

PORTLAND INDUSTRIAL MARKET ANALYSIS

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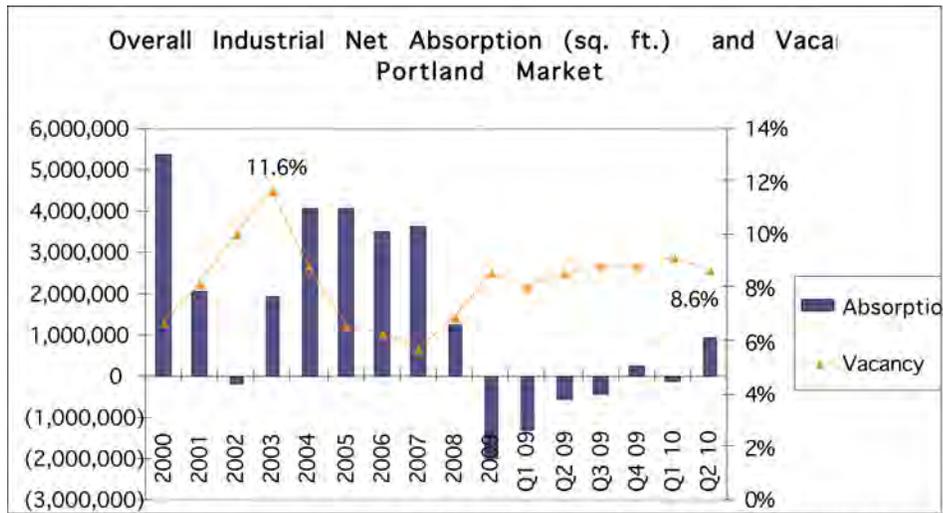
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The Portland metropolitan industrial market experienced declining vacancy rates and positive net absorption during the second quarter of 2010 according to Grubb & Ellis. The market reversed the trend of rising vacancy rates and negative net absorption that has been occurring for about a year. During the quarter vacancy decreased by 50 basis points to 8.6 percent, and there was positive net absorption of 954,635 square feet. Nationally vacancy decreased by 30 basis points to end the second quarter at 10.6 percent and had 19.2 million square feet of absorption. This ends the ten consecutive quarter trend of weakening conditions.

Norris, Beggs & Simpson (NBS) reported substantially different market data in its Industrial/Flex Report than Grubb & Ellis did, due to a reliance on different data. While Grubb & Ellis reports decreasing vacancy rates and positive net absorption, NBS reports increasing vacancy rates and negative net absorption.

According to NBS, industrial vacancy increased 60 basis points up to 15.2 percent with a negative net absorption of 354,330 square feet, while R & D/flex vacancy increased by 20 basis points to 18.2 percent with 23,633 square feet of negative net absorption.

According to Grubb & Ellis, the warehouse and distribution sector of the market had positive net absorption of 827,729 square feet and vacancy decrease of 60 basis points to 8.5 percent. The R & D/flex market posted a 126,906 square foot positive net absorption and a 40 basis point vacancy decrease, bringing the sector to 8.8 percent vacancy. R & D/flex rents



Source: Grubb & Ellis Industrial Trends Report- Second Quarter

Figure 9.1 Industrial absorption: decreased vacancy rate coupled with positive net absorption for the first time in over a year

have bounced back up \$0.03 to \$0.77 after dropping \$0.04 per square foot during the first quarter of 2010. Grubb & Ellis also reports that owners continue to offer free rent, turn-key office build-outs and other concessions to entice possible tenants.

Colliers segments the market into Industrial and Flex and produces separate reports for each. According to their reports the Industrial segment vacancy dropped 20 basis points to 7.9 percent while the Flex segment vacancy increased slightly to 12.7 percent. For the Industrial segment this is the lowest vacancy rate that Colliers has published since the end of 2008. The same reports indicate that there were 49,939 square feet of positive absorption and 87 transactions where 780,190 square feet of space was leased in the Industrial segment. Flex posted negative absorption of 42,071 square feet with leasing volumes totaling 225,355 square feet in 48 transactions.

There was one building delivered to the market during the quarter, which was a 105,000 square foot build-to-suit project for Morgan Distributing in the NE/Columbia Corridor submarket. The 415,000 square foot FedEx shipping hub is the only building in the construction pipeline. It is scheduled to be delivered during the third quarter of 2010.

