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# INDUSTRIAL MARKET ANALYSIS

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Large industrial users are the new paradigm for the Portland industrial market, and are spearheading the continued focus towards large single user buildings constructed in the region. Leading the charge is Amazon's recently announced 855,000 square foot fulfillment center at the Troutdale Reynolds Industrial Park, which would be the fourth largest industrial building in the Portland metro region. This enormous eastside presence is bookended by the 300,000 square foot Amazon distribution center in the Westside's Majestic Hillsboro Business Park, the largest speculative project in the Sunset Corridor. This large-user trend is expected to continue, with JLL projecting six new leases over 100,000 square feet, totaling almost 1.2 million square feet, will commence in the second quarter.

Absorption square footage increased dramatically in the past year. Colliers reports 878 thousand square feet of absorption in the first quarter, compared to 382,000 in the first quarter of 2016. Leasing was up with 49 leases above 10,000 square feet, totaling 2.1 million square feet, up 38 percent from last year. The lowering absorption rate is one of the early signs of a softening market after record level post-recession growth rate.

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## VACANCY AND RENTS

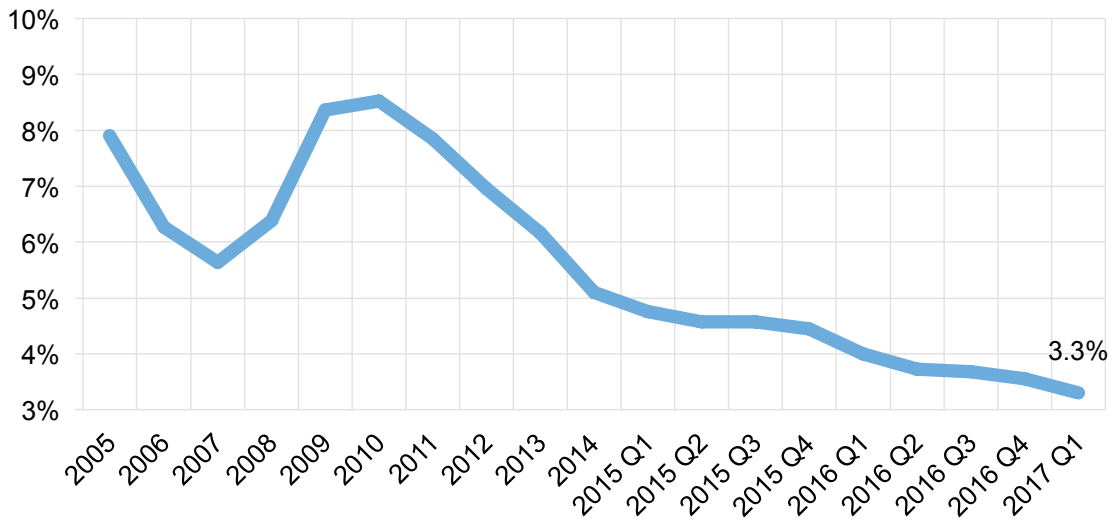
Overall vacancy declined to new post-recession lows in the first quarter of 2017, averaging 3.5 percent according to Kidder-Matthews, a 15 year low in the metro area. Large users drove industrial rents to an average of \$0.55 per square foot, but rents should begin to steady as recent deliveries of large scale buildings have softened the vacancy rate. Buildings larger than 200,000 square feet have 5.9 percent vacancies while users of buildings under 200,000 square feet continue to struggle to find space in a re-oriented large user driven market. Kidder-Matthews report 2.7 percent vacancy rates in this sector. The Sunset Corridor/Hillsboro and NW Portland have the tightest vacancy rates with 1.3 percent and 1.9 percent, respectively.

**Table 1: Portland Metro Industrial Quarterly Report Survey Q1 2017**

	Capacity	JLL	CBRE	Kidder-Matthews	Average Q1 2017
<b>Vacancy</b>					
Industrial Vacancy	3.50%	3.50%	2.90%	3.50%	3.35%
- Flex	8.30%	7.60%	-	-	7.95%
- Weighted Average	3.94%	3.88%	2.90%	3.50%	<b>3.56%</b>
<b>Rents *</b>					
Industrial Market	\$0.52	\$0.58	\$0.55	\$0.55	\$0.55
- Flex	\$1.03	\$1.00	N/A	N/A	\$1.02
- Weighted Average	\$0.57	\$0.62	\$0.50	\$0.55	<b>\$0.56</b>

