
INDUSTRIAL MARKET ANALYSIS

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CBRE recently reported that fundamentals in Portland's industrial market remain strong going into 2015 as asking rents continue to rise, vacancy rates continue their downward trend and absorption remains robust. Construction activity has increased with over a million square feet delivered to market during the past two quarters. Even though Portland is seeing more speculative construction, new construction is still low compared to historic levels.

VACANCY

The overall vacancy rate for the Portland metro area industrial market continues its downward trend. The first quarter of 2015 ended with an overall vacancy rate of 4.7 percent down from 5.0 percent at the end of the fourth quarter of 2014 according to Kidder Mathews. Portland's overall industrial vacancy rate has decrease 15 percent since the first quarter of 2014.

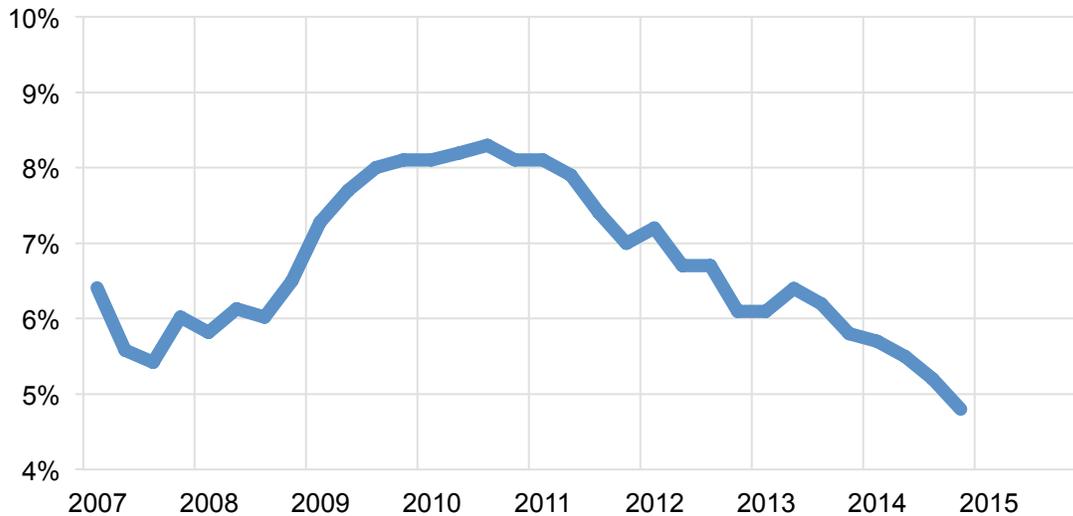
The overall vacancy rate for flex properties ended the first quarter of 2015 at 11.6 percent down slightly from 11.5 percent at the end of the previous quarter. The vacancy rate for the flex market has increased by 1.4 percent since the first quarter of 2014 according to CoStar.

The warehouse sector reported an overall vacancy rate of 4.4 percent, down four tenths of a percentage point from the fourth quarter of 2014. The fourth quarter of 2014 ended with a 5.6 percent vacancy rate. Of all the metro submarkets, the

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Northwest and I-5 corridor reported the lowest vacancy rates. Properties in northwest reported 3.1 percent vacancy out of a total inventory of 13,800,535 square feet followed by the I-5 Corridor with 3.6 percent with a total inventory of 28,859,757 square feet according to CoStar.

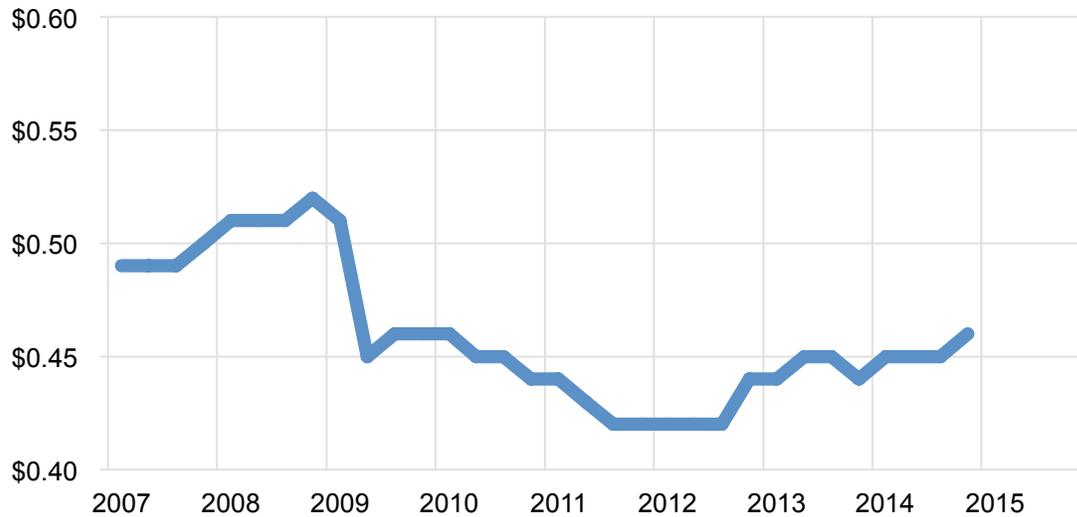
Figure 1: Portland Industrial Market Vacancy Rate, 2007–2015



