

# Portland Industrial

## Market Forecast

		Trends
Net Absorption	827,103 sf	↑
Vacancy	3.3%	↓
Rental Rates	\$0.61	↑
Construction	3.1M sf	↑

## Notable Lease Transactions

**Amazon**  
1000 NW Sundial Road, Troutdale  
857,000 s.f. leased

**Wymore Transfer Company**  
12100 SE Jennifer Street, Clackamas  
131,702 s.f. leased

**Anixter**  
19501 NE Riverside Parkway, Gresham  
94,852 s.f. leased

## Notable Sale Transactions

**Melvin Mark Companies**  
16250 SE Evelyn Street, Clackamas  
99,950 s.f. purchased for \$7.85M  
or \$79/s.f.

**McLellan Estate Co.**  
10075 SW Commerce Circle, Wilsonville  
44,352 s.f. purchased for \$4.75M  
or \$107/s.f.

**Summit Properties**  
13200-13214 NE Whitaker Way, Portland  
57,600 s.f. purchased for \$4.6M or \$80/s.f.

The Portland industrial real estate (excluding flex) market stayed hot in the second quarter of 2017, as vacancies ticked down to 3.3%, their lowest point in at least 15 years. This quarter's 827,103 s.f. of positive net absorption brought the year-to-date gain in occupied industrial space to 1,628,031 s.f. Asking rental rates climbed to \$0.61 on a blended triple-net basis, varying by size, quality, and location of product, with superior offerings recording 17% year-over-year rent growth. The urban retailing giant Amazon fueled 2,037,856 s.f. of leasing activity with plans to open an 857,000 s.f. distribution center in Troutdale that will add some 2,000 fulfillment jobs to the local economy. While the investment market took a pause during the second quarter, developers continue to bet on robust demand for industrial space in metro Portland, as construction is underway on 24 products that will add 3,130,471 s.f. of new inventory upon their delivery.

The overall vacancy rate for the market fell to 3.3% during the first quarter, setting a new 15-year low, though vacancies varied by building size, product quality, and location. Properties smaller than 200,000 s.f., which account for 76% of the market's stock, reported just 2.7% vacancy at quarter's end, while bulk structures larger than 200,000 s.f. were at 4.6%. The Northwest, Southeast, and Sunset Corridor/Hillsboro areas all showed sub-2% vacancy rates at the midway point of 2017, while the Northeast, Clark County, and Southwest submarkets were at or above 4%. Overall vacancies in the Portland market are down 150 basis points since the third quarter of 2015, and some submarkets have tightened extremely quickly. Vacancies in Clackamas/Milwaukie, metro Portland's second-largest industrial submarket with nearly 23 million s.f. of inventory, have plunged from 4.0% to 1.7% in the last 12 months, and the 12.6 million s.f. Guilds Lake submarket has experienced a 200 basis point decline in vacancy over the same span.

Absorption gains were distributed across the Portland market this quarter, with virtually all submarket clusters coming out ahead or even over the past three months, as the market added 827,103 s.f. of occupied industrial space. Clark County submarkets led the way with a total of 308,463 s.f. of positive net absorption, followed by the Northeast area, with 238,470 s.f. The East Columbia Corridor topped all individual submarkets with 550,774 s.f. of positive

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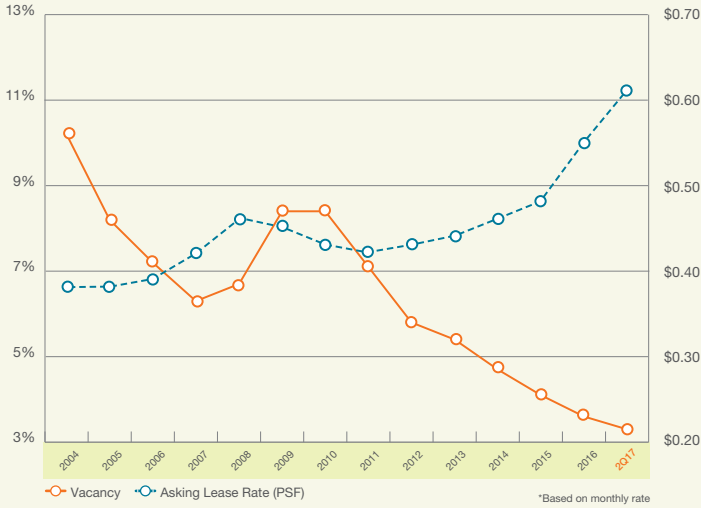
# Area Review

