



### **Mind the Gap: Portland's Trophy Office Rental Rates Hit Historic Highs**

*Demand for Trophy buildings remains high but tightening fundamentals could draw attention to other asset classes, according to JLL's 2015 Skyline Review*

**PORTLAND, June 11, 2015** – There's no space like Trophy space, especially in Portland it seems. The premiere office towers that make up Portland's skyline boast—by far—the most expensive office space to rent, garnering rates 13.9 percent higher than non-Trophy space, according to [JLL's 2015 Digital Skyline](#). Average Trophy rates in the first quarter of 2015 were \$36.25 per square foot compared to \$31.81 per square foot in non-Trophy buildings. This gap in rents has been growing in the Portland market since 2011 and over the last two years has been heightened by the sheer velocity of lease transactions driven by technology and creative companies.

“Tech and creative users have limited opportunities today to take space in the more historic, non traditional buildings they've typically favoured so we are seeing more and more Skyline buildings positioned to capture this demand,” said [Patricia Raicht](#), vice president, [JLL Research](#).

Trophy tenants can expect little relief in rental rates in the near future, in spite of near record levels of construction for the market in the last 12 months, more than 80 percent of the space coming online this year is likely to be pre-leased and vacancy in Skyline properties is now 8 percent and falling, down from a high of 9.3 percent in 2010.

Some building owners in Portland have done a good job in detecting the trend toward a widening premium in rents for Trophy assets and positioning their buildings accordingly to capture today's demand. A case in point is US Bancorp Tower, which has transitioned successfully from a largely single tenant corporate headquarters building to become a bona fide tech hub with an enviable roster of technology tenants following the investment of \$15 million in lobby and other upgrades. New owners are in the process of repositioning KOIN Center and One Main Place with a view to returning them to trophy status.

“Owners who seize the opportunity and play to the strengths of their buildings will be in a good long term place as landlords. There is tremendous demand in the market and by appropriately positioning the amenities and appeal of their space to attract diverse tenant interest, owners can successfully tap that demand,” said [Joe Vaughan](#), managing director, JLL.

JLL's proprietary 2015 Digital Skyline identifies and tracks micro-segments of 47 city centers across North America. The Skyline features Trophy and Class A buildings where tenants and investors alike focus demand for office space in a flight to quality and efficiency.

#### **A diminishing “home-team” advantage**

If office rental rates are fierce, the price tag to buy an office building in Portland may be getting even more fierce. Investor appetite for core CBD office assets is at an all time high. Sales transactions in the first quarter of the year surpassed total sales for 2014 and are on a par to reach levels not seen since 2008.

To date, transactions in Portland's skyline set have been concluded by domestic institutional investors but foreign investor interest in Portland office assets generally is rising. This isn't surprising given Portland's tightening office market fundamentals and the sheer volume of foreign capital chasing Skyline office deals around the country. Of the \$35.3 billion transacted over the past five quarters across the U.S., 34.6 percent was driven by international buyers. In Houston and Seattle, every office deal transacted during this time period had a foreign buyer, while in Washington, D.C., Boston and New York, offshore capital led more than 50 percent of office purchases. In Portland, investors from Chile and Canada have competed for deals in the CBD.

"Portland's CBD office vacancy is among the lowest in the nation and investors are clearly taking note," said Paige Morgan, Senior Vice President with JLL's Capital Markets. "We predict foreign buyers to invest \$50 billion into U.S. commercial real estate in 2015, and they appear to be buying for the duration. This could have an impact on future Skyline liquidity in Portland where we continue to see a deepening pool of institutional investors," she added.

Morgan continued, "Going forward, domestic institutional investors may be forced to evolve their strategies, increasingly partnering with foreign investors and diversifying into non-core and non-CBD assets."

## **A redefined Skyline**

As investors begin to diversify beyond the Trophies for investment opportunities, a growing segment of tenants are also turning away from Skyline buildings in favor of non-core Class A and Class B buildings, inside and outside of traditional Central Business Districts (CBDs). The perception of an "address" has been replaced by the desire for highly customized office space, particularly among fast growing tech and other creative companies.

"Tech users and other creative firms want unique space – they care about building quality and they want to design attractive, creative environments for their employees," said Jake Lancaster, a managing director with JLL in Portland. "They have shown a preference in recent years for leasing space in well-located Class B and historic buildings or adaptive re-use because they can adapt the space to reflect their own company culture. It allows them to create their own identity."

Lancaster added, "A lot of these buildings are on the perimeter of the traditional core CBD. These projects tend to be adaptive reuse or a re-positioning of an older building that contributes to an area's revitalization. These tech-favored properties are experiencing rent growth that far outpaces some of the market's traditional Class A commodity space."

## **About the Skyline Review**

For the first time, investors and tenants alike can now access JLL's Skyline Review via a digital platform. The fully interactive website will feature JLL's proprietary market insights regarding office supply, demand, rents, leverage and investment into 47 markets across the United States and Canada, with the ability to compare and contrast individual markets or multiples of markets. In addition, the site will offer videos and

infographics. All information will also be available via mobile access. Users can also directly access information about Portland's Skyline.

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### **About JLL**

JLL (NYSE: JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. A Fortune 500 company with annual fee revenue of \$4.7 billion and gross revenue of \$5.4 billion, JLL has more than 230 corporate offices, operates in 80 countries and has a global workforce of approximately 58,000. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 3.4 billion square feet, or 316 million square meters, and completed \$118 billion in sales, acquisitions and finance transactions in 2014. Its investment management business, LaSalle Investment Management, has \$55.3 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit [www.jll.com](http://www.jll.com).

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