



## DECADE OF CHANGE

The beginning of a new decade offers a chance to reflect on the ways that commercial real estate has evolved in the last ten years and what the next ten years may have in store. In this issue we will explore the past, present, and future of Greater Portland's commercial real estate landscape. Although many factors affected the region, here are a few notable catalysts.

### The 2035 Comprehensive Plan

The 2035 Comprehensive Plan (Draft 2016) - Adopted by City Council to become effective in 2018, the Plan provides a framework for the City to create opportunities for more jobs, affordable housing, a low-carbon economy, a clean environment, increased mobility, and greater equity among Portlanders. The Central City 2035 component has increased use allowances and development opportunities for much of the close-in Eastside areas of the City.

### Opportunity Zones

The tax incentive created to encourage long-term investments in low-income rural and urban communities produced unique interest in Clackamas, Washington, and Multnomah counties' combined 31 designated areas. Last year, Bloomberg Businessweek dubbed Oregon "Tax Breaklandia" due to State officials designating virtually the entirety of downtown Portland as an Opportunity Zone.

### WeWork

Opening its very first location in New York in 2010, WeWork launched its first Portland location in 2015. Their plant-filled, exposed-beams, motivational quote-laden walls spawned design terminology such as "human-centric" and "experiential" becoming the #goals of landlords to attract fast-growing (and top-dollar rent paying) tenants. WeWork's current Portland footprint spans over 225,000 square feet in its combined four locations.

### Portland Snapshot

	Vacancy	Lease
Industrial	4.3%	\$0.76
Office	7.2%	\$27.11
Retail	3.4%	\$21.78

### Recreational marijuana legalized

Early adopters in grow operations scooped up long-vacant warehouses at above market rents in a frenzy, causing a ripple effect in inventory and lease rates. Cannabis retail locations have transformed empty storefronts. According to the Oregon Liquor Control research, Oregon has 28.4 locations per 100,000 residents. Comparatively, numbers for the same amount of residents for McDonald's is 16.5 and Starbucks is 3.1.

### "Out-of-town" Investors

The transfer of Portland's locally owned commercial real estate to non-Oregon investors reached a fever pitch towards the end of the decade. Across Portland, office investment has exceeded \$1.25 billion for each of the past five years. Sales volume is consistently concentrated in the CBD, which saw 33% of Portland's total office investment in 2019. Of the top ten buyers in 2019, only one local firm made the list.

### Low interest rates

In the latter part of this economic cycle, the sentiment in the market was that the Federal Reserve would be raising rates which would have a negative impact on cap rates. In a surprising twist, the Fed actually cut rates when the market began showing signs of stress, which has resulted in the continued compression of cap rates. The associated values of acquisitions have resulted in significant increases in rental rates, with few signs of weakening at the tail end of the prior decade.

### Inclusionary Zoning

The Portland City Council approved a policy that requires new multi-family projects 20 units or more in size to set aside a portion of the units for households earning 80 percent of the area's median income. Portland's Daily Journal of Commerce reports that a number of developers state apartment projects no longer provide an adequate rate of return to attract financing, resulting in fewer permits for multi-family developments than in previous years. Recently, Mayor Ted Wheeler has requested \$150,000 in his proposed budget for the Portland Housing Bureau during the next fiscal year for a market analysis on whether the policy should be adjusted.



## INDUSTRIAL

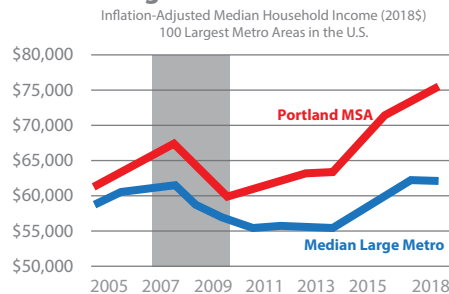
While industrial vacancies are significantly below the historical average, a large influx of speculative deliveries contributes to some volatility. Of the three million square feet of speculative space under construction, only 20% is preleased. After years of robust growth, rent gains have moderated but remain above the historical average. While industrial offers solid yield, Portland has often seen lower annual sales volume for industrial properties than for retail, office, or multi-family assets.