## Portland Industrial Market Statistics

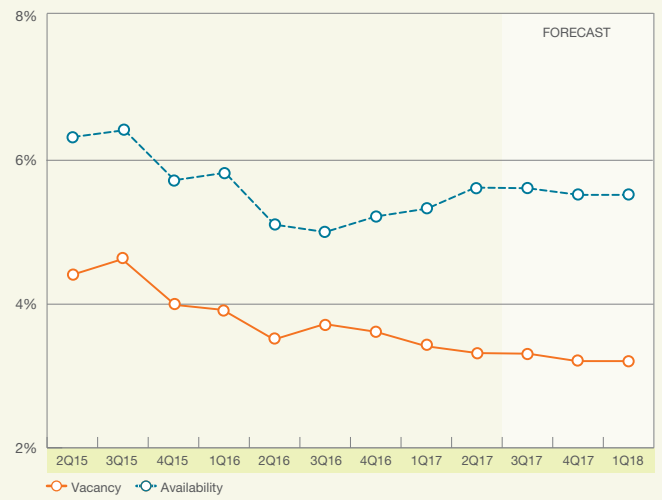
Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q2 Net Absorption	YTD Net Absorption	Q2 Leasing Activity	YTD Leasing Activity	Rental Rate
<b>Lloyd District</b>	<b>1,943,522</b>	<b>1.10%</b>	<b>1.10%</b>	<b>3.10%</b>	<b>(4,652)</b>	<b>(13,002)</b>	<b>3,400</b>	<b>3,400</b>	<b>\$1.04</b>
<b>Northeast</b>	<b>71,586,078</b>	<b>3.80%</b>	<b>4.00%</b>	<b>7.30%</b>	<b>238,470</b>	<b>166,778</b>	<b>1,244,208</b>	<b>1,244,208</b>	<b>\$0.56</b>
NE Columbia Blvd/PDX	14,566,970	2.60%	2.60%	5.20%	(176,020)	(111,021)	95,603	95,603	\$0.63
East Columbia Corridor	24,178,970	5.40%	5.50%	12.10%	550,774	220,941	1,067,432	1,067,432	\$0.53
Gateway	2,768,095	4.50%	4.50%	5.80%	(61,449)	(3,888)	15,400	15,400	\$0.77
Gresham	1,120,010	0.20%	0.20%	2.40%	30,300	29,276	4,600	4,600	\$0.85
Hayden Isl/Swan Isl	9,716,350	0.20%	0.20%	1.40%	(9,175)	(14,735)	29,003	29,003	\$0.48
NE Close-In	4,053,619	3.20%	3.20%	4.10%	(27,832)	(42,617)	10,295	10,295	\$0.81
Rivergate	15,182,064	5.10%	5.60%	6.20%	(68,128)	88,822	21,875	21,875	\$0.43
<b>Northwest</b>	<b>13,400,980</b>	<b>1.50%</b>	<b>1.50%</b>	<b>3.80%</b>	<b>80,319</b>	<b>141,131</b>	<b>115,340</b>	<b>115,340</b>	<b>\$0.72</b>
Guilds Lake	12,575,299	1.40%	1.40%	3.80%	71,719	132,531	115,340	115,340	\$0.66
NW Close-In	825,681	1.70%	1.70%	3.50%	8,600	8,600	0	0	\$1.56
<b>Southeast</b>	<b>30,505,689</b>	<b>1.80%</b>	<b>1.80%</b>	<b>3.80%</b>	<b>55,998</b>	<b>348,415</b>	<b>183,932</b>	<b>183,932</b>	<b>\$0.76</b>
Clackamas/Milwaukie	22,917,811	1.70%	1.70%	3.50%	45,497	364,805	178,676	178,676	\$0.71
Mall 205	402,832	1.90%	1.90%	4.30%	(7,498)	(7,498)	0	0	\$0.76
Oregon City	1,127,313	1.90%	1.90%	1.90%	6,880	(6,000)	0	0	\$0.71
SE Close-In	6,057,733	2.00%	2.00%	5.00%	11,119	(2,892)	5,256	5,256	\$0.91
<b>Southwest</b>	<b>7,706,236</b>	<b>4.70%</b>	<b>4.70%</b>	<b>5.90%</b>	<b>26,803</b>	<b>(36,960)</b>	<b>112,139</b>	<b>112,139</b>	<b>\$0.65</b>
217 Corridor/Beaverton	4,364,363	6.90%	6.90%	7.50%	14,739	(68,960)	102,139	102,139	\$0.63
Barbur Blvd/Capitol Hwy	136,743	0.00%	0.00%	0.00%	0	10,000	0	0	\$0.70
North Beaverton	1,797,267	0.00%	0.00%	3.30%	5,944	0	0	0	\$1.50
SW Close-In	1,407,863	4.60%	4.60%	4.60%	6,120	22,000	10,000	10,000	\$0.68
<b>Sunset Corridor/Hillsboro</b>	<b>14,068,382</b>	<b>1.90%</b>	<b>1.90%</b>	<b>3.80%</b>	<b>65,078</b>	<b>298,207</b>	<b>10,211</b>	<b>10,211</b>	<b>\$0.73</b>
<b>I-5 Corridor</b>	<b>26,382,431</b>	<b>3.90%</b>	<b>3.90%</b>	<b>4.20%</b>	<b>56,624</b>	<b>196,327</b>	<b>266,889</b>	<b>266,889</b>	<b>\$0.58</b>
<b>Clark County</b>	<b>18,718,397</b>	<b>3.70%</b>	<b>4.10%</b>	<b>6.30%</b>	<b>308,463</b>	<b>527,135</b>	<b>101,737</b>	<b>101,737</b>	<b>\$0.53</b>
Camas/Washougal	1,285,081	2.30%	2.30%	2.70%	(30,000)	2,000	0	0	\$0.30
Cascade Park/Orchards/Van. Mall	4,699,839	2.20%	2.20%	3.80%	58,677	65,884	53,814	53,814	\$0.61
CBD/West Vancouver	5,264,702	5.30%	5.30%	7.80%	239,017	401,257	0	0	\$0.48
Hazel Dell/Salmon Creek	1,350,129	1.00%	1.00%	4.70%	46,621	38,081	33,948	33,948	\$0.65
St. Johns/Central Vancouver	6,118,646	4.50%	5.50%	8.10%	(5,852)	19,913	13,975	13,975	\$0.55
<b>Total</b>	<b>184,311,715</b>	<b>3.20%</b>	<b>3.30%</b>	<b>5.60%</b>	<b>827,103</b>	<b>1,628,031</b>	<b>2,037,856</b>	<b>2,037,856</b>	<b>\$0.61</b>

