

Industrial Highlights

Portland | Q1 2015



The tightening Portland market has seen a significant response from developers, however vacancy continues to decline and landlords are pushing rents. Investment activity in 2015 has already outpaced every year since 2007 and is expected to grow throughout 2015.

Economy

Portland's economic conditions are strong and improving. Unemployment in the region has fallen to 6.0 percent, a level not seen since mid-2008. Professional and business services and trade, transportation and utilities continue to lead the region's employment gains, indications of Portland's advanced, trade-driven economy, which ranked 2nd in the nation for advanced industries' share of total output.

Market Conditions

The Portland industrial market absorbed 257,193 square feet in the first quarter, a strong start to the year, however somewhat below Q4 2014, which saw absorption of 406,896 square feet. Due to speculative delivery, vacancy for industrial properties rose 10 basis points since the end of 2014 but fell 40 basis points year-over-year, now at 4.9 percent. Average asking rents are up to \$0.52 per square foot per month, driven by higher asking rates for new construction, increasing 2.0 percent since the end of 2014 and up 13.0 percent year-over-year.

Many large users are finding it difficult to locate spaces before the market can deliver new product. With numerous tenants in the market with requirements over 100,000 square feet and a significant amount of speculative construction currently in the pipeline, it is expected that absorption will ramp up throughout the year.

Cameron Distribution Center, Interstate Crossroads Distribution Center, Southwest Industrial Park and LogistiCenter 205, and Colwood Industrial Park are currently under construction and are expected to deliver nearly 1.5 million square feet of speculative space to the market by the end of 2015. In addition, just under 250,000 square feet of speculative flex construction is underway and expected to deliver by the end of the year, including Koch Corporate Center, Dwyer Creek Business Center, and Hedges Creek Business Park. Hedges and Koch will add much-needed space to I-5 South Corridor's flex market, however Koch has already seen significant pre-leasing activity with Cosentino Granite and WellPartner both signing sizeable leases in the first quarter.



Arrows represent change from prior quarter

Institutional investment activity for properties over \$10.0 million in the first quarter exceeded \$350 million, already placing 2015 as the highest investment volume year since 2007, when the market saw \$377 million of investment activity. The majority of the volume came from Indcor's massive sale to GIC, which included over 2.7 million square feet of predominantly warehouse/distribution space in the Portland market, trading for over \$270 million. Also significant, were the sales of Parkside Business Center for \$73.6 million and Milwaukie Business Park for \$10.6 million. Interest from institutional investors is increasing significantly as Portland's industrial fundamentals continue to strengthen.

Outlook

Due to the delivery of Gateway Corporate Center and Prologis PDX 20, which added vacant speculative space to the market, vacancy bumped up slightly in the first quarter. With no speculative warehouse/distribution projects set to deliver in the second quarter, it is expected that vacancy will drop slightly. In the third quarter, however, just over 900,000 square feet of speculative warehouse/distribution space is expected to deliver, which will likely bump up vacancy, however, with the market tightening and numerous large tenants in the market, pre-leasing activity is expected, which will likely temper some of the deliveries' effects on vacancy. Market pressure has led to over 1.2 million square feet of planned speculative warehouse/distribution space, which will deliver to the market at the end of the year and throughout 2016, adding substantial inventory, particularly in NE Columbia Corridor and I-5 South Corridor. These two submarkets have both seen a significant amount of leasing activity and have pent up demand for new space.

Leasing activity Eastside

Rivergate

- Terminal Transfer leased 101,131 square feet of space at Gateway Corporate Center – Bldg F
- Aaron Rents signed a renewal for 97,625 square feet at Rivergate Industrial

NE Columbia Corridor

- Cardinal Health signed a lease at Gateway Corporate Center – Bldg F for 125,542 square feet
- Footwear Specialties leased 50,641 square feet of space at Columbia Pacific Airport
- Ernest Packaging Solutions leased 47,320 square feet at PDX Logistics Center – Bldg 2
- Shamrock Foods leased 46,716 square feet of space at 18332 NE San Rafael St
- Perfect 10 took 45,000 square feet of space at Airport Way Commerce Park
- Perfectvision Manufacturing leased 45,000 square feet of space at Airport Way Business Park
- Total Reclaim renewed for 30,000 square feet at Columbia Commerce Park – Bldg 4

Clackamas/Milwaukie

- KeHE leased 166,503 square feet of space at The Tree of Life Building
- Boydston Equipment Company leased 53,930 square feet at 8811 SE Herbert Ct

Leasing activity Westside

CBD/NW/Guilds Lake

- EcoCab leased 20,000 square feet of space at Yeon Business Center

Sunset Corridor

- Solar World leased 80,380 square feet at Alliance Packaging's new facility, which is now fully-leased
- EID Passport took 63,000 square feet of flex space at Five Oaks West; the complex is now fully-leased
- Mobile Technologies leased 38,148 square feet of space at MTI One
- Lumencor signed a lease for 30,148 square feet of flex space at Cornell Oaks – Waterside Bldg C
- Laika subleased 29,307 square feet of space at The Evergreen Park
- Columbia Sportswear signed a lease for 27,520 square feet at AmberGlen Business Center – Bldg 1385

I-5 South Corridor

- DWFritz Automation leased 35,245 square feet of flex space at the newly delivered W3 building
- Pacific Nutritional Foods signed a lease for 29,746 square feet at Tualatin Corporate Center

Tenants in the market

- LKQ Auto Parts is in the market for 250,000 square feet of space in NE Columbia Corridor
- Bridgestone Tires is in the market for 200,000 square feet in NE Columbia Corridor
- Freightliner is in the market for 200,000 square feet of space in CBD/NW/Guilds Lake
- Celestica is in the market for 165,000 square feet in NE Columbia Corridor
- Ashley Furniture is looking for 150,000 square feet of space, looking at multiple submarkets
- Cummins is in the market for 130,000 square feet, looking in NE Columbia Corridor

Sales activity

Over \$350 million of industrial and flex product over \$10.0 million traded in the first quarter, outpacing the entirety of 2014.

- In a massive \$8.1 billion multi-geography sale, Indcor traded a total of over \$270 million of industrial and flex product in Portland to GIC; this represented over 2.7 million square feet of space in the Portland market, with the properties trading at \$101 per square foot.
- Parkside Business Center in Beaverton sold to Harsch Investment Properties from RREEF for \$73.6 million or \$100 per square foot.
- Milwaukie Business Park, a group of flex properties, sold to Pacific NW Properties from PS Business Parks for \$10.6 million or \$104 per square foot.

Construction activity

Portland's industrial market delivered 512,225 square feet of industrial and flex space in the first quarter.

NE Columbia Corridor

- Gateway Corporate Center – Phase III Bldg F delivered, which is 215,250 square feet of speculative space
- Prologis PDX 20 delivered 207,800 square feet of speculative space to the market

Hayden Island/Swan Island

- FedEx's 190,000 square foot project in Swan Island has broken ground

I-5 South Corridor

- Southwest Industrial Park – Building D has broken ground and expects to deliver 145,136 square feet of speculative space to the market by the end of the year

Clark County

- LogistiCenter 205 has broken ground and expects to deliver just under 100,000 square feet of speculative space to the market by the end of 2015

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