
INDUSTRIAL MARKET ANALYSIS

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Industrial development activity continued in the Portland MSA at a strong pace, reflecting strong employment growth coupled with limited supply. As a result, net absorption remained strong, even while facing rising rents, with a quarterly 2.2% increase and a 15.3% annual increase in rents, according to Colliers. Forty-six Portland-area industrial buildings changed hands during the third quarter at an average cap rate of 5.7%. Large developable parcels tend to be delivered at the fringe of the urban growth boundary, such as the Vista Logistics Park, with smaller projects delivered in closer-in areas. The number of projects under construction between 35,000 and 95,000 square feet increased to nine with four new development beginning in the third quarter alone.

VACANCY AND RENTS

Continually tightening vacancy indicates firm market fundamentals in the Portland market. CBRE reports that overall vacancy fell to 3.4%, 95 basis points lower than this time last year. This lowering vacancy rate is fueled by limited supply and strong Oregon employment growth. The Guilds Lake and Airport Way submarkets experienced the lowest vacancy rate at 2.0%.

■ **Andrew Crampton** 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 expressed are those of the author solely and do not represent the opinions of any other person or entity.

Table 1: Portland Metro Industrial Quarterly Report Survey Q2 2016

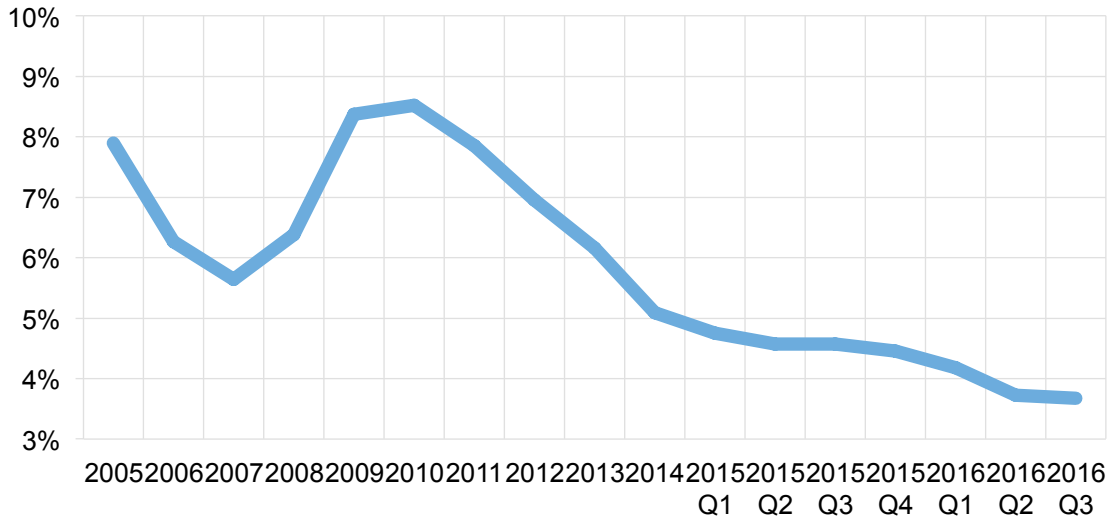
Portland Metro Survey Q3 2016

	Colliers	JLL	CBRE	Kidder Mathews	Average - Q3 2016
Vacancy					
Total Vacancy	4.30%	3.40%	3.40%	3.60%	3.68%
- Flex	7.40%	7.90%	-	-	7.65%
- Weighted Average	4.58%	3.82%	3.40%	3.60%	3.85%
Rents *					
Industrial Market	\$0.54	\$0.58	\$0.42	\$0.55	\$0.52
- Flex	\$1.01	\$0.98	N/A	N/A	\$1.00
- Weighted Average	\$0.58	\$0.62	\$0.38	\$0.55	\$0.53

* Asking rents; Industrial = shell space; Flex = shell and office space

Portland’s northern submarkets showed the greatest improvement in vacancy this quarter. The Northwest experienced a 54 bps improvement quarter-over-quarter while Vancouver dropped 52 bps.