Source: Kidder Mathews

RENTAL RATES

Kidder Mathews reports the average asking rental rate, triple net, for the overall industrial market increased just over 2 percent during first quarter of 2015 to \$.46 per square foot per month from \$.45 per square foot per month in the previous quarter. The flex sector ended the first quarter of this year at \$.99 per square foot per month up from \$.98 per square foot per month at the end of final quarter of 2014. Over the past year rental rates in the flex market have increased 6.8 percent, up from \$.93 per square foot per month at the end of the first quarter of 2014 according to CoStar.

Figure 2: Portland Industrial Market Average Quoted Rates, 2007–2015

Source: Kidder Mathews

ABSORPTION AND LEASING

Portland's overall industrial market ended the first quarter of 2015 with 1,085,258 square feet of net positive absorption compared to 811,667 square feet of net positive absorption at the close of the fourth quarter of 2014. The market's performance was a significant improvement over the first quarter of 2014 which ended with 226,367 square feet of negative net absorption as reported by Kidder Mathews.

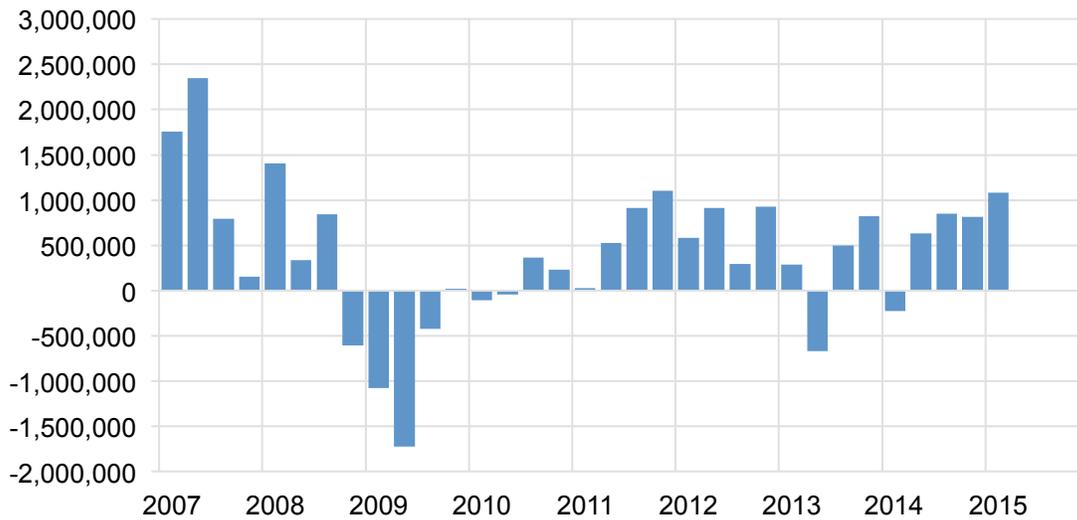
The flex market reported net negative absorption of 16,410 square feet at the end of the first quarter of 2015 whereas the warehouse market did significantly better with 1,016,516 of positive net absorption. Within the flex market, the submarket that experienced the greatest amount of positive absorption was the Westside with 46,354 square feet. The southwest market saw the largest amount of negative absorption at 43,151 square feet all according to CoStar.

