

Portland Office

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↑

Notable Lease Transactions

Autodesk
17 SE 3rd Avenue, Portland
108,750 s.f. leased

Farmers Insurance
6600 SW Hampton Street, Tigard
40,250 s.f. leased

Power Engineers
3 Centerpointe Drive, Lake Oswego
31,660 s.f. leased

Notable Sale Transactions

Credit Suisse
1320 SW Broadway Street, Portland
176,000 s.f. purchased for \$95M or \$540/s.f.

Lionstone Investments/ScanlanKemperBard Companies, American Bank Building
(621 SW Morrison Street), Portland
169,330 s.f. purchased for \$53M or \$313/s.f.

Swift Real Estate Partners, AmberGlen Corporate Center (1400-1600 NW Compton Drive), Beaverton
152,142 s.f. purchased for \$18.85M or \$124/s.f.

Portland's growing technology sector took center stage during the second quarter, as 282,334 square feet of positive net absorption yielded cycle-low vacancies in much of the market. Average asking rental rates rose to \$24.56, fully serviced, but the upper floors of Class A CBD towers and creative office spaces that appealed to tech tenants were both achieving rents in the mid-\$30s NNN. Institutional investors continued to bet big on Portland's office assets, expecting further growth in office-based sectors and a strong local economy to keep rental rates rising as new inventory comes on line. Tech tenants accounted for both the quarter's largest lease and its most prominent sale, emerging as a key economic and real estate driver in Portland, as Oregon's unemployment rate reached its lowest point since at least 1976.

Portland's marketwide office vacancy rate slipped to a new cycle low of 7.7% this quarter, following 282,334 square feet of positive net absorption. The downtown area gained 91,974 square feet of occupied office space amid move-ins by Tillamook Creamery, which is now in 45,000 square feet at 1400 NW 22nd Avenue, and Cloudability, which took over 22,591 square feet at 334 NW 11th Avenue. Downtown vacancies fell to 9.2%, down 90 basis points over the past six months, as technology and creative-sector tenants continued to fill long-vacant spaces in the Pearl District/Chinatown area. In the suburbs, Gateway remained metro Portland's tightest core office submarket, reporting 2.0% vacancy, while 217 Corridor/Beaverton was the loosest, at 17.0%. All product classes came out ahead in the second quarter, but Class B properties saw 81% of the period's absorption gains, adding 227,587 square feet.

Leasing activity was consistent with the past several quarters, as 999,507 square feet of metro Portland office space came off the market in 284 transactions. The technology sector continued to flex its muscle as the 3-D modeling software company Autodesk grabbed the entire, 108,750 square foot Towne Storage building, seizing the rare opportunity to obtain a large block of creative office space in Portland. LRS Architects is leading a wholesale renovation of the former warehouse property at 17 SE 3rd Avenue for Sentinel Development and Westport Capital Partners, anticipating a late-summer delivery to its new tenant. Elsewhere, Farmers Insurance inked the largest new lease outside of the downtown area,

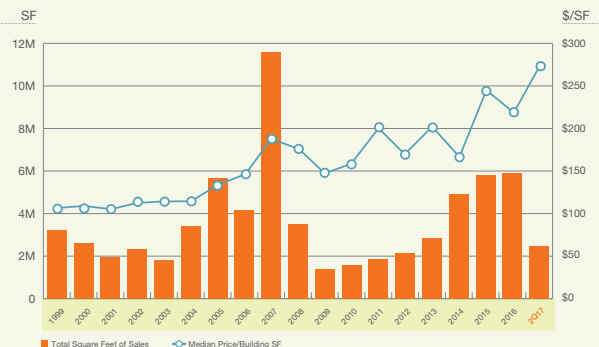
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Area Review

