
INDUSTRIAL MARKET ANALYSIS

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The Portland metro's industrial market ended 2015 on a strong note, with strong tenant demand and limited supply continuing to bring rents to historic highs and vacancies to historic lows. Not including Intel, the market absorbed 1.4 million square feet in the quarter, bringing the yearly total to 3.5 million square feet, the highest rate since 2007. New product, especially in the Northeast submarkets, continued to attract tenants seeking large, modern spaces, and two new leases were inked in the quarter, each over 100,000 square feet. Investors were very active, and the year saw historic highs for transaction volume and sales prices. With strong economic and market fundamentals, these trends are expected to continue into 2016.

VACANCY AND RENTS

The fourth quarter continued the trend seen throughout the year for metropolitan Portland's industrial market: occupancies and asking rates at or near historic highs. According to CBRE, the market is "clearly accepting recent, across-the-board rent escalations led by new deliveries that are achieving precedent-setting rents." A review of quarterly research reports from four leading commercial real estate firms revealed a metro-wide average vacancy rate of 4.73% in the fourth quarter, 25 basis points below the prior quarter and 66 basis points below the fourth quarter of 2014. This vacancy rate is especially impressive in light of the delivery of over 900,000 square feet of new, mostly speculative space (not including Intel's Ronler Acres

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development). Distribution/warehouse vacancy rates dropped 23 basis points versus the prior quarter and 62 basis points below the prior year, while flex space vacancy stood 100 basis points below the prior quarter and 155 basis points below the prior year.

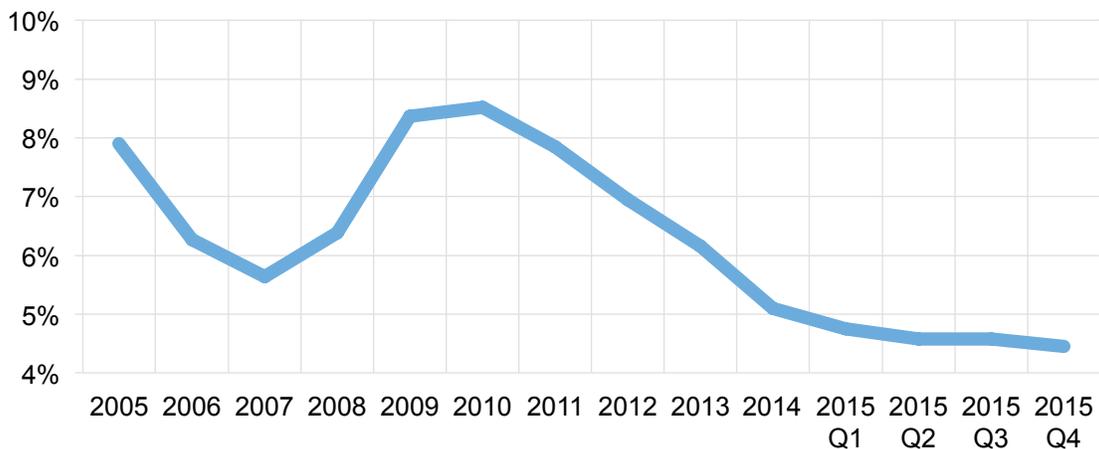
Table 1: Portland Metro Industrial Quarterly Report Survey Q4 2015

	Colliers	JLL	CBRE	Cushman & Wakefield	Average - Q4 2015	Chg vs Prior Qtr	Chg vs Prior Year
Vacancy							
- Distribution/Warehouse	4.70%	3.80%	4.60%	4.90%	4.50%	-23 bps	-62 bps
- Flex	9.60%	8.90%	-	-	9.25%	-100 bps	-155 bps
- Weighted Average	5.15%	4.28%	4.60%	4.90%	4.73%	-25 bps	-66 bps
Rents *							
- Distribution/Warehouse	\$0.48	\$0.50	\$0.41	\$0.47	\$0.46	1.1%	3.1%
- Flex	\$1.00	\$0.96	\$1.08	-	\$1.01	0.6%	9.9%
- Weighted Average	\$0.52	\$0.54	\$0.47	\$0.47	\$0.50	1.0%	4.0%

* Asking rents; Industrial = shell space; Flex = shell and office space
Sources: Quarterly Reports

Capacity Commercial noted the positive impact that strong population growth is having on the regional industrial market, as people continue to migrate to the Portland metro for employment and lifestyle reasons. Colliers speculated that the market might even be stronger than official numbers show, with vacancy for distribution/warehouse potentially as low as 2% to 3% market-wide.