Greater Portland Market	2010	16,100	49%	214.0	8%	9.0	-109%	0.52	32%	67	50%	7.8	-30%
	2019	31,800		233.0		4.3		0.76		133		6.0	
	Year	\$ Millions		SF Millions		%		\$/SF		\$/SF		%	
		Asset Value		Inventory		Vacancy		Lease Rate		Sale Price		Cap Rate	
Sunset Corridor	2010	2,100	46%	18.6	22%	13.3	-375%	0.64	33%	82	47%	7.7	-26%
	2019	3,900		23.7		2.8		0.96		154		6.1	
Clackamas/Milwaukie	2010	1,500	61%	24.4	2%	9.9	-130%	0.48	32%	59	51%	7.8	-30%
	2019	3,800		25.0		4.3		0.71		121		6.0	
Airport	2010	1,200	48%	14.2	13%	7.1	30%	0.49	33%	68	52%	7.9	-30%
	2019	2,300		16.4		10.1		0.73		143		6.1	
SE Close-in	2010	546	55%	7.0	-9%	8.5	-6%	0.66	34%	85	53%	7.7	-33%
	2019	1,200		6.4		8.0		1.00		181		5.8	
CBD West Vancouver	2010	336	50%	4.3	22%	11.0	-108%	0.40	32%	56	50%	7.8	-30%
	2019	670		5.5		5.3		0.60		112		6.0	
Tualatin/Wilsonville/ Sherwood	2010	1,600	48%	20.1	10%	17.1	-300%	0.48	32%	70	49%	7.7	-29%
	2019	3,100		22.3		4.3		0.72		138		5.9	
217 Corridor/ N. Beaverton/Tigard	2010	1,200	52%	15.3	1%	12.4	-118%	0.59	32%	78	48%	7.8	-28%
	2019	2,500		15.4		5.7		0.87		150		6.1	
Guilds Lake/Hayden Island/Swan Island	2010	1,200	56%	22.8	0%	7.4	-133%	0.46	33%	57	50%	7.8	-30%
	2019	2,700		22.8		3.2		0.68		115		6.0	

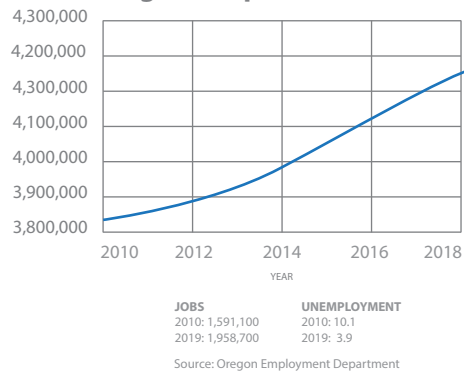
In 2015, The New York Times featured Portland in its 36 Hours travel section and dubbed it the "capital of West Coast urban cool..."

Portlandia's first episode aired Jan 2011

### Strong Portland Income Gains



### Oregon's Population Per Year



# What we experience from the past, prepares us for the future.

A decade ago, no one could have predicted Portland's unprecedented growth. In a (10-year-long) blink of an eye, our region has changed dramatically. Towering skyscrapers are now flanking the corridors of Central Eastside, electric scooters are zipping our newly transplanted residents between food halls and coworking spaces, and last-mile delivery fulfillment centers are popping up around the landscape faster than blackberry bushes. Despite predictions of a slowdown, our region is still in growth mode. The best way to predict where we will go, is to look at from where we have come.

## OFFICE

Portland's office market profile has significantly increased over the past decade, as it transitioned from a regional market to a national market. The vast majority of these out-of-town ownership groups are institutional investment firms which are more traditionally focused on asset value versus cash flow. As a result, expect rents to be sturdier in years to come in spite of future economic downturns. Accepting lower rental rates in the name of cash flow, but ultimately devaluing the asset, will be a last resort.

