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## INDUSTRIAL MARKET ANALYSIS:

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The Portland industrial real estate market largely treaded water in the fourth quarter with a small drop in the vacancy rate and stagnant absorption from the previous quarter. The improved vacancy rate is tempered by the fact that the fourth quarter saw no new product delivery, capping off a disappointing year. Grubb & Ellis reports a total of 600,000 square feet delivered, down from the 10 year average of 2.3 million square feet. The reduction in new supply rates in 2010 does not come as a surprise following 2009, in which net absorption reached negative 1.9 million compared with the 10 year average of positive 2.2 million. Net absorption for 2010 reached 1.3 million, likely reflecting a reduction in new delivery combined with some recovery in demand.<sup>1</sup>

The median vacancy between the five brokerages considered in this analysis dropped 30 basis points to 8.2 percent in the fourth quarter. Only CB Richard Ellis reported a rise in vacancy, though minimal at 10 basis points to 8.1 percent. Consistent with prior reports and reflecting the use of different source data, Norris, Beggs & Simpson reports vacancy rates in a different range, at 15.0 percent down 20 basis points from the third quarter. They also report R&D/Flex vacancy rates jumping from 18.9 percent to 19.1 percent with negative 19,933 square feet of absorption. Norris, Beggs & Simpson vacancy rates for R&D/Flex have been steadily climbing since late 2008, when the category bottomed out at 13.2 percent vacancy. The Southwest/I-5 corridor submarket is reported as the only anomaly in

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<sup>1</sup> “Industrial Trends Report”, Grubb & Ellis, Third Quarter 2010

the R&D/Flex category, with vacancy dropping 1 percent on two new 10,000 square foot leases in the PacTrust Business Center.

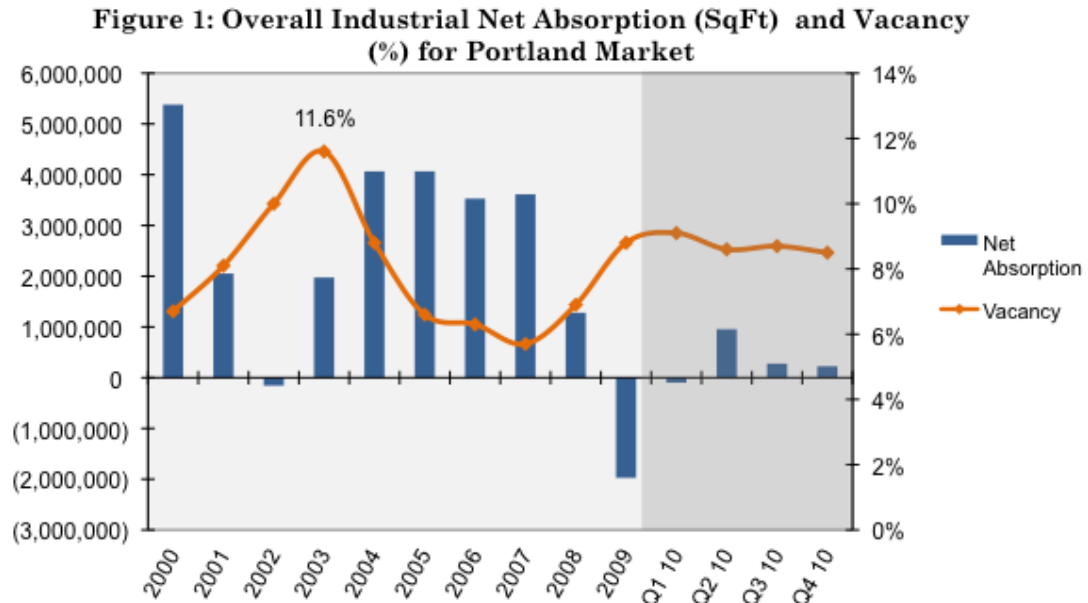
**Table 1: Industrial Market Vacancies and Asking Rents, 4th Quarter, 2010**