Building Size									
0-9,999 SF	9,760,396	1.80%	1.80%	2.30%	(51,002)	(77,897)	47,650	47,650	\$1.04
10,000-24,999 SF	25,160,777	1.80%	1.80%	2.90%	(30,398)	(8,361)	99,336	99,336	\$0.82
25,000-49,999 SF	33,612,292	2.50%	2.50%	4.20%	130,573	198,970	338,095	338,095	\$0.65
50,000-99,999 SF	40,115,070	4.00%	4.00%	6.70%	(164,197)	99,554	297,754	297,754	\$0.53
100,000-199,999 SF	31,924,492	2.40%	2.90%	8.70%	143,854	566,132	398,021	398,021	\$0.59
200,000+ SF	43,738,688	4.60%	4.60%	5.50%	798,273	849,633	857,000	857,000	\$0.46
Business Parks									
10,000-49,999 SF	9,293,326	4.10%	4.30%	4.60%	(14,305)	(78,485)	160,630	160,630	\$0.69
50,000-149,999 SF	16,457,556	4.90%	5.30%	11.90%	(23,831)	27,856	226,501	226,501	\$0.53
150,000+ SF	11,463,818	7.40%	7.40%	10.70%	285,904	235,350	171,343	171,343	\$0.46
<b>Business Parks Total</b>	<b>37,306,339</b>	<b>5.50%</b>	<b>5.70%</b>	<b>9.70%</b>	<b>247,768</b>	<b>184,721</b>	<b>558,474</b>	<b>558,474</b>	<b>\$0.55</b>

