Office Insight

Portland | Q2 2015

Developers shift into high gear

Across the board rental rate increases likely to persist

Average asking rental rates for Class A office space in the CBD have pushed up to $30.03 per square foot, a 2.6 percent increase year-over-year, and a new high-water mark for the Portland metro area. CBD Class A rents are now 14.9 percent higher than their previous peak and 17.4 percent up from this cycle's trough of $25.59. While metro area Class A rents are also rising, they have trailed Class A rent in the CBD by 12.0 percent since the recovery, and this trend is continuing. Rental rate increases are not restricted to Class A product; the Portland market is seeing rents rising in all classes of space and in most submarkets. Of note this quarter has been the rapid rise of asking rents for new construction, with rates being adjusted as new leases are announced.

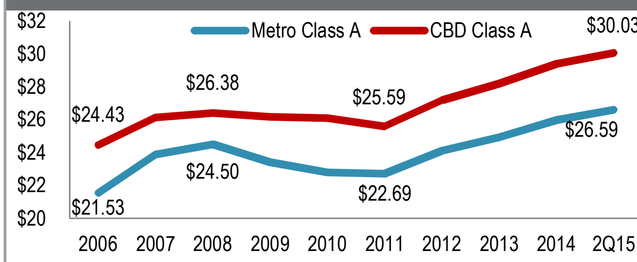
Portland's own Meatpacking District

Much like New York City's Meatpacking District of the late 1990's, the Close In Eastside is undergoing a significant transformation, but with a nod to its industrial roots. Cranes dot the skyline as redevelopment is underway adding housing, hotels, and new office space throughout the area. A favorite of creative and industrial office users, vacancy in the submarket is among the lowest in the metro area, now sitting at just 5.0 percent, while rents in the area have jumped by over 30 percent over the last 12 months. Product in the area does not fit into traditional classifications, as it is primarily redevelopment, so overall asking rents which are a truer measure of market movement, now stand at $28.47.

CBD construction surges

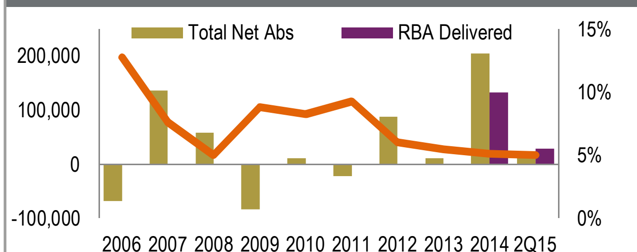
Over 700,000 square feet of new product is anticipated to come to market in 2016, with 70 percent currently pre-leased. The market has been buzzing with development and pre-development activity as area owners respond to growing demand in the Central City. This has put an additional one million square feet of potential new office space in the pipeline through 2018. Our analysis of these proposed projects shows that demand is expected to keep vacancy below 8.7 percent even if projects that have a high or medium probability of completion deliver to the market.

CBD Class A vs Metro Class A asking rents



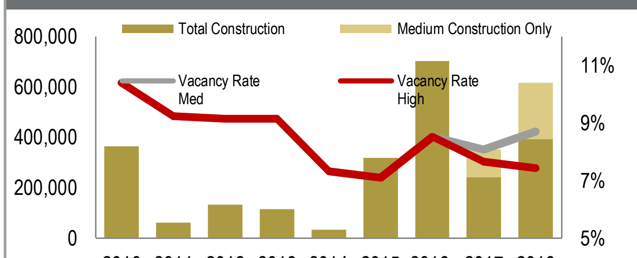
Source: JLL Research

Close In Eastside office market vitals



Source: JLL Research

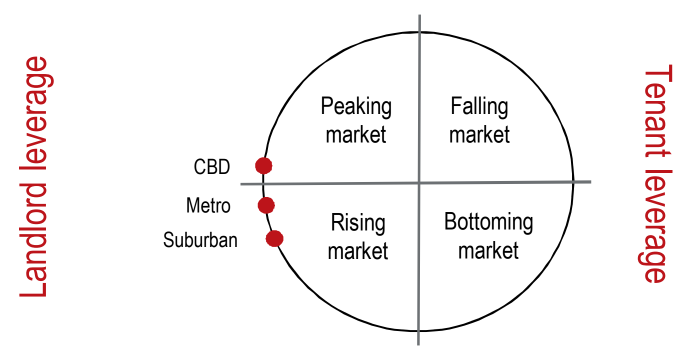
CBD overall vacancy and development forecast



Source: JLL Research

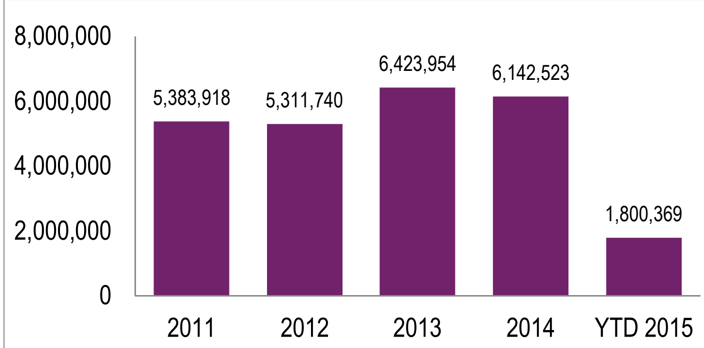
58,458,643 Total inventory (s.f.)	**186,678** Q2 2015 net absorption (s.f.)	**$23.27** Direct average asking rent	**1,417,686** Total under construction (s.f.)
9.1% Total vacancy	**389,826** YTD net absorption (s.f.)	**6.4%** 12-month rent growth	**61.6%** Total preleased