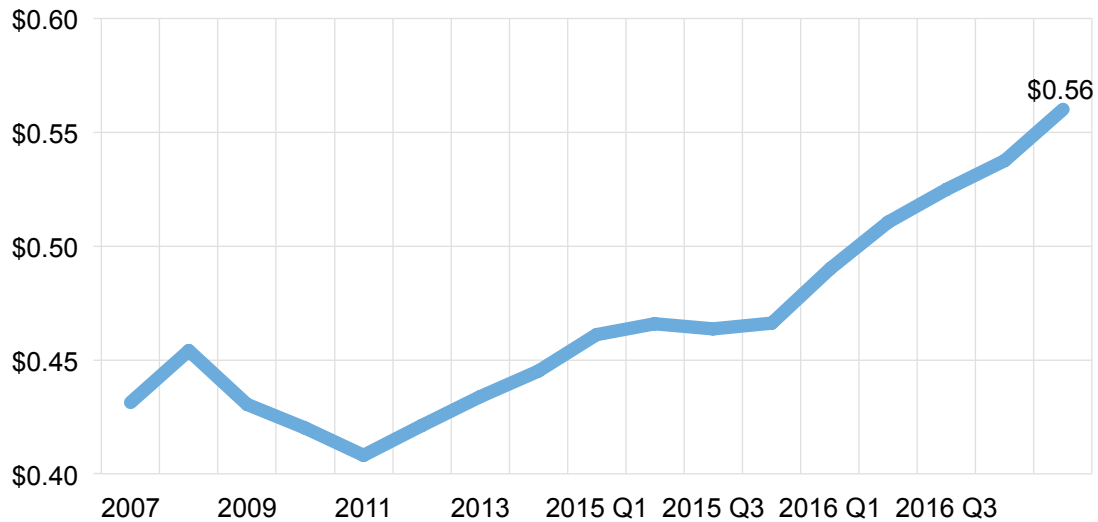
\* Asking rents; Industrial = shell space; Flex = shell and office space

**Figure 1: Portland Metro Industrial Vacancy Rate, 2007–2017 Q1**



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

Leasing activity during the First Quarter totaled 117 transactions covering 1,617,122 square feet of gross absorption, according to Kidder-Matthews. A substantial transaction in the first quarter was the 201,300 square foot lease signed by Lam Research Corporation in Tualatin.

**Figure 2: Portland Metro Average Shell Asking Rents, 2007–2017 Q1**

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

## ABSORPTION AND DELIVERIES

CBRE reports that user demand has slowed nationally, down 42 percent from the previous quarter and 48 percent from 2016 Quarter 1, reflecting the beginning signs of a softening economy.

**Table 1 Portland Metro Industrial Net Absorption Last 4 Quarters (Source: JLL)**

	<b>Distribution / Warehouse</b>	<b>Flex</b>	<b>Total</b>
<b>Q2 2016</b>	671,376	97,354	768,730
<b>Q3 2016</b>	427,411	174,317	601,728
<b>Q4 2016</b>	1,299,376	99,682	1,399,058
<b>Q1 2017</b>	133,720	25,497	
<b>Total Past 4 Quarters</b>	2,531,883	396,850	2,928,733

Source: JLL

## INVESTMENT ACTIVITY

In the quarter's largest investment sale, acquired the Cameron Distribution Center at 16913 NE Cameron Blvd in the East Columbia Corridor from Denver-based Amstar Group. Kidder Matthew reports the \$28.04 million sale price came out to \$87 per square foot, underwritten at a 5.5 percent cap rate. Other large purchases include the region's largest owner-user buy, the French construction and engineering firm Oger International bought 1300 NE 25th Avenue in Hillsboro, a 112,500 square foot manufacturing property, for \$8.1 million. Overall investor confidence in the industrial market is strong, fueled primarily by on-line retailers demand for distribution space. The overall US economy is also a key source of investor confidence due to the recent upgrade in expected GDP growth, full employment, and expected tax-breaks.

Industrial users will continue to grow in size, with JLL reporting that average leases have grown over 57.8 percent since 2010. Recent signs point to continued demand for these massive distribution centers as online retailers continue to impact brick and mortar retailers. Continued demand for data storage, last mile logistics and marijuana production point to continued demand for increasingly less available industrial properties. Although the market is focused on large end-users, the low vacancy rate for Industrial users under 100,000 square feet will present targeted investment opportunities. ■