



BE PREPARED: Navigating Market Cycles

Recently there's been a lot of discussion in our office about being prepared. So much so we have made it our motto for 2018. From earthquake preparedness (did you know you can make a Sterno-like cooking element from cotton balls and hand sanitizer?) to wilderness survival (collect charcoal from last night's campfire to help filter stream water), we're prepared for any event. Most important is our preparedness for Portland's evolving commercial real estate and the next phase of the economic cycle.

Market News 4th Quarter 2017

Portland Market Snapshot

Industrial



VACANCY



Increases to 4.0%
slightly from 3.7% in
1Q2017

NET ABSORPTION



Negative 155,741 SF



Office

VACANCY



Decreases to 6.8%
slightly from 7.3% in
1Q2017

NET ABSORPTION



Positive 283,479 SF

Retail



VACANCY



Decreases to 3.8%
slightly from 4.0% in
1Q2017

NET ABSORPTION



Positive 560,766 SF

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."

-Charles Darwin

Analyze

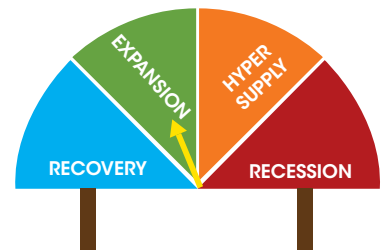
It's important to take an honest look at where your business is today. Are you in growth mode? Is it time to scale back operations? Is your business in a different financial position than the last cycle change? Once you have an accurate analysis of your business it's time to set your goals.

Project

Take a look historically at how your business has reacted to cycle changes. Trends in your business and how it's affected by market cycles can help you project how you will perform in the future. Make note of several key factors and how they affected decisions you made.

Adjust

Don't think in absolutes. Have a Plan A and a Plan B. Maybe even a Plan C. The most important thing about being prepared is flexibility. Opportunities may come to light so keep your eyes and mind open. Adjust your tactics accordingly.





PHASE 1

Recovery

Follows the tail end of a period of decrease in demand and oversupply of inventory (Recession), negative or below inflation rental growth, and high vacancy rates.

During this phase, demand growth begins to slowly absorb the existing oversupply. As space is absorbed, vacancy rates fall, allowing rental rates in the market to stabilize and even begin to increase slowly reaching a point equal to inflation.

Overall, markets begin to normalize rental growth and long-term occupancy averages.



PHASE 2

Expansion

Demand grows and supply decreases, which causes prices and rental rates to increase. This signals developers to start new construction in order to meet upcoming demand.

As long as demand growth rates are higher than supply growth rates, vacancy rates will continue to fall and rental rate will continue to rise. Tenants and buyers find themselves with very few opportunities and heavy competition in the market for available space.

This phase reaches equilibrium when demand and supply are growing at the same rate. Once supply grows faster than demand, equilibrium has passed.



PHASE 3

Hyper Supply

Most real estate professionals don't recognize the equilibrium point has been reached. Eventually supply growth surpasses demand growth causing vacancy rates to increase. As more supply comes on the market, rental growth also slows.

Vacant properties compete for tenants in the marketplace causing landlords to offer more robust abated rent and tenant improvement packages to incentivize prospective tenants.

At this point in the phase, new construction and delivery to the market should stop. If supply continues to grow faster than demand then the next phase of the cycle is reached.



PHASE 4

Recession

Low demand and high supply pushes the market past the long-term occupancy average. Severity can be determined by approximating the difference between supply growth and demand growth.

Due to tremendous oversupply of property, landlords have difficulty in filling vacancies causing them to reduce rental rates, if only to cover fixed expenses. Owners and developers are unable to sell due to a larger bid-ask spread.

At the bottom of this phase, market supply growth has ceased and demand growth slowly increases, bringing us back into Recovery.



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COMMERCIAL REAL ESTATE SERVICES

Investors

Whether or not you manage your own portfolio, consider having a third party review it for you. Changing tax laws and regulations could open the door for unseen opportunities or complicate exit strategies. Understanding the differences between market value, investment value, and assessed value will help in decision making.

Tenants

Keep a close eye on what your neighbors are doing. Are rents going up in your neighborhood? Has there been a lot of turnover in your building? Review your lease at least two years prior to expiration. Understand your options for renewal, expansion, or subletting. A shift in the cycle may create opportunities to purchase your own building.

Landlords

Track market rates in your neighborhood, as well as similar property types in surrounding neighborhoods to track trends. Review your tenants' leases to prepare for renewals and upcoming vacancies. Audit the building's operating expenses annually to ensure proper reimbursements.