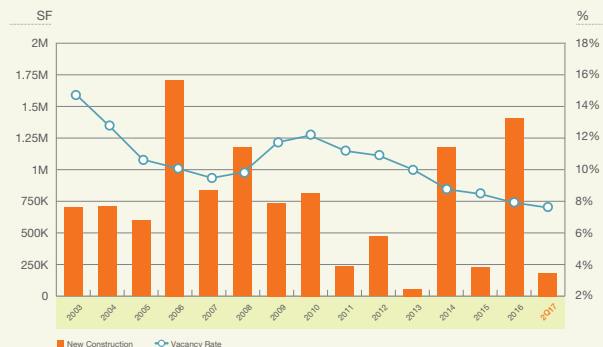
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Net Absorption	YTD Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
CBD	25,925,638	9.30%	9.90%	14.00%	96,872	111,565	168,905	678,959	\$29.55
Pearl District/Chinatown	2,452,552	2.10%	2.10%	8.10%	(4,898)	165,026	1,776	7,253	\$27.32
Downtown Total	28,378,190	8.60%	9.20%	13.50%	91,974	276,591	270,681	786,212	\$29.54
217 Corridor/Beaverton	3,484,954	16.20%	17.00%	18.60%	14,246	13,374	54,604	88,511	\$19.96
Airport Way	1,061,980	8.30%	8.70%	12.80%	11,530	42,366	8,667	19,106	\$14.84
Barbur Blvd/Capitol Hwy	988,806	5.90%	5.90%	8.40%	105,505	98,298	7,254	23,210	\$18.07
Camas/Washougal	525,149	4.20%	4.20%	4.20%	(1,502)	(1,502)	700	700	\$20.20
Cascade Park	2,746,074	8.40%	8.40%	11.80%	11,923	10,190	1,975	29,295	\$19.43
CBD/West Vancouver	2,310,095	7.50%	7.50%	8.50%	37,108	18,210	9,457	43,516	\$21.48
Clackamas/Milwaukie	2,331,106	4.20%	4.20%	4.20%	31,485	34,908	48,876	97,820	\$23.06
East Columbia Corridor	684,947	1.80%	1.80%	0.00%	0	0	12,620	12,620	\$17.65
Gateway	2,087,791	2.00%	2.00%	10.10%	(9,202)	(12,761)	1,090	10,628	\$19.10
Gresham	834,621	9.20%	9.20%	10.30%	(513)	(11,174)	1,571	2,737	\$19.03
Guilds Lake	563,047	10.30%	10.30%	42.00%	4,200	6,482	0	2,282	\$21.26
Hayden Isl/Swan Isl	1,192,159	1.20%	1.20%	1.20%	0	2,963	0	2,883	\$13.00
Hazel Dell/Salmon Creek	723,116	3.80%	3.80%	10.00%	3,788	4,340	4,216	14,659	\$25.27
Johns Landing	1,861,041	4.90%	5.20%	4.10%	(6,808)	14,841	6,500	17,648	\$27.48
Kruse Way	2,753,194	13.70%	13.80%	12.80%	(51,266)	(86,367)	85,517	93,111	\$29.12
Lake Oswego/West Linn	668,538	4.70%	4.70%	6.40%	3,405	17,173	330	10,227	\$25.58
Lloyd District	4,685,254	3.80%	3.80%	5.20%	8,233	(20,726)	121,738	168,883	\$27.26
Mall 205	612,651	1.40%	1.40%	1.40%	2,493	3,090	2,840	6,789	\$19.42
NE Close-In	1,140,727	3.20%	3.20%	1.90%	11,575	13,508	6,680	17,790	\$26.08
North Beaverton	2,867,879	3.80%	4.50%	4.50%	7,644	22,209	10,583	16,591	\$24.90
Orchards	477,700	13.10%	13.10%	14.60%	485	4,416	2,187	3,385	\$19.38
Oregon City	633,499	4.90%	4.90%	4.90%	(3,631)	(5,389)	0	6,864	\$16.86
Rivergate	48,123	0.00%	0.00%	0.00%	0	0	0	0	-
SE Close-In	2,593,655	5.00%	5.00%	9.40%	(9,080)	(20,034)	27,820	55,606	\$25.59
Sherwood	131,702	15.70%	15.70%	15.70%	0	0	0	0	\$23.20
St. Johns/Central Vancouver	1,292,936	12.20%	12.50%	17.00%	(583)	(21,714)	0	0	\$15.87
Sunset Corridor/Hillsboro	11,971,959	4.50%	5.00%	6.60%	15,100	20,699	15,986	55,279	\$21.27
SW Close-In	418,028	2.20%	2.20%	8.00%	5,153	(2,612)	17,586	17,586	\$21.34
Sylvan/Hillsdale	604,948	11.20%	11.40%	10.80%	6,185	(2,528)	12,250	25,997	\$20.74
Tigard	2,809,262	11.40%	13.20%	14.90%	(9,917)	(43,274)	56,786	93,209	\$20.88
Tualatin	1,101,626	17.50%	18.70%	19.10%	1,508	(21,371)	4,549	14,744	\$23.93
Vancouver Mall	798,517	5.40%	5.40%	5.40%	(5,437)	(6,741)	3,410	11,274	\$17.59
Wilsonville	1,108,389	1.20%	1.20%	7.70%	6,733	27,142	3,034	12,529	\$21.61
Suburban Total	58,113,473	6.70%	7.00%	9.10%	190,360	98,016	728,826	1,175,479	\$22.21
Class A	17,220,411	6.80%	7.50%	8.50%	(29,924)	(67,120)	277,748	407,494	\$26.01
Class B	31,261,590	7.30%	7.60%	10.30%	227,587	158,502	343,063	600,691	\$21.09
Class C	9,620,740	4.20%	4.20%	6.20%	(7,303)	6,634	108,015	167,294	\$17.53
Portland Total	86,491,663	7.30%	7.70%	10.50%	282,334	374,607	999,507	1,961,691	\$24.56