Greater Portland Market	2010	17,400	48%	103.0	5%	11.0	-53%	19.73	27%	158	47%	7.9	-32%
	2019	33,300		108.0		7.2		27.11		300		6.0	
	Year	\$ Millions		SF Millions		%		\$/SF		\$/SF		%	
		Asset Value		Inventory		Vacancy		Lease Rate		Sale Price		Cap Rate	
Downtown Portland	2010	5,100	50%	27.2	3%	9.1	26%	22.76	30%	180	50%	7.6	-36%
	2019	10,200		28.1		12.3		32.67		358		5.6	
Sunset Corridor/Hillsboro	2010	2,400	48%	12.4	11%	12.4	-138%	16.79	32%	143	53%	7.8	-30%
	2019	4,600		14.0		5.2		24.81		305		6.0	
SE Close-in	2010	529	47%	2.9	12%	5.3	-6%	20.09	23%	152	49%	7.9	-34%
	2019	1,000		3.3		5.0		26.18		299		5.9	
Kruse Way	2010	496	46%	2.9	0%	19.7	-55%	22.90	25%	172	46%	7.7	-31%
	2019	915		2.9		12.7		30.57		317		5.9	
Clackamas/Milwaukie	2010	475	45%	3.4	0%	10.4	-593%	18.85	21%	140	45%	8.2	-28%
	2019	862		3.4		1.5		23.74		254		6.4	
CBD West Vancouver	2010	419	40%	2.9	3%	13.0	-88%	19.40	16%	133	40%	8.1	-23%
	2019	698		3.0		6.9		23.17		222		6.6	
NW Close in	2010	505	48%	2.9	0%	7.8	16%	22.68	27%	173	49%	7.7	-33%
	2019	979		2.9		9.3		31.12		336		5.8	
Lloyd Mall	2010	906	50%	5.3	4%	8.5	-166%	19.76	34%	159	50%	7.9	-36%
	2019	1,800		5.5		3.2		29.78		320		5.8	
Tualatin/ Wilsonville	2010	393	43%	2.6	0%	27.4	-318%	18.94	27%	153	43%	8.2	-26%
	2019	693		2.6		6.6		26.02		269		6.5	
217 Corridor N. Beaverton/Tigard	2010	1,600	47%	10.9	1%	15.6	-116%	18.56	23%	142	48%	8.1	-32%
	2019	3,000		11.0		7.2		23.97		272		6.1	

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## PORTLAND INDUSTRIAL

Industrial sales volume for 2019 exceeded \$1.6 billion, marking Portland's all-time high for industrial investment. The Blackstone acquisition of Global Logistic Properties' portfolio accounted for about 40% of the total sales volume. The industrial sector continues to offer solid yields, with cap rates dependably at 5% or under for institutional quality product and 6% overall.

Looking forward to 2020, we will see significant new deliveries of industrial space including Prologis Meadows (1,800,000+ SF), Bridge Point I5 (677,033 SF), Cipole Industrial Park (240,000 SF) and Mason 150 Industrial Park (101,475 SF). Expect these deliveries to cause the overall vacancy rate to rise in the short term; however, new product typically also causes rental rate growth.



## WAREHOUSE

	Core	East	I-5	Vancouver	West
<b>MARKET SALE \$/SF</b>	<b>\$152</b> ↑ \$146 4Q2018	<b>\$133</b> ↑ \$128 4Q2018	<b>\$140</b> ↑ \$113 4Q2018	<b>\$127</b> ↑ \$106 4Q2018	<b>\$157</b> ↑ \$132 4Q2018
<b>LEASE VACANCY</b>	<b>5.7%</b> ↑ 3.9% 4Q2018	<b>6.0%</b> ↓ 6.2% 4Q2018	<b>3.9%</b> ↓ 4.0% 4Q2018	<b>1.9%</b> ↓ 4.3% 4Q2018	<b>2.8%</b> ↓ 2.9% 4Q2018
<b>BLENDED LEASE RATE</b>	<b>\$0.84</b> ↑ \$0.83 4Q2018	<b>\$0.72</b> ↑ \$0.60 4Q2018	<b>\$0.73</b> ↑ \$0.57 4Q2018	<b>\$0.69</b> ↑ \$0.53 4Q2018	<b>\$0.79</b> ↓ \$0.87 4Q2018



