



Market News

2nd Quarter 2016

Portland Market Snapshot

Forecasting the State of Portland's Commercial Real Estate Market

Industrial



Vacancy decreases slightly to 4.3% from 4.6% 1Q2016



Net absorption positive 1,156,741 SF



Office



Vacancy increases slightly to 7.7% from 7.6% 1Q2016



Net absorption positive 516,164 SF

Retail



Vacancy decreases slightly to 4.2% from 4.3% 1Q2016



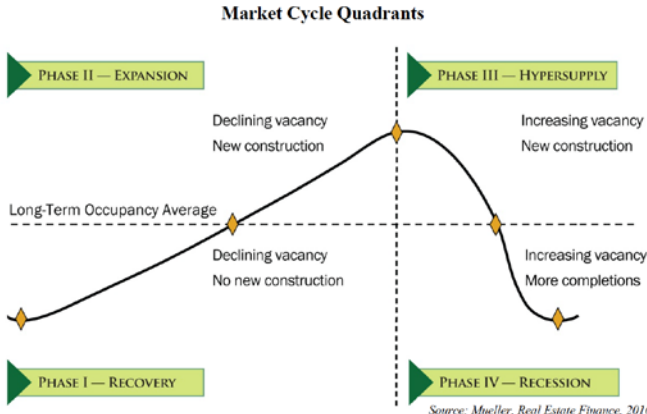
Net absorption positive 49,615 SF

June's Oregon Economic forecast reads like a fairy tale. "Oregon continues to see full-throttle rates of growth. Job gains are outpacing the typical state as are wages for Oregon workers. The state's economy is quickly approaching full employment, or a healthy labor market. Such a milestone has not been seen since 2000." "The state is now expected to maintain these full-throttle rates of growth through the end of 2017..." But when you talk to business owners there is a lot of scrutiny, a bevy of glass-half-empty market analyzers predicting when the tide will turn and the next recession will hit. Most speculators of a downturn are basing their opinion on gut-feelings mixed with post-traumatic stress influenced prophesying. Inside you will find examples of economic indicators gleaned from national news sources and how our local market is affected.

Glenn R. Mueller, Ph.D. of Dividend Capital Research is one of the premier recognized experts in the study of commercial real estate cycles in the U.S. providing detailed market forecast and analytics. He defines four distinct phases in the commercial real estate cycle:

- RECOVERY**
(declining vacancy, no new construction)
- EXPANSION**
(declining vacancy, new construction)
- HYPERSUPPLY**
(increasing vacancy, new construction)
- RECESSION**
(increasing vacancy, more completions)

Look for Dr. Mueller's charts in the Market News section of this newsletter, with commentary from our expert analysts.





INDICATOR:
Lack of Demand

The most recent real estate bubble burst between 2007 and 2008, under the weight of a market saturated with overpriced properties and subprime mortgages. Investing in real estate with today's low interest rates enables investors to assume massive levels of debt resulting in very low returns for any non-speculative investments. Motivated by optimistic inflation returns, buyers purchase during a bubble. If demand suddenly plunges, prices drop almost overnight leaving the last buyers with almost no equity in the properties they purchased.



INDICATOR:
Influx of Construction
Coming On The Market

Rising rents and inexpensive construction costs drive up the demand for new space. Construction takes years from planning to completion. When the new inventory is finally on the market demand could begin to sag.



INDICATOR:
National Price Decline

Prices in the national commercial real-estate market, which have seen the largest increases in the last 6 years, have declined 3 percent in the last 3 months. According to David Shulman, a senior economist at UCLA Anderson, "we are in no way forecasting a 'crash', but rather an extended period of sideways to down prices."



INDICATOR:
Low Cap Rates

Decreases in cap rates (the ratio of the income to the price paid for a building) may be an important early warning sign that a market is overheating. As cap rates compress, perceived value goes up; falling prices imply increasing cap rates.



Portland Market

No shortage of demand in sight. If anything, Portland has a shortage of supply. The growing list of willing cash-ready investors has reached an all-time high. It has been observed that recently the percentage of all-cash transactions greatly outweighs leveraged ones compared to previous years. Being the first to know of an opportunity is the goal of every real estate broker, and the most successful are the ones that create opportunities for buyers and sellers alike.



Portland Market

Historically low vacancy rates have created the immediate demand, but high construction costs and slow permitting have slowed release of new space on the market. Newly imposed construction taxes and gradual rezoning of historic submarkets have developers cautiously implementing speculative projects causing inventory to increase at a slower pace than desired thus oversupply seems unlikely. Suburban inventories for office and industrial properties continue to move at a slower pace than demand would indicate.