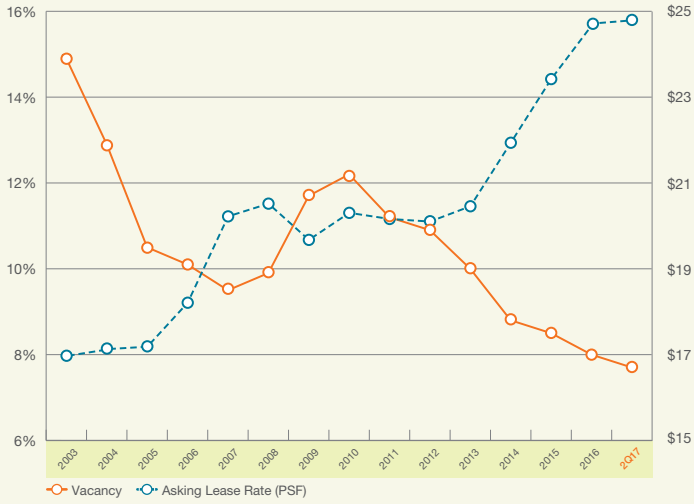
HISTORICAL SALES SF & MEDIAN SALE PRICE



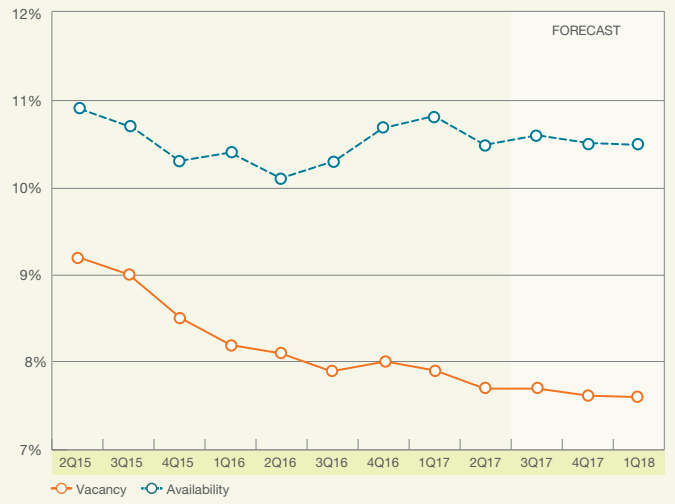
HISTORICAL NEW CONSTRUCTION & VACANCY RATE