## FLEX

	Core	East	I-5	Vancouver	West
<b>MARKET SALE \$/SF</b>	<b>\$178</b> ↓ \$190 4Q2018	<b>\$206</b> ↑ \$165 4Q2018	<b>\$207</b> ↑ \$203 4Q2018	<b>\$202</b> ↑ \$186 4Q2018	<b>\$177</b> ↑ \$175 4Q2018
<b>LEASE VACANCY</b>	<b>9.9%</b> ↑ 9.3% 4Q2018	<b>7.5%</b> ↑ 5.1% 4Q2018	<b>11.5%</b> ↑ 7.3% 4Q2018	<b>8.3%</b> ↓ 10.4% 4Q2018	<b>5.4%</b> ↑ 4.8% 4Q2018
<b>BLENDED LEASE RATE</b>	<b>\$1.51</b> = \$1.51 4Q2018	<b>\$1.15</b> ↑ \$1.06 4Q2018	<b>\$1.21</b> ↑ \$1.14 4Q2018	<b>\$1.32</b> ↑ \$0.99 4Q2018	<b>\$1.14</b> ↑ \$1.08 4Q2018

### Market Location Definitions

#### Core:

Downtown, Close-In Northwest, Close-In Northeast, Close-In Southwest, Close-In Southeast