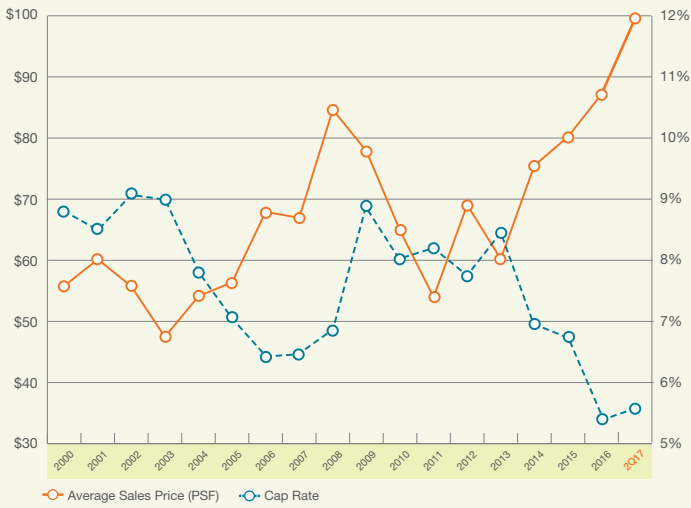
### VACANCY VS BLENDED ASKING LEASE RATE\*



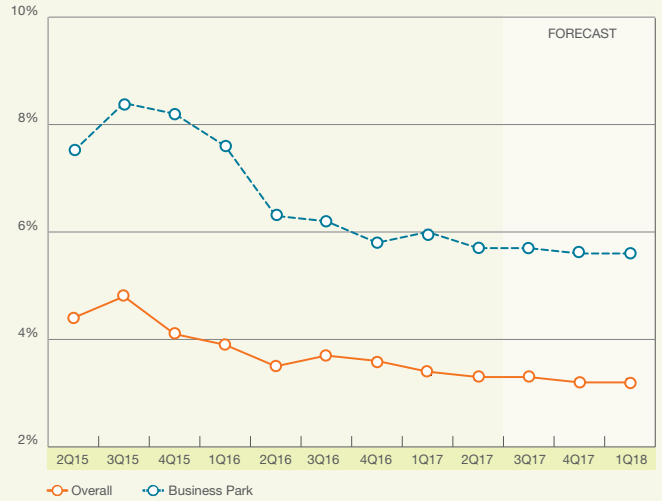
### VACANCY VS AVAILABILITY



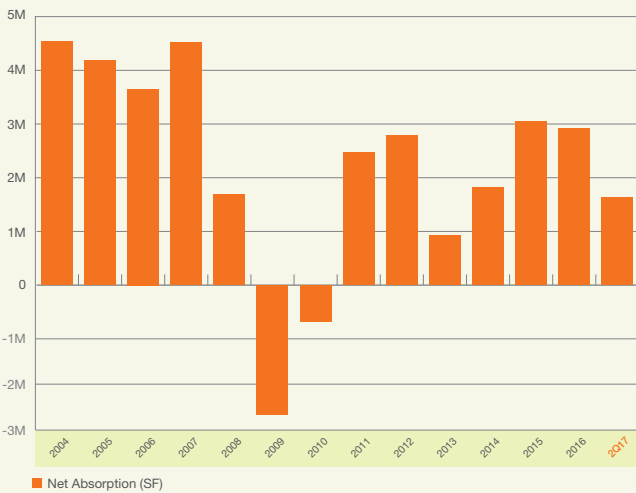
### AVERAGE SALES PRICE & CAPITALIZATION RATES



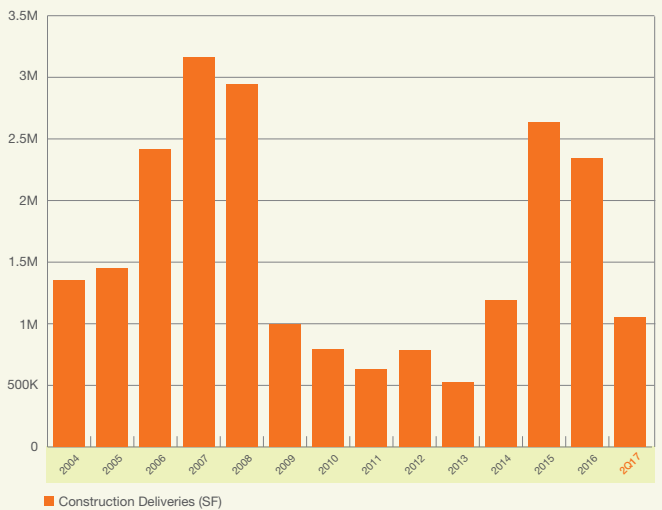
### VACANCY IN BUSINESS PARKS VS OVERALL