Figure 1: Portland Metro Distribution/Warehouse Vacancy Rate, 2007–2016 Q3

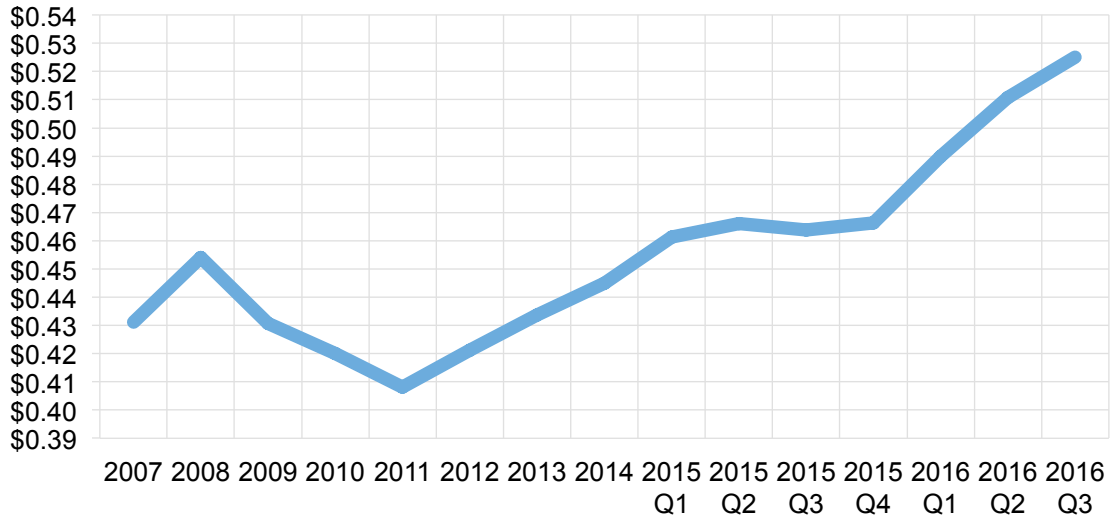


Sources: Average of Quarterly Reports from CBRE, JLL, Colliers, Kidder Matthews

Net absorption remained strong in Q3, even in the face of rising rental rates. Colliers reports average quotes shell rates reached \$0.54 by the quarter’s end, up

15% YOY. Proximity remains the key drive for asking rates, with close-in eastside average total asking rent at \$1.11 at quarter’s end.

Figure 2: Portland Metro Distribution/Warehouse Asking Rents, 2007–2016 Q3



Sources: Average of Quarterly Reports from CBRE, JLL, Colliers, Kidder Matthews

ABSORPTION AND DELIVERIES

Two large leasing transactions in the Southeast submarket were Premier RV Storage, consisting of 196,017 square feet, and the completed Clackamas Distribution Center #4, including a 190,600 square foot lease of Bunzl. Portland’s Sunset Corridor experienced its first quarter of positive net absorption since Q4 2015 due to strong leasing in AmberGlen and Tanasbourne Business Parks. Colliers reports that the industrial development pipeline delivered 691,000 square feet of new space market wide in Quarter 3, and 66% was pre-leased prior to delivery. Although net absorption experienced a small drop, the market remains well ahead of its 10-year annual average of 2,037,645 square feet.