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	NAI-Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.1%	7.0%	8.5%	15.0%	8.2%	8.2%
Previous Quarter	8.0%	7.3%	8.7%	15.2%	8.5%	8.5%
Fourth Quarter 2009	8.0%	8.7%	8.8%	14.9%	8.4%	8.7%
Fourth Quarter 2008	6.4%	6.2%	6.9%	12.1%	6.2%	6.4%
Warehouse/Distribution	-	-	8.2%	N/A	N/A	8.2%
Previous Quarter	-	-	8.4%	N/A	N/A	8.4%
Fourth Quarter 2009	8.7%	-	8.9%	N/A	N/A	8.8%
Fourth Quarter 2008	N/A	6.6%	7.0%	N/A	N/A	6.8%
R&D/Flex Vacancy	11.2%	-	9.8%	19.1%	N/A	11.2%
Previous Quarter	-	-	9.8%	18.9%	N/A	14.4%
Fourth Quarter 2009	11.6%	-	8.4%	16.2%	N/A	11.6%
Fourth Quarter 2008	N/A	9.4%	6.7%	13.2%	N/A	9.4%
Asking Monthly Shell Rates	\$0.38	N/A	\$0.43	N/A	\$0.44	\$0.43
Previous Quarter	\$0.38	N/A	\$0.42	N/A	\$0.45	\$0.42
Fourth Quarter 2009	\$0.39	N/A	-	N/A	\$0.45	\$0.42
Fourth Quarter 2008	\$0.39	N/A	\$0.42	N/A	\$0.49	\$0.42
Asking Monthly Flex Rates	\$0.88	N/A	\$0.70	N/A	N/A	\$0.79
Previous Quarter	-	N/A	\$0.71	N/A	N/A	\$0.71
Fourth Quarter 2009	\$0.88	N/A	-	N/A	N/A	\$0.88
Fourth Quarter 2008	\$0.95	N/A	\$0.81	N/A	N/A	\$0.88

*Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, and Kidder Matthews Quarterly Reports*

Grubb and Ellis report overall vacancy dropping 20 basis points to 8.2 percent for the warehouse/ distribution category while Flex/R&D remains stable at 9.8 percent. Swan Island posts the lowest submarket vacancy at 2.3 percent while the 217 Corridor in Beaverton carries the highest at 12.2 percent. The NE/Columbia

Corridor had the highest overall absorption value of all Grubb & Ellis submarkets, adding 111,899 square feet to cap off a very strong 2010 with a total of 826,365 square feet of absorption. Cushman & Wakefield reports the N/NE Portland quadrants as having the highest overall absorption across the city, despite carrying the second highest average vacancy at 7 percent through 2010. (see Figure 3) Although N/NE is the largest submarket of the five that Cushman & Wakefield considers, it still achieved the highest ratio of absorption to total capacity of the 5 submarkets considered.



Source: Grubb & Ellis, Industrial Quarterly Reports (dark grey indicates quarterly values)

The most significant signing of the fourth quarter was Subaru of America's location of a new auto parts distribution facility, service training center and regional office in a 413,700 square foot facility next to Port of Portland's Terminal 6 between N. Marine Drive and the Columbia River. Subaru has experienced significant regional expansion in the past decade and outgrown its 175,000 square foot facility at 158<sup>th</sup> Commerce Park. The complex will be located on a 19.3 acre site at the Rivergate Corporate Center III, owned by the Port of Portland. Multi-Employer Property Trust (MEPT), will hold a 55-year master lease from the Port of Portland, and contract with Trammel Crow for development. Subaru will then sublease the high-efficiency, LEED-rated facility built to their specifications from MEPT.<sup>2</sup> According to the Portland Business Journal, the Subaru deal "is the largest built-to-

<sup>2</sup> Staff Writer. "Subaru Plans Move and Major Expansion in Portland", *The Portlander*, January 7, 2011

suit transaction in Portland in a decade.”<sup>3</sup> Subaru maintains a primary vehicle import facility across the river in the Port of Vancouver.

**Table 2: Major Industrial Lease Transactions, 4th Quarter, 2010**

Tenant	Property	(Sq. Ft.)	Submarket
Subaru	Rivergate Corporate Center	413,700	Portland
Central Garden & Pet	Rivergate Corporate Center	258,125	Portland
Brooks Automation	Southshore Corporate Park	165,000	Gresham
Stanton Furniture	115th Commerce Park Bldg.	92,960	Tualatin
Sunlight Supply	2501 Kotobuki Way	94,140	Vancouver
Ikea	Alderwood Corporate Center, Building A	68,000	Portland
Total		1,091,925	

*\*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Cushman & Wakefield, Industrial Quarterly Reports, Q4 2010*

In mid-January, the City of Portland’s hotly debated North Reach River Plan (NRRP) was remanded by the State of Oregon Land Use Board of Appeals (LUBA) back to the City Council to address several divisive provisions.<sup>4</sup> Addressing the industrial banks of the Willamette River between the Broadway Bridge and the Columbia River, the plan’s provisions include new environmental restrictions through the zoning code, adoption of a new and detailed natural resource inventory, and various development requirements focused around creating a vegetative buffer between the river and industrial development on its banks. The appeal was filed by the Working Waterfront Coalition (WWC), a Portland industry group representing the interests of riverfront business, shortly after the plan was approved by Portland City Council in April 2010. While the appeal took aim at a number of different plan provisions, primary contention surrounds those that place limitations on new development. LUBA’s 41 page decision addresses most substantively the State of Oregon Land Use Goal #9, which protects unique and economically productive land for future use through the following clause:

“Comprehensive Plans for urban areas shall ... Provide for at least an adequate supply of sites of suitable sizes, types, locations, and service levels for a variety of industrial and commercial uses consistent with plan policies.”<sup>5</sup>

By reducing the amount of overall land available for industrial purposes through environmental restrictions and the rezoning of the former McCormick and Baxter site (adjacent to the University of Portland) from Industrial Sanctuary to Mixed Use

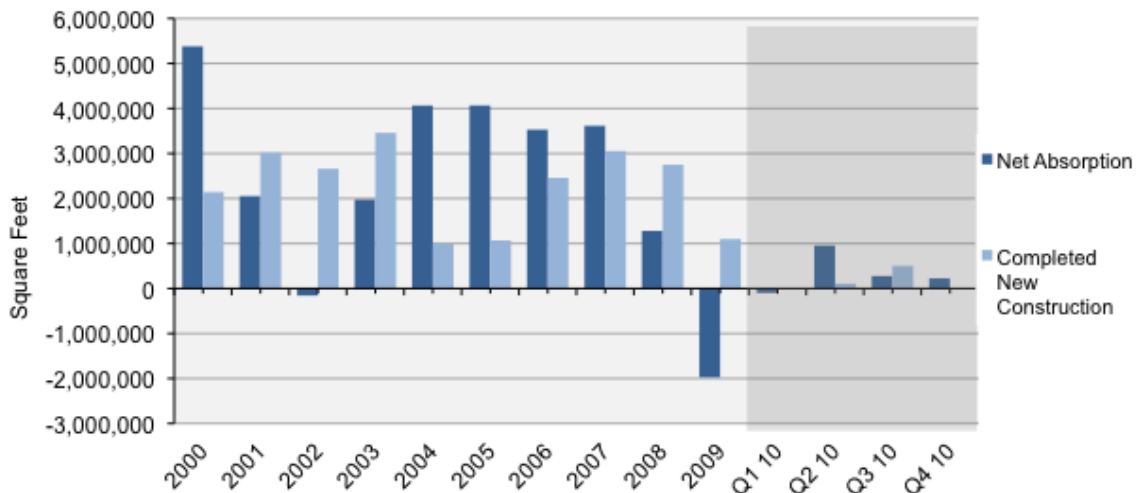
<sup>3</sup> Culverwell, Wendy. “Subaru inks blockbuster deal at Rivergate”, *Portland Business Journal*, January 6, 2011

<sup>4</sup> Redden, Jim. “LUBA sends River Plan back to City Council”, *Portland Tribune*, January 24, 2011.

<sup>5</sup> Oregon Department of Land Conservation and Development. “Statewide Planning Goals”, 1973

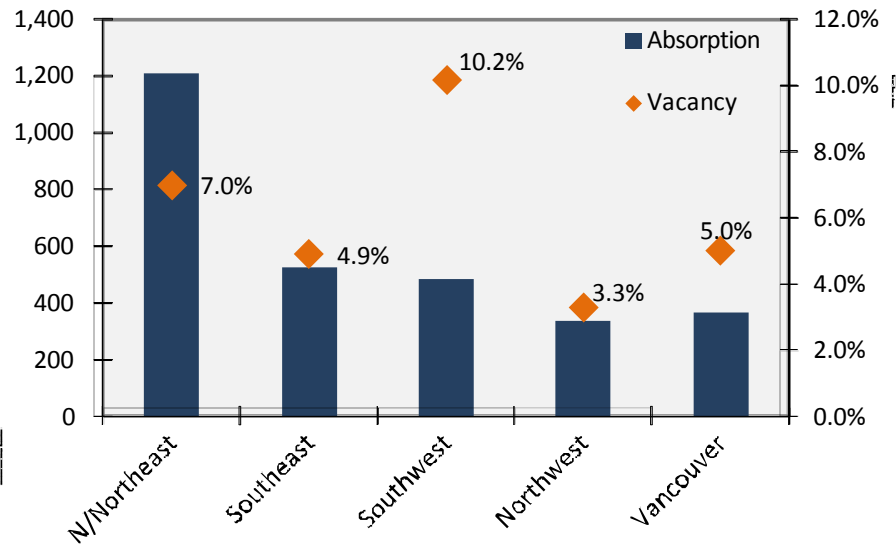
Employment, LUBA suggests that NRRP may violate this state goal. LUBA’s decision to send the plan back to the City likely raises more questions than it answers for landowners in the North Reach, and it could take years to clear up uncertainty for developers with long term investment interests in the Portland harbor.

**Figure 2: Industrial Absorption and New Construction (SqFt)**



Source: Grubb & Ellis, Industrial Quarterly Reports (dark grey indicates quarterly values)

**Figure 3: Submarket Vacancy and Overall Absorption, 2010**



Source: Cushman Wakefield, Industrial Report, Q4 2010