According to Norris, Beggs and Simpson, the Northeast was the most robust submarket in the Portland metro area during the first quarter. Cardinal Health preleased 125,542 square feet in the Gateway Corporate Center which was brought to market in February. Terminal Transfer moved in to 101,131 square foot space and also during the last quarter American Tire Distributors moved into an 110,000 square foot facility. According to CoStar, the Northeast market saw the largest amount of square footage delivered at 407,800 square feet and the greatest amount of absorption at 298,349 square feet. KeHE had one of the largest reported lease signings of the quarter with its renewal of the company's 166,503 square foot facility at Chirgwin Distribution Center. In Hillsboro, Laika animation studios is expanding

its current space, a 150,000 square foot former warehouse, by an additional 105,000 square feet.

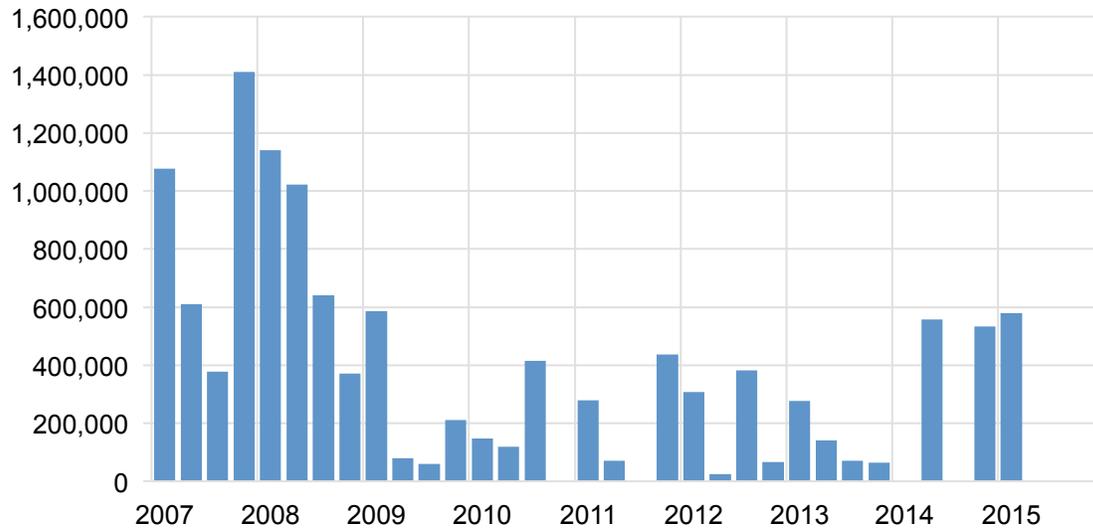
CRBE reports that the average deal size in the Portland industrial market has been decreasing. Transactions averaged 11,786 square feet during the first quarter of this year, where the ten year average is 16,069 square feet.

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



Source: Kidder Mathews

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



Source: Kidder Mathews

Table 1: Notable Q1 2015 Industrial Lease Transactions

Tenant	Address	Market	Size
KeHE	Chirgwin Distribution Center	Clackamas	166,503
Cardinal Health	Gateway Corp. Center	E. Columbia Corr.	125,542
Terminal Transfer	Rivergate Logistics Center	Rivergate	101,131
Solar World	Sunset Corr. Industrial Bldg.	Sunset Corr.	80,470
Perfect 10, Inc.	Airport Way Commerce Park	E. Columbia Corr.	45,000

Source: Colliers International

Table 2: Notable Q1 2015 Industrial Sales Transactions

Building	City	Price
1140 SE 7 th Ave	Portland	\$5,450,000
11555-11633 NE Sumner St	Portland	\$5,002,000
Wilsonville Business Center	Wilsonville	\$4,600,000
Swan Island Industrial Ctr	Portland	\$4,350,000
17230 NE Sacramento St	Gresham	\$3,750,000
18332 NE San Rafael St	Portland	\$3,750,000

DELIVERIES AND CONSTRUCTION

Jones Lang LaSalle reports that the NE Columbia Corridor has seen increased activity over the past five years with five significant projects due to deliver this year. They include the Interstate Crossroads Distribution Center with 492,554 square feet, the Colwood Industrial Park Building 1, 418,979 square feet, the Cameron Distribution Center, 320,795 square feet, the Gateway Corporate Center Building F, 215,250 square feet and Prologis PDX 20 with 270,800 square feet. Evergreen Plastic Company, which relocated from Portland to Clark County, delivered its 53,930 square foot building during the first quarter of this year. ■