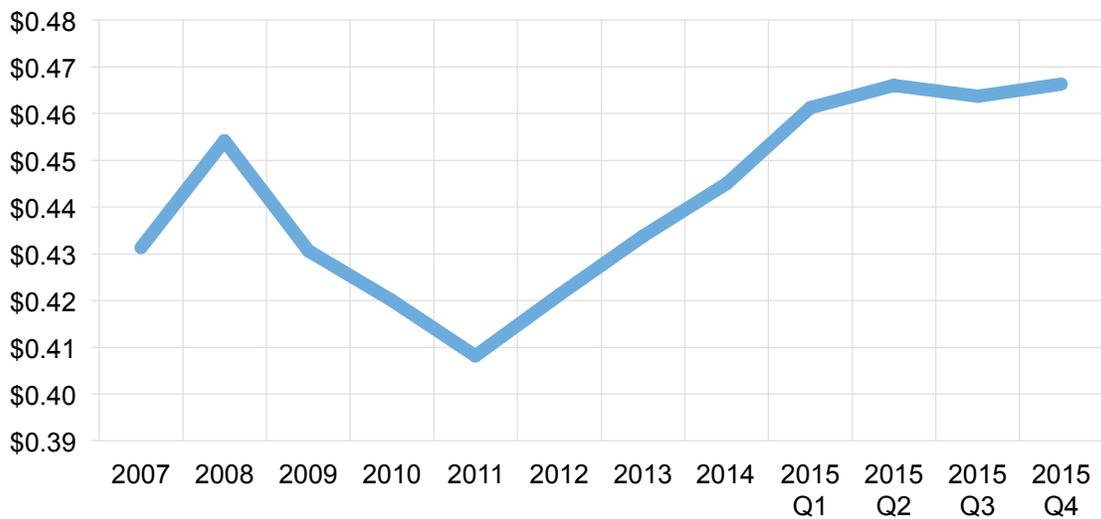
Figure 1: Portland Metro Distribution/Warehouse Market Vacancy Rate, 2007–2015 Q4



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

Along with steady vacancy rates, asking rental rates remained virtually unchanged in the fourth quarter. The quarterly report survey showed monthly distribution/warehouse asking rates of \$0.46/square foot and flex rates of \$1.01/square foot, for a combined weighted market average of \$0.50/square foot. Distribution/warehouse rates were up 1.1% from the third quarter and 3.1% year-over-year. JLL noted that average asking rates are being held down because the new properties with top rents are being scooped up quickly, leaving behind less desirable spaces that temper the available average. Flex rates increased 0.6% from the third quarter and exhibited strong annual growth of nearly 10%.

Figure 2: Portland Metro Distribution/Warehouse Market Asking Rents, 2007–2015 Q4



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

ABSORPTION AND DELIVERIES

Colliers reported positive net absorption of over 3 million square feet in the fourth quarter and over 6 million for the year. Not including Intel's construction, net absorption was 1.4 million and 3.5 million for the quarter and year, respectively. This net absorption run rate is higher than the market's average annual net absorption from 2004-2014 of 2.55 million square feet, but still under the 2004-2007 average of 4.85 million square feet.

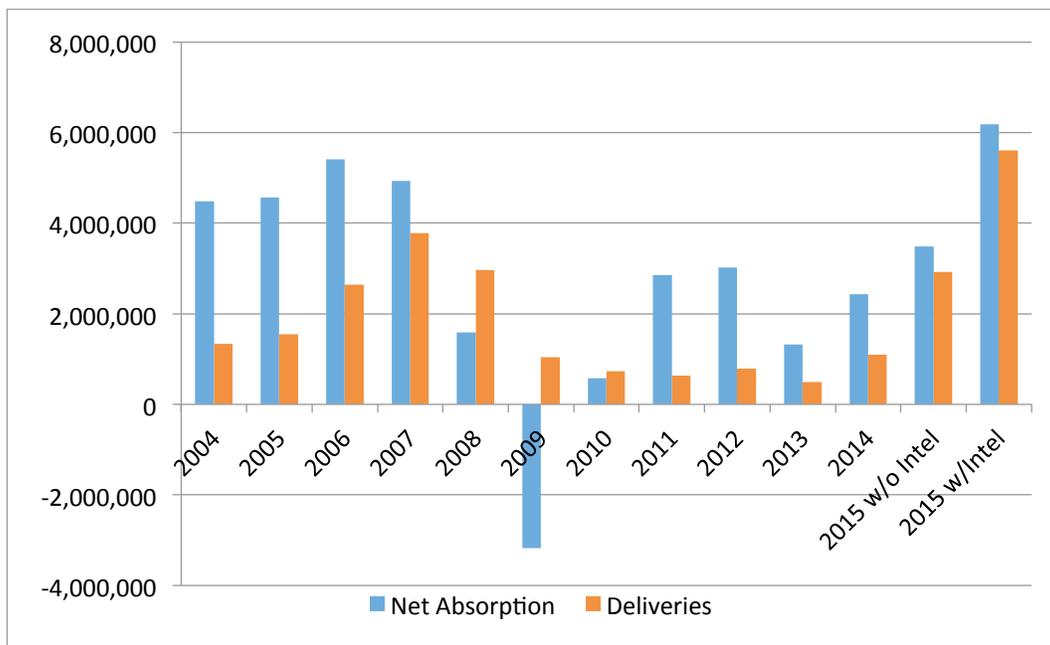
Notable deliveries in the quarter included 320,000 square feet at Holland's Cameron Distribution Center, 310,000 square feet for Reser's Fine Foods, and 157,000 square feet at Trammell Crow's Southwest Industrial Park.