Current conditions – submarket



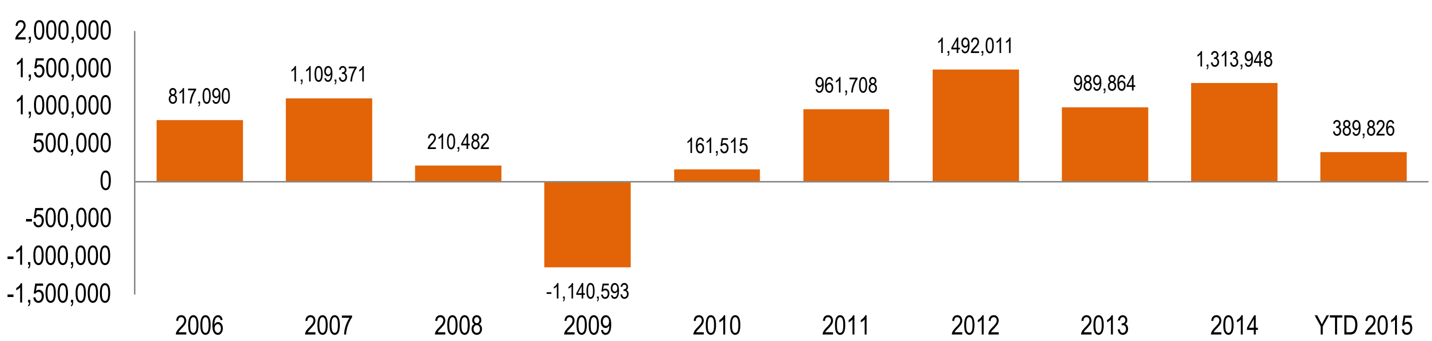
Source: JLL Research

Historical leasing activity (s.f.)



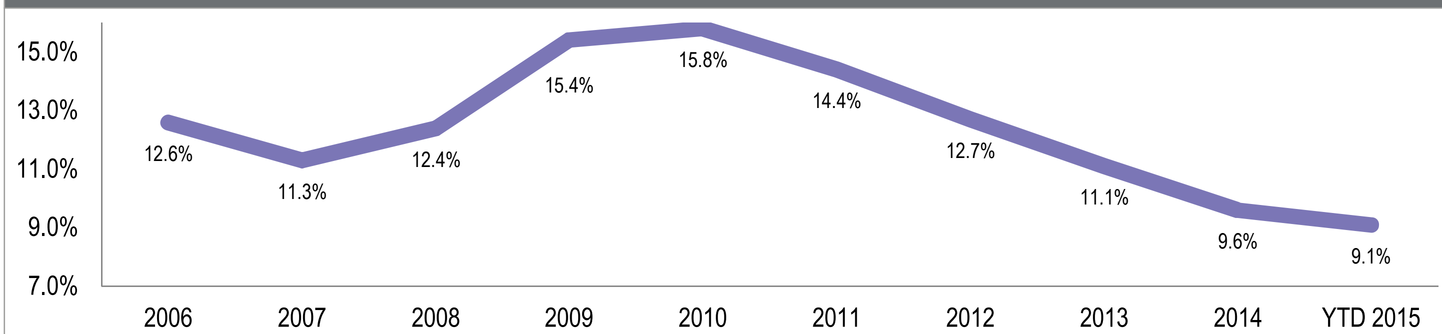
Source: JLL Research

Total net absorption (s.f.)



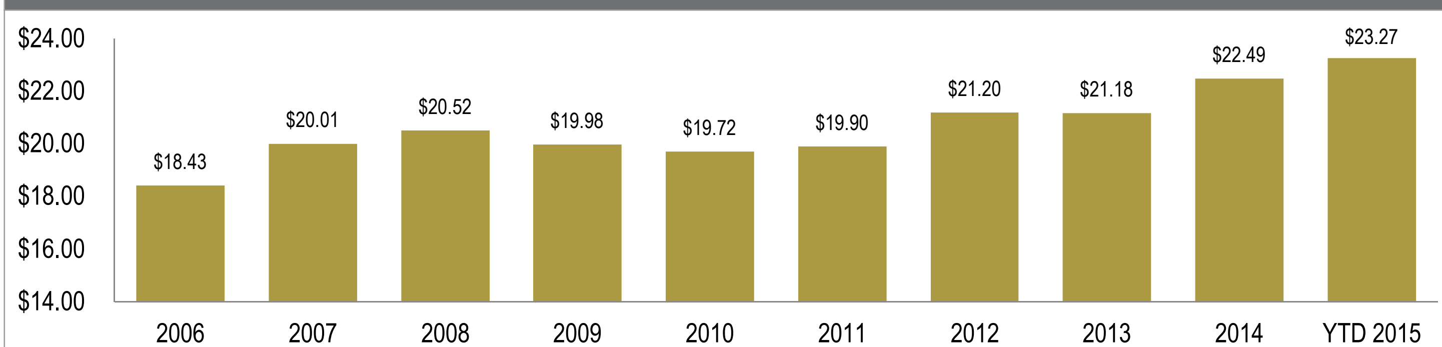
Source: JLL Research

Total vacancy rate (%)



Source: JLL Research

Direct average asking rent ($ p.s.f.)



Source: JLL Research

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