The I-5 South Corridor had a large reduction in vacancy and positive net absorption due to Medlines occupancy of 109,000 square feet of the former Nike warehouse in Wilsonville and two additional large tenants which leased space at 115th Commerce Park. Vacancy rates within that submarket dropped by 160 basis points down to 10.0 percent. Other notable submarket gains were NE Columbia Corridor which had about 200,000 square feet of positive absorption and Rivergate which experienced a vacancy decrease of 210 basis points, bringing vacancy down to 9.3 percent. Norris, Beggs & Simpson reports that Farwest Steel will be purchasing over 20 acres for approximately \$5 million from the Port of Vancouver. The company is planning to build a new steel processing and distribution facility at a cost

Table 9.1 Portland industrial market

INDUSTRIAL: Q2-10	CB Richard Ellis*	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-wide Vacancy	-	8.6%	8.6%	15.2%	8.6%
Previous Quarter	8.2%	8.7%	9.1%	14.6%	8.9%
Second Quarter 2009	8.1%	8.0%	8.5%	13.9%	8.3%
Second Quarter 2008	5.8%	6.3%	6.7%	N/A	6.3%
Warehouse/Distribution	-	10.0%	8.5%	N/A	9.3%
Previous Quarter	-	10.4%	9.1%	N/A	9.8%
Second Quarter 2009	N/A	7.7%	8.6%	N/A	8.2%
Second Quarter 2008	N/A	5.8%	6.8%	N/A	6.3%
R&D/Flex Vacancy	-	10.0%	8.8%	18.2%	10.0%
Previous Quarter	-	-	9.2%	18.0%	13.6%
Second Quarter 2009	N/A	9.6%	7.9%	15.1%	9.6%
Second Quarter 2008	N/A	9.2%	6.5%	N/A	7.9%
Asking Monthly Shell Rates	-	N/A	\$0.41	N/A	\$0.41
Previous Quarter	\$0.39	N/A	\$0.41	N/A	\$0.40
Second Quarter 2009	\$0.40	N/A	\$0.41	N/A	\$0.41
Second Quarter 2008	\$0.39	N/A	\$0.42	N/A	\$0.41
Asking Monthly Flex Rates	-	N/A	\$0.77	N/A	\$0.77
Previous Quarter	\$0.75- \$1.00	N/A	\$0.74	N/A	\$0.74
Second Quarter 2009	\$0.85- \$1.05	N/A	\$0.80	N/A	\$0.80
Second Quarter 2008	\$0.85- \$1.06	N/A	\$0.82	N/A	\$0.82

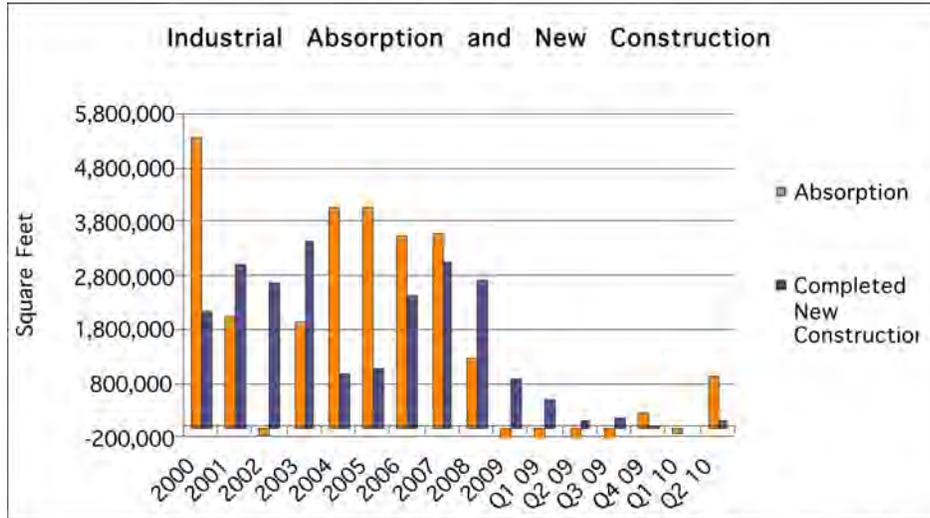
Sources: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson

*CB Richard Ellis second quarter reports were not complete at time of publishing

between \$20 and \$30 million. The facility will create 125 new jobs and employ roughly 200 people total.

Tenant	Property	SF	Submarket
Medline	Former Nike Warehouse	109,000	Southwest I-5
Stanton Furniture	115th Commerce Park	92,960	Southwest I-5
West Coast Metals	2455 Nicolai St.	78,375	Northwest
Consolidated Molding & Millwork	115th Commerce Park	48,000	Southwest I-5
Total		328,335	

Renewable energy companies, spurred by government grants and loans have been active in the market. Solexant, a photovoltaic cells manufacturer, is expected to receive a \$25 million loan from the state to build a factory which will develop ultra-thin-film solar cells. The facility is set to initially employ about 100 people, but could rise to the same capacity as So-



Source: Grubb & Ellis Industrial Trends Report- Second Quarter

Figure 9.2 Industrial absorption and new construction: Morgan Distributing’s 105,000 SF build-to-suit was the sole building delivered to the market during the quarter

larWorld in Hillsboro. When SolarWorlds Hillsboro expansion is completed this fall it will employ about 1,000 individuals. A \$5 million grant was awarded to battery maker ReVolt Technology which will help build a Portland plant to develop plug-in vehicle batteries.

Ajinomoto Frozen Foods announced in June that the company is growing its Marine Drive facility with a \$12.5 million expansion. Ajinomoto manufactures ethnic frozen foods, and the expansion is in response to increased demand for the companys fried rice products. Once the expansion is finished the company plans to add 30 additional employees to its current staff of 160 full-time employees and 40 temporary workers. ■

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