#### East:

Hollywood, Gateway, Airport, Milwaukie, Clackamas, Gresham

#### I-5:

Tigard, Lake Oswego, Kruse Way, Tualatin, Wilsonville, Sherwood

#### Vancouver:

Vancouver, Hazel Dell, Salmon Creek, Five Corners, Mill Plain, Ellsworth, Camas

#### West:

Beaverton, Hillsboro, Aloha, Cornel

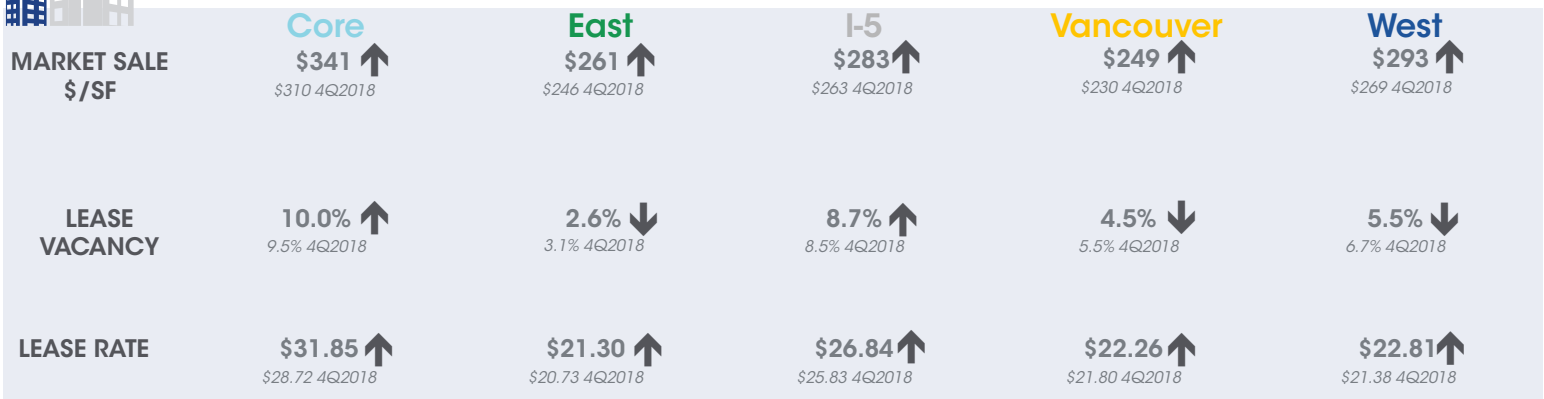
## PORTLAND OFFICE

**Sales** Q4 was another strong quarter for Portland's office market. Approximately \$400 million worth of office inventory transacted during this period at an average of \$405/SF. Q4 was highlighted by the sale of two large CBD assets: 915 SW 2nd: This 190,825 RSF Class A office property sold for \$141.3M (\$740/SF). 920 SW 6th: This 270,079 RSF Class B office property sold for \$131.5M (\$483/SF). Both properties were bought by private equity firms, which shows the continued growth and appeal of Portland as a emerging secondary market.

**Leasing** Throughout Q4, 702,181SF of office space was leased throughout the Portland metro market. During this span, there were 228 direct deals done. The average deal size during the period was 3,079SF. Q4 was highlighted by a 50,000 SF leased signed at 6000 Meadows in Lake Oswego to an undisclosed tenant. This lease, signed at an estimated \$33/SF full service, represents the continued stabilization of this area, maintaining the notion that Kruse Way is the darling of suburban office.



## OFFICE - ALL CLASSES

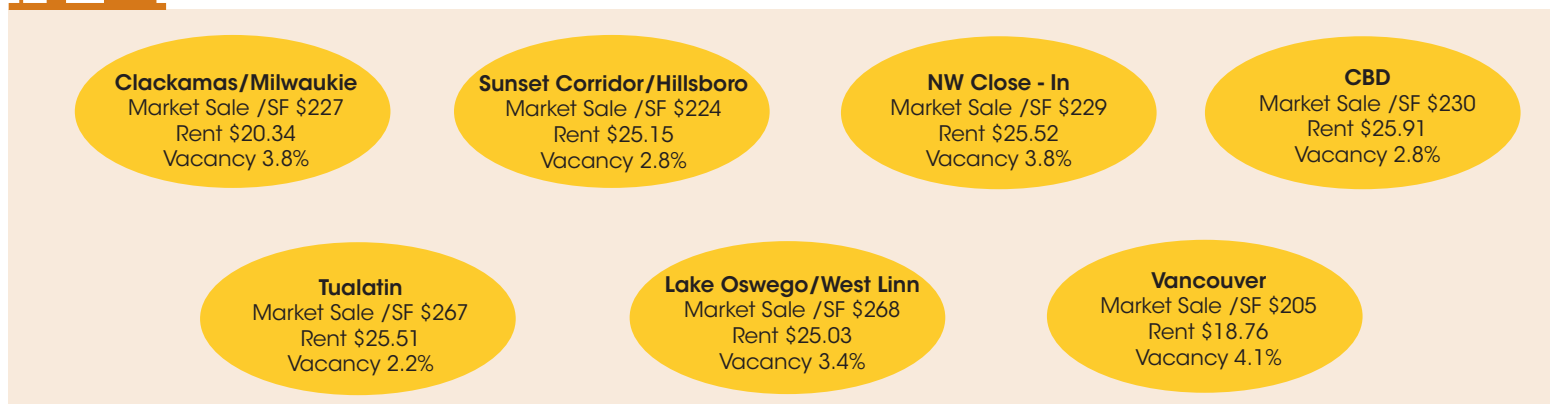


## PORTLAND RETAIL

Population growth, employment growth, and the median household income in Portland are all well above the national average, meaning that more residents with stable paychecks are purchasing goods and services in the metro. Portland offers robust job prospects, and its reputation for high-quality yet relatively affordable living appeals to young families ready to settle down. Retail sales have been strong, but online sales continue to force adjustments to brick-and-mortar locations, especially in a metro that is increasingly tech-centric.



## RETAIL



Source: CoStar

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# Market News



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