Owner Users

Examine how your physical business needs have changed over the last decade, then map out your 5 & 10-year business strategies. If your space needs are volatile, you may choose to lease to maintain flexibility. If you are confident in your long-term space needs then re-evaluating your current location to ensure it will meet your future needs is imperative. Identifying your future business needs will help prevent impulsive, market-driven decisions to sell your real estate or invest in unnecessary capital improvements.

Market News

4th Quarter 2017

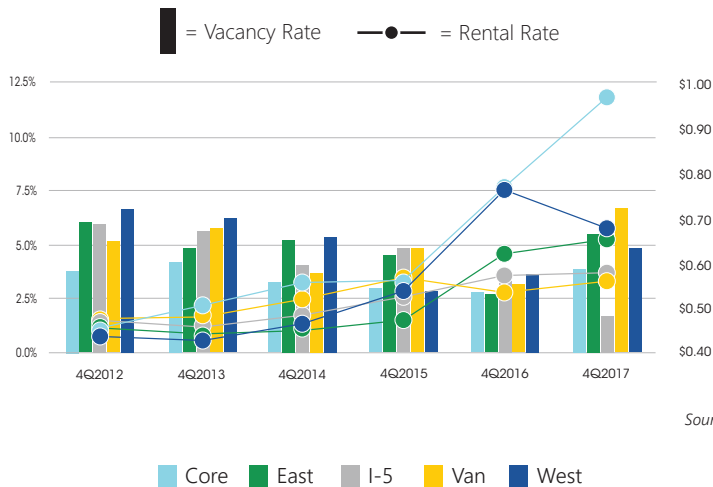
PORTLAND INDUSTRIAL

Vacancy Rates in the Portland Industrial market have increased from Q3 to Q4 and ended the year at 4.0%. This rate still remains well below the national average by nearly a full point. Accordingly, the industrial asking rental rates averaged \$0.77/SF, an 8.2% increase from Q3.

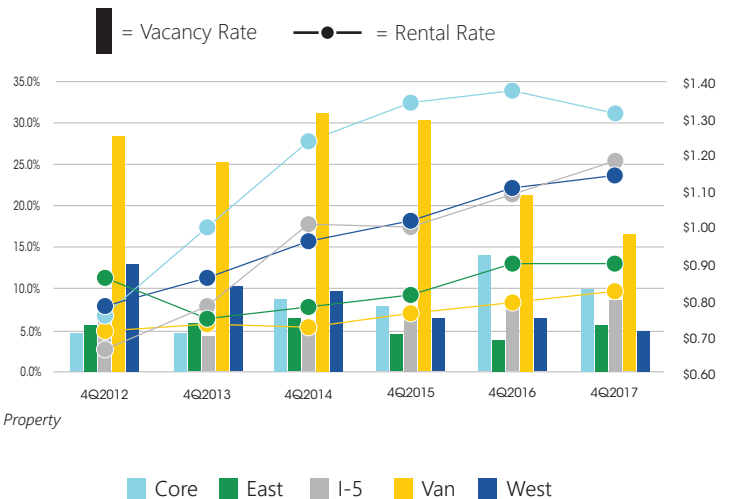
Investors continue to chase opportunity in Portland's Industrial market. Rental rates have been increasing rapidly, yet industrial sale prices have been moving upwards at a slower pace. The industrial investment market remains healthy, though the average cap rate has seen a decrease from 8.82% to 6.54% over the last five years.



WAREHOUSE



FLEX



Source: CoStar Property

Industrial Inventory:

SIZE MATTERS

With vacancy rates already low across the market, it is 2.0% for spaces less than 20,000 SF, and the demand still remains high. Even with 3.4M SF of construction currently in the pipeline, there are only 4 projects with spaces under 30,000 SF, and many of the largest projects are already 100% preleased to a single tenant.



VACANCY RATES

For spaces less than 20,000 SF

2.0%



AVERAGE LEASE-UP TIME

For spaces less than 20,000 SF

within 6 Months



UNDER CONSTRUCTION

All Industrial Space

3.4 Million SF



FUTURE DELIVERIES

Spaces under 30,000 SF

4 Projects

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:

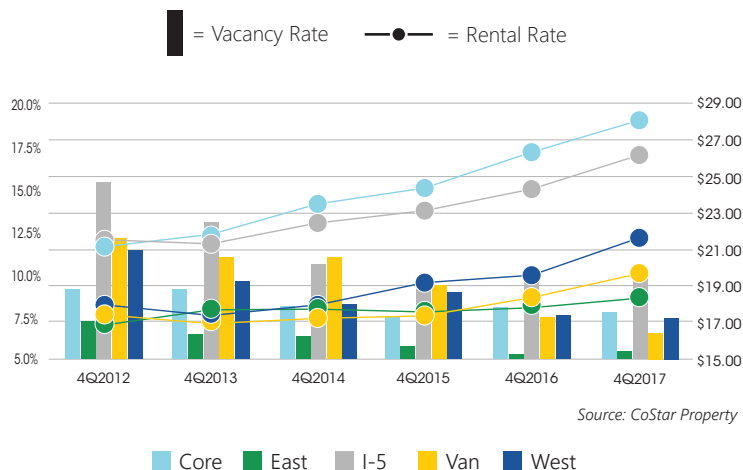
Beaverton, Hillsboro, Aloha, Cornell



PORTLAND OFFICE

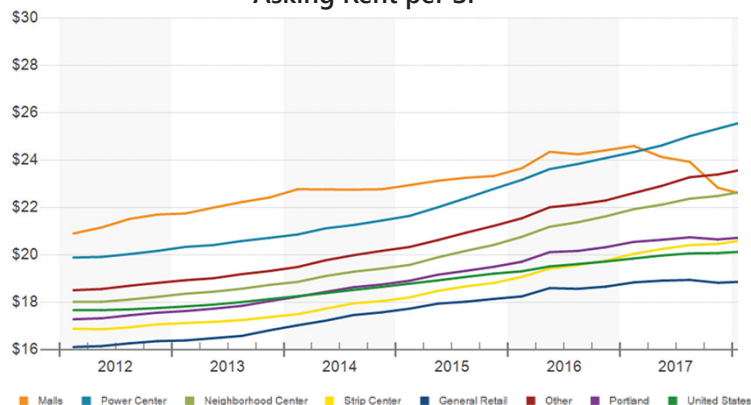
Vacancy rates across all office classes continue to trend downward with the average at 6.8% across the market.

Class C office spaces report the lowest vacancy rate, which is currently 4.1%. Average asking rental rates continued to increase, very slowly, throughout 2017 ending the year at \$25.31/SF.

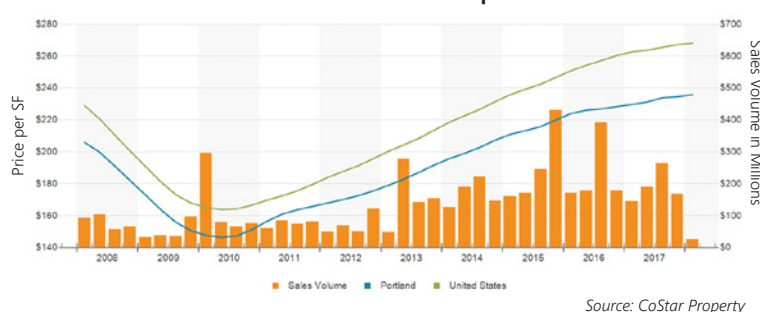


PORTLAND RETAIL

Asking Rent per SF



Sales Volume & Price per SF



Rollin' DOWN THE RIVER

As Portland continues to grow, prime real estate located along the Metro area's waterfronts have become the focus for many new developments. There are three major mixed-use projects in the different planning stages that could change the face of the waterfront within the next few years.



ZIDELL YARDS South Waterfront

Zidell launched their last barge, and is planning on remaking their company again, this time as a developer. The 33 acre property situated on the South Waterfront will shed its barge-building operation and revamp into a mixed-use development including apartments, office space, a retail anchor, restaurants, parking, a hotel, three parks, and a public plaza. Construction is scheduled to start in fall of 2018.



THE WATERFRONT Vancouver, WA

Vancouver is transforming their Columbia River Waterfront with a new 32 acre mixed-use development. The master plan includes 3,300 residential units, approximately 1M SF of Class A creative office space, a boutique hotel, flagship restaurants, unique retail spaces, and state of the art green spaces. The first buildings are slated to open in the summer of 2018.



OMSI MASTERPLAN Central Eastside

OMSI has released a master plan to carve their 18 acres into 11 developable parcels, fulfilling their goal to redevelop their under-used land on the Willamette River. There are no specific plans yet, as they are currently soliciting proposals from developers. The current rough plan boasts plazas overlooking the river, a boardwalk, and a community boat dock. Also rumored to be eyeing the site is the director of the James Beard Public Market.

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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, Cornell



Established in 1978, Macadam Forbes, Inc. is a significant force in Portland's commercial real estate history.

Macadam Forbes' sales and leasing team members average 20 years of experience in commercial real estate. Our agents thoroughly cover each sector of the market and achieve outstanding results by combining product knowledge and geographical specialization.

Macadam Forbes utilizes a network of business and real estate relationships that cover the Portland/Vancouver metropolitan areas and extends to markets across the country.



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