Portland Market

A few factors have created the increase in market prices specific to Portland: in-migration, employment growth, lack of supply, previously under-appreciated property values, to name a few. Current Portland market trends data indicates that prices may have slowed, but in no way show any sign of reaching a point that buyers can no longer afford to invest. Portland Market still has plenty of wiggle room.



Portland Market

Across all asset classes and submarkets, cap rates continue to compress. Considering the continued low interest rates and lack of alternative investment opportunities, real estate investors are still actively acquiring assets.



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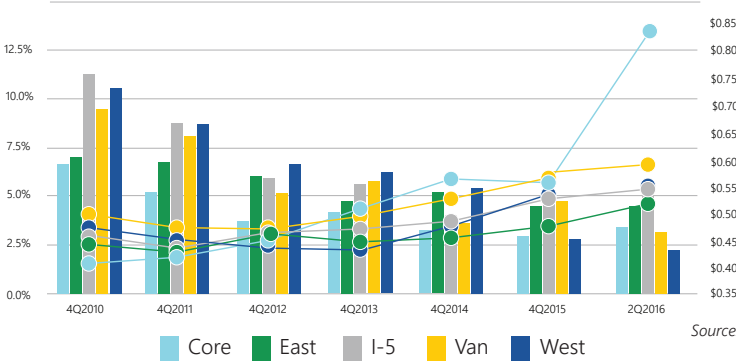
Portland Industrial

As inventory decreases, the price goes up. Basic supply and demand economics. 2015 was a good year for cleaning up excess inventory on the market with investors able to pick and choose their opportunity. Landlords are seeing full occupancy. Everyone should be happy, right? The challenge in the lack of inventory is finding large blocks of available space for lease and opportunities for investors and owner-users to make good on their 1031 exchanges. 2016-2017 will need to bring unique and creative opportunities.



Warehouse

█ = Vacancy Rate ●— = Rental Rate

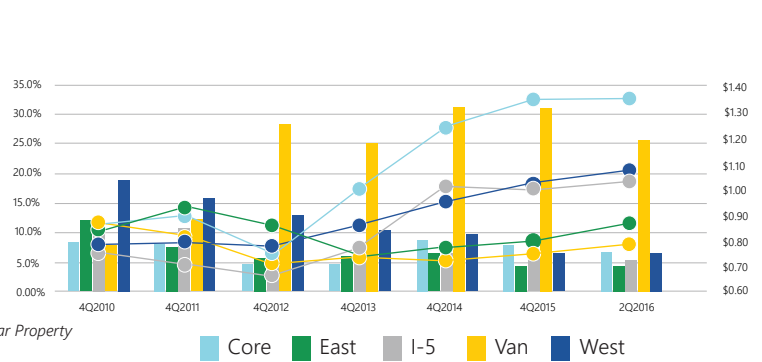


Source: CoStar Property

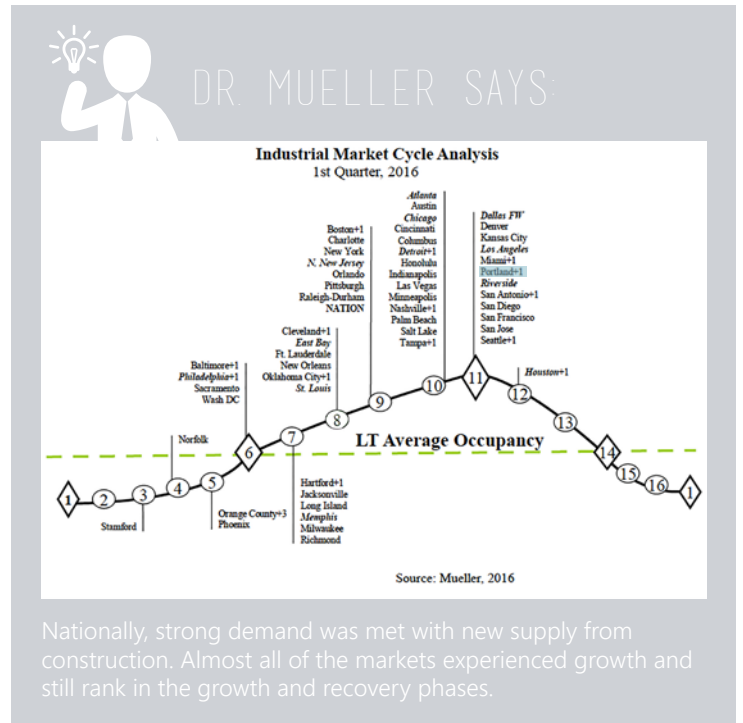
