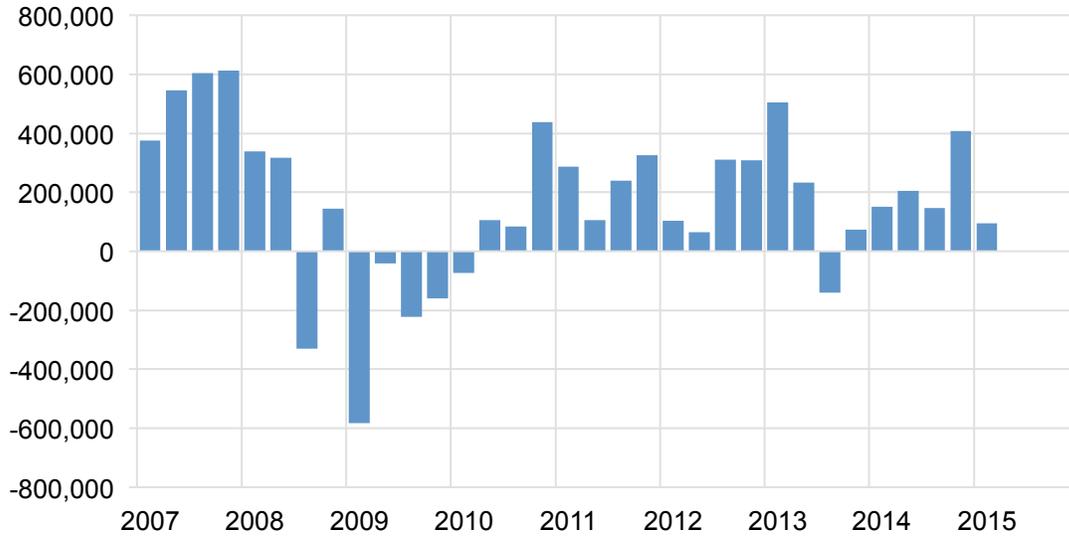
At the end of the first quarter of 2015, Portland's office market experienced 95,627 square feet of positive net absorption according to Kidder Mathews. This is compared to the previous quarter where net absorption was positive 407,079 square feet. The first quarter of 2014 saw 150,789 square feet of positive net absorption.

Class A properties reported 44,911 square feet of positive net absorption during the first quarter of 2015 according to CoStar. During the fourth quarter of 2014, the Class A market experienced 213,459 square feet of positive net absorption compared to the first quarter of 2014 where there was 68,289 square feet of negative net absorption. During the first quarter of 2015, the Class B properties reported 36,189 square feet of positive net absorption whereas in the previous quarter Class B properties reported 37,400 square feet of negative net absorption.

Out of all of the Portland metro area office submarkets, the Close-in southeast significantly outperformed all others with 124,359 square feet positive of net absorption followed by the Clackamas/Milwaukie submarket with 27,180 square feet of positive net absorption. Tigard and Lloyd District experienced the largest

amounts of negative net absorption with 38,229 and 36,402 respectively all according to CoStar.

Figure 3: Portland Office Market Net Absorption, Square Feet, 2007–2015



Source: Kidder Mathews

Table 1: 2015 Q1 Notable Lease Transactions

Tenant	Address	Market	Sq. Ft.
Planar Systems	AmberGlen Corp. Dr.	Sunset Corr	72,000
DiscoverOrg	805 Broadway	West Vancouver	27,043
Zapproved	Machine Works	CBD	19,258
Norris Stevens, Inc	Standard Ins. Ctr	CBD	14,470
Parson’s Brinkerhoff	Pacific Center	CBD	13,780
Smith Optics	200 SE MLK Jr. Blvd	Lloyd District	12,889
Guild Mortgage	Kruse Way Plaza I	Kruse Way	12,263

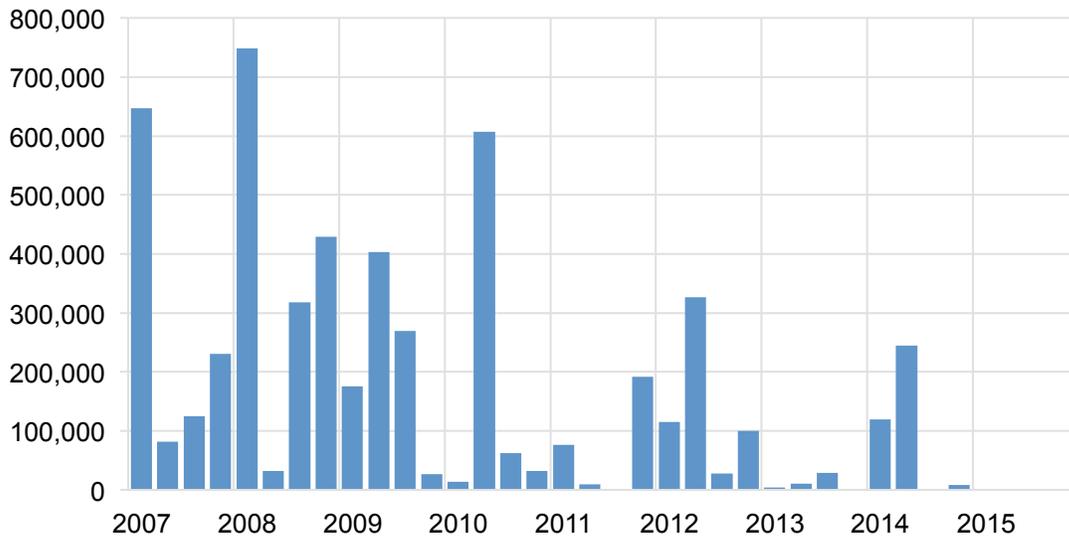
Source: Colliers International

Table 2: 2015 Q1 Notable Sales Transactions

Tenant	City	Price
KOIN Center	Portland	\$88,000,000
One Pacific Center	Portland	\$48,500,000
2100 SW River Parkway	Portland	\$35,350,000
The Overton Pearl	Portland	\$30,890,000
Mason Ehrman	Portland	\$14,500,000
321 Glisan	Portland	\$9,300,000

Source: Colliers International

Figure 4: Portland Office Market Deliveries, Rentable Building Area, Square Feet, 2007–2015



Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

Two office building were delivered to market by the end of the first quarter of 2015 according to Kidder Mathews for a total of 93,348 square feet, compared to 1 building last quarter with only 8000 square feet. The first quarter of 2014 saw four buildings delivered totaling 81,521 square feet. Currently there are ten buildings under construction in the Portland metro office market with a total rentable area of 990,673 square feet. ■