Table 2: Portland Metro Industrial Net Absorption Last 4 Quarters (Excluding Intel)

	Distribution/		
	Warehouse	Flex	Total
Q1 2015	1,284,694	-52,308	1,232,386
Q2 2015	-151,683	29,174	-122,509
Q3 2015	649,114	237,089	886,203
Q4 2015	1,382,332	111,370	1,493,702
Total 2015	3,164,457	325,325	3,489,782
AVG 2004-2014			2,549,245
AVG 2004-2007			4,852,053
<i>Peak Annual</i>	<i>2006:</i>		5,412,028
<i>Trough Annual</i>	<i>2009:</i>		-3,169,003

Source: Colliers International, does not include Intel absorption of 2.7 million s.f. of flex space

Figure 3: Portland Metro Industrial Net Absorption & Deliveries, 2004–2015



Sources: Colliers Quarterly Report and Colliers/Capacity Commercial Presentation

Table 3: Notable Portland Metro Industrial Lease Transactions Q4 2015

Tenant	Building	Submarket	Size (s.f.)	Type
Keystone Automotive	Interstate Crossroads	East Columbia	229,141	New
Cenveo	2000 NW Wilson	Guilds Lake	167,562	Renewal
Ashley Furniture	Cameron Distribution Center	East Columbia	167,193	New
Celestica	Southshore Corporate Park	East Columbia	165,000	Renewal
LaCrosse Footwear	17634 NE Airport Way	East Columbia	126,697	Renewal

Sources: CBRE and Colliers

UNDER CONSTRUCTION

JLL noted that there is known tenant demand for approximately 4.4 million square feet of space, with over half of this demand coming from tenants seeking spaces over 200,000 square feet. There is also demand at the smaller end of the spectrum, and Capacity Commercial noted that developers are finally responding to this market, building projects for users seeking 10,000 to 30,000 square feet – economically feasible now that the higher rents can cover the higher cost of smaller buildings.

To meet known and speculative demand, there are over 2 million square feet of space currently under construction. Much of the future supply, 1.6 million square feet, is located in the Northeast Portland submarkets. JLL noted that 60% of the pipeline supply is speculative product, and 38% is pre-leased. Notable projects in the pipeline include:

Northeast:

- PDX Logistics Center: 355,000 square feet in Building 3, due to deliver Q2 2016
- Gateway Corporate Center: 211,000 square feet in Buildings D and E, due to deliver early 2016
- Dermody Properties: Approximately 200,000 planned square feet in 3 buildings, due to deliver Q3 2016
- Gresham Vista Business Park: 600,000 square foot build-to-suit for Subaru, due to deliver Q4 2016

Other:

- Majestic Brockwood Business Park: 300,000 square feet of speculative space in Hillsboro
- Clackamas Distribution Center: 190,000 square feet of speculative space in Clackamas

INVESTMENT ACTIVITY

JLL reported that 2015 saw \$670 million in transactions, breaking the previous annual high by 50% (\$450 million in 2006) and nearly three times the 10-year average. Institutional and international investors have shown increased interest in the region, and cap rates have dropped to the high 5s and low 6s, with an average of approximately 6.2% for the year.

Capacity Commercial Group noted that investor demand is strong, supply is limited, and local investors are not able to compete with the “auction style of play” that institutional investors bring. CBRE noted that close-in spaces are now at \$150/square foot, versus \$97/square foot for the overall market. Both the overall market and the close-in submarkets have exhibited strong double-digit growth in sales price per square foot year-over-year.

Table 4: Notable Portland Metro Industrial Sales Transactions Q4 2015

Address	Location	Size (s.f.)	Price	Price/s.f.	Type
Parkway Woods Business Park	Wilsonville	581,540	\$ 32,700,000	\$ 56.23	Investment
LogistiCenter 205	Vancouver	98,398	\$ 8,600,000	\$ 87.40	Owner/User
3901 SE Naef Rd	Milwaukie	205,311	\$ 7,500,000	\$ 36.53	Investment
2000 NW Wilson St	Portland	167,560	\$ 7,500,000	\$ 44.76	Investment
Cornell Business Park	Hillsboro	47,144	\$ 3,500,000	\$ 74.24	Owner/User

Sources: Colliers and Kidder Mathews

LOOKING AHEAD

The Portland metro’s industrial sector looks set to continue exhibiting strength in 2016. The metropolitan area is expected to see notable gains in population and employment growth in the upcoming year, which in turn will lead to increased demand for distribution and warehouse space. There are approximately 2 million square feet under construction, with an additional 500,000 square feet in planning. Much of this space is speculative, but pre-leasing has been strong, and demand is expected to continue for modern spaces over 100,000 square feet. The market’s fundamentals are also likely to continue attracting institutional investors which should exert downward pressures on already-low capitalization rates. ■