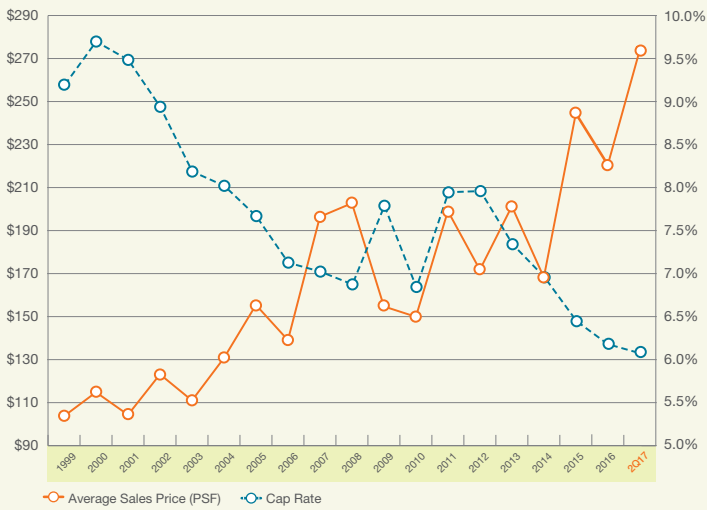
VACANCY VS ASKING LEASE RATE



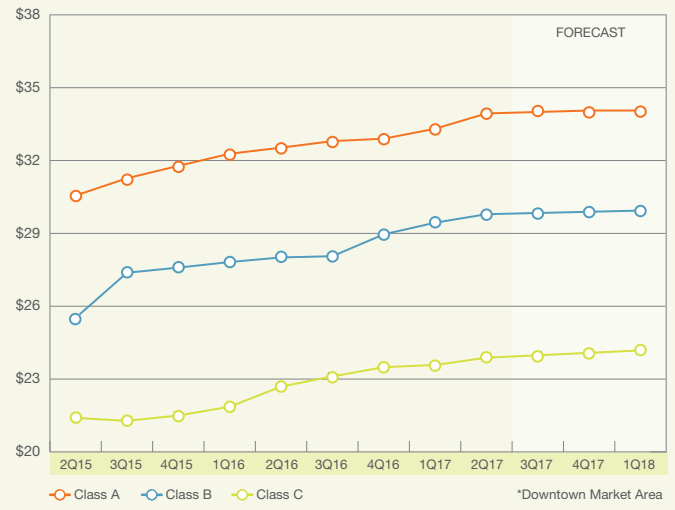
VACANCY VS AVAILABILITY



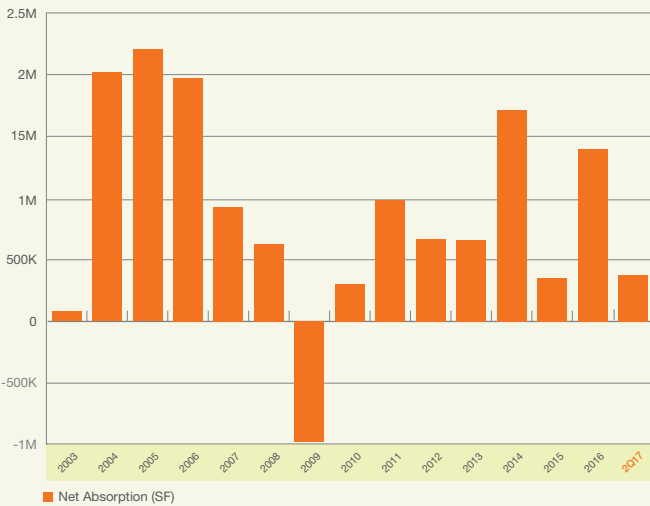
AVERAGE SALES PRICE & CAPITALIZATION RATES