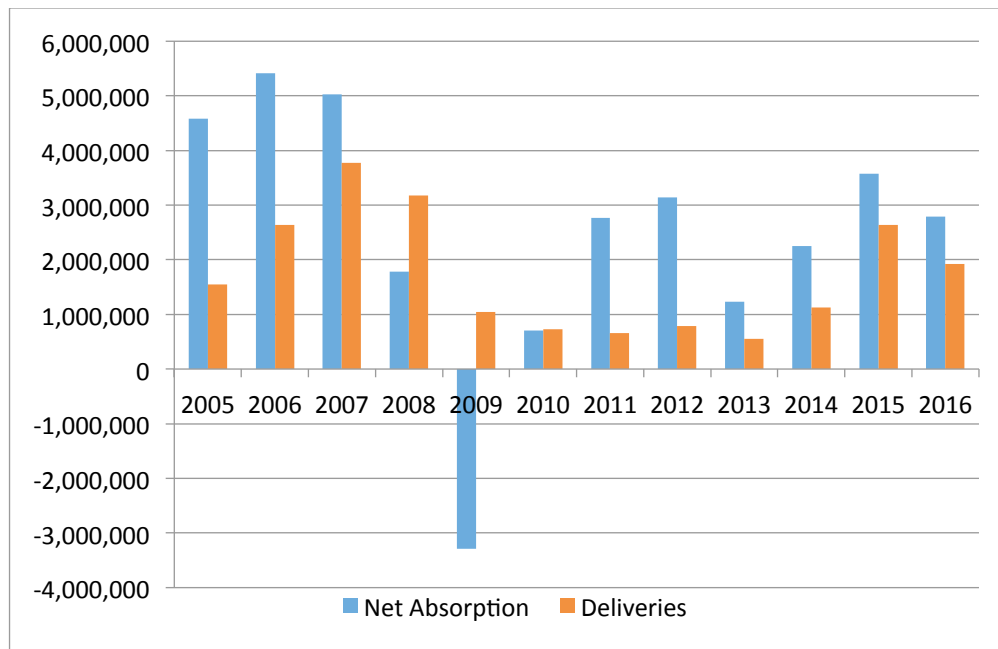
Table 1 Portland Metro Industrial Net Absorption Last 4 Quarters

JLL Deliveries and Absorptions

	Distribution/Warehouse	Flex	Total
Q4 2015	1,908,179	1,237,599	3,145,778
Q1 2016	573,104	5,696	578,800
Q2 2016	671,376	97,354	768,730
Q3 2016	427,411	174,317	601,728
Total Last 4 Quarters	3,580,070	1,514,966	5,095,036

Source: JLL

Figure 3: Portland Metro Industrial Net Absorption & Deliveries, 2005–2016 YTD (Excluding Intel)



Sources: 2006-2016 Colliers Quarterly Reports. 2016 Numbers Include Q4 2015

INVESTMENT ACTIVITY

Large institutional users and land constraints has limited the opportunity for large tenants. Of the 3.5-million square feet under construction, only one project, Specht's Vista Logistics in Gresham, has available space over 150,000 square feet. CBRE reports that the overall industrial sales price per square increased 2.4% in the third quarter, from \$89.90 to \$92.06. The 530,000 square foot Wilsonville Business Center sold to LBA Realty for \$100 per square foot and the 508,000 square feet Wilsonville Logistics Center, sold to Lexington Realty Trust for \$82/sq.ft.

Table 4: Notable Portland Metro Industrial Lease Transactions Q2 2016

Notable Leases Q3 2016

Tenant	Building	Submarket	Size (s.f.)	Type
Premier RV Storage	3901 SE Naef Road	Milwaukie, OR	205,303	New
Bunzl	Clackamas Distribution Center	Clackamas East Columbia	190,600	New
CTDL	22638 NE Townsend Way	Corridor	210,000	New
Wymore Transfer	Chigwin Distribution Center	Clackmas, OR	113,820	Expansion

Sources: CBRE and Colliers

LOOKING AHEAD

Portland's location as a prime west-coast distribution hub will play a key role in an increasingly e-commerce fueled market. JLL states that 64.7 percent of current industrial demand is comprised of logistics and distribution tenants. So far this year, UPS, Bunzl, Logistics Insights Corp, OnTrac and Wymore Transfer have all signed leases in excess of 100,000 square feet.

Even with all of the new supply set to come to market in the next two years, demand has been well above what is set to deliver, a sign that Portland industrial vacancy should remain at records lows with rents continuing to increase. ■