### NET ABSORPTION - HISTORICAL



### NEW CONSTRUCTION - HISTORICAL



## Market Breakdown

	Q2 2017	Q1 2017	Q2 2016	Annual % Change
Vacancy Rate	3.3%	3.4%	3.5%	-5.7%
Availability Rate	5.6%	5.3%	5.1%	9.8%
Asking Lease Rate	\$0.61	\$0.57	\$0.52	17.3%
Leased SF	2,037,856	1,539,658	3,514,602	-42.0%
Sold SF	524,712	484,724	1,966,171	-73.3%
Net Absorption	827,103	800,928	813,875	N/A

### Offices

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Los Angeles  
213.880.5250

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

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net absorption, as Staples set up shop in a 263,413 s.f. distribution center at 16441 NE Cameron Boulevard in Portland and CTDI occupied a 210,000 s.f. subleased space at 22638 NE Townsend Way in Fairview. Those move-ins balanced out 176,020 s.f. of negative net absorption in the NE Columbia Blvd/PDX submarket, where Portland Willamette home furnishings left 113,878 s.f. at 6700-6800 NE 59th Place.

Leasing activity was up from the first quarter, totaling 113 transactions for 2,037,856 s.f. of industrial space marketwide, on the strength of one of the largest industrial leases in Portland history. Amazon firmed up plans to open an 857,000 s.f. fulfillment center at 1000 NW Sundial Road in Troutdale, a Trammell Crow Company development that should be delivered in the third quarter of 2018. The online retailing leader will employ more than 2,000 workers at the facility during peak seasons, potentially tripling the company's Oregon labor force. Wymore Transfer Co., a locally based trucking and warehousing firm, was the quarter's runner-up, after signing a 131,702 s.f. expansion lease at 12100 SE Jennifer Street in Clackamas. Finally, the communications and security products distributor Anixter took 94,852 s.f. at 19501 NE Riverside Parkway in Gresham, making it the anchor tenant in a 153,232 s.f. development Panattoni. The building is on track for delivery during the fourth quarter of 2017, and Panattoni was seeking a tenant for the remaining 58,681 s.f., listed for lease at \$0.59/s.f. NNN.

Marketwide industrial asking rents climbed to \$0.61/s.f. on a blended triple-net basis, or approximately \$0.58/s.f. on the shell and \$0.85/s.f. on the office, assuming a 10% office average. Actual deal rents vary by size, age, and location, but newer Class A industrial product asking rates for spaces under 100,000 s.f. are between \$0.55-0.60/s.f. on the shell with \$0.85 office surcharges, while larger spaces over 100,000 s.f. are achieving \$0.50-0.55/s.f. shell rents. As demand for

functionally and logistically superior product remains strong, rates have increased by approximately 17% year-over-year, and by 11% over the past six months. Class B industrial business park spaces are averaging \$0.50-0.55/s.f. shell rates for smaller spaces or superior locations, and \$0.45-0.48/s.f. shell rates for spaces in older buildings or in less desirable areas. The highest rents are being achieved in the Southeast submarkets (Clackamas/Milwaukie, Mall 205, Oregon City, SE Close-In), as most availabilities there are likely in newer buildings. Conversely, Rivergate offers the most affordable Class A industrial spaces, averaging \$0.43/s.f. on the shell, but vacancies there are down 210 basis points year-over-year, and the rapid tightening will soon put upward pressure on rents.

It was a quiet quarter on the investment front, as 21 metro Portland industrial assets sold for a total of \$32 million in dollar volume. Nonetheless, investors continued to show confidence in the market, pushing the average price per s.f. up to \$98, excluding outliers. In the largest sale, the local investor Melvin Mark Companies obtained the 99,950 s.f. warehouse at 16250 SE Evelyn Street in Clackamas from its user, Northern Pacific Supply Co., for \$7.85 million or \$79/s.f. The building was subsequently listed for lease at \$0.51/s.f. NNN, well below the Clackamas submarket average of \$0.71/s.f. NNN. McLellan Estate Co., out of the San Francisco Bay Area, was the biggest buyer from outside the Portland area, spending \$4.75 million (\$107/s.f.) to acquire the 44,352 s.f. distribution facility at 10075 SW Commerce Circle in Wilsonville from a locally based individual owner. That sale-leaseback transaction was underwritten at a 6% cap rate. Given the strong tenant demand for industrial space in the market and rising rental rates, functionally superior and well-located industrial buildings should continue to achieve sub-6% cap rates and trade at or near \$100/s.f. in the coming quarters.

Data Source: CoStar