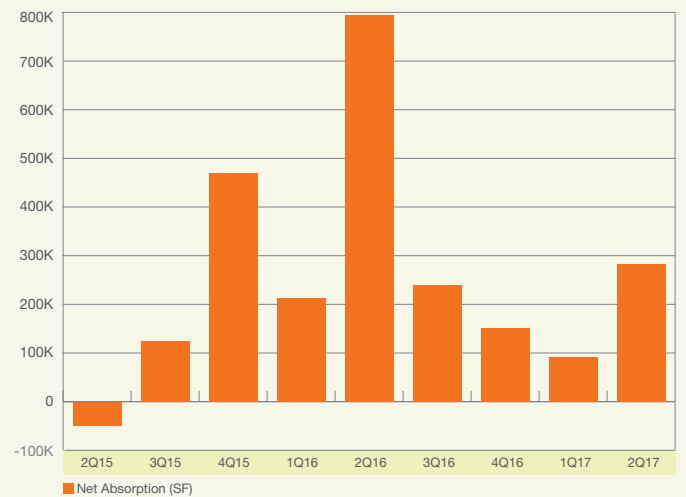
ASKING LEASE RATE (FS)*



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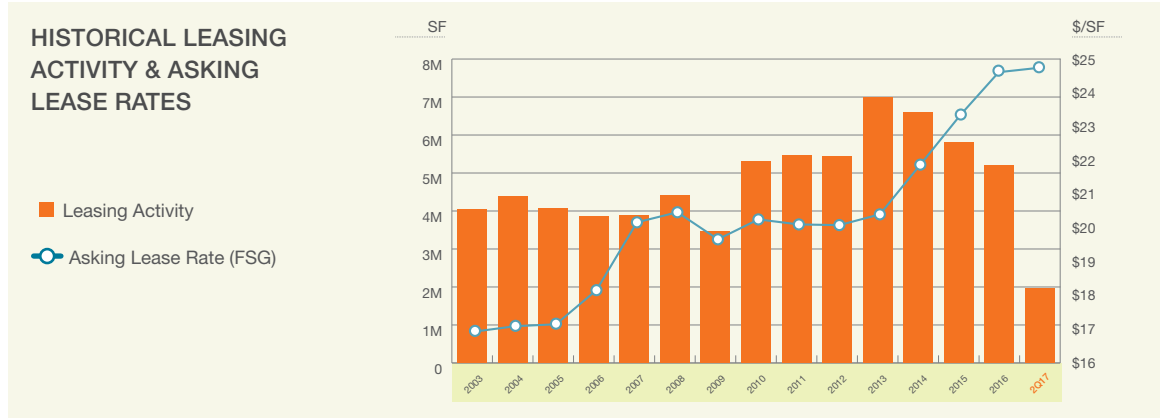
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	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	7.7%	7.9%	8.1%	-4.9%
Availability Rate	10.5%	10.8%	10.1%	4.0%
Asking Lease Rate	\$24.56	\$24.69	\$24.27	1.2%
Leased SF	999,507	962,184	1,381,117	-27.6%
Sold SF	885,545	1,574,258	1,654,311	-63.0%
Net Absorption	282,334	92,273	793,881	N/A



taking 40,250 square feet at 6600 SW Hampton Street in Tigard. Power Engineers was the suburban runner-up, with a 31,660 square foot deal on the top two floors of 3 Centerpointe Drive in Lake Oswego. Asking rental rates in metro Portland averaged \$24.77 fully serviced, up 2.1% year over year, but the upper floors of under-construction buildings such as the Broadway Tower were being marketed in the high-\$30s NNN.

The power of Portland's growing tech sector was on display in the quarter's leading sale transaction, as Credit Suisse paid \$95 million (\$540/sf) to obtain the former Oregonian newspaper headquarters at 1320 SW Broadway Street in April. Less than three years earlier, a joint venture of Urban Renaissance Group and Clarion Partners acquired the building from its previous user for \$14.15 million (\$80/sf), and then poured more than \$25 million into renovations, producing some 165,000 square feet of creative office space. That bet paid off when the Amazon-owned video encoding company Elemental Technologies signed on for more than 100,000 square feet on the top four floors, and D+H Financial Technologies took another 45,000 square feet, filling the building with the sort of visible tech tenants that investors covet. With the April sale to Credit Suisse, Urban Renaissance Group and Clarion Partners more than doubled their money in less than three years. All told, there were 57 investment and owner-user sale transactions this quarter, summing to \$196 million in dollar volume. The average price per square foot rose to \$287, but varied widely based

on the character and location of the assets involved. The average cap rate fell to 5.9%, ranging from 5% on the former Oregonian headquarters sale to 8% on suburban value-add transactions such as Swift Real Estate Partners' purchase of the AmberGlen Corporate Center in Beaverton.

The only office building delivered this quarter was 2815-2831 SW Barbur Blvd in Portland, a 108,689 square foot Class B structure that was fully preleased to Under Armour in April of 2015. Twenty developments were under construction at the end of the quarter, with a total of 3,238,157 square feet of future office inventory coming to the market when they are delivered. The Nike North Expansion in Beaverton accounts for more than one-third of that space, and the 108,750 square foot Towne Storage building was fully preleased to Autodesk this quarter. Nonetheless, the remaining projects will provide a needed supply jolt to the increasingly constrained Portland office market. The 20-story Broadway Tower is scheduled for delivery in mid-2018 and had 163,750 square feet available at quarter's end, with rates ranging from the low-to-high \$30s NNN based on floor. Also in the CBD area, the 9North building will feature 171,996 square feet of office space upon its completion in the latter half of 2018. The largest office construction outside of the CBD is the Field Office complex in Guilds Lake, a two-building, 299,056 square foot project to be delivered early next year.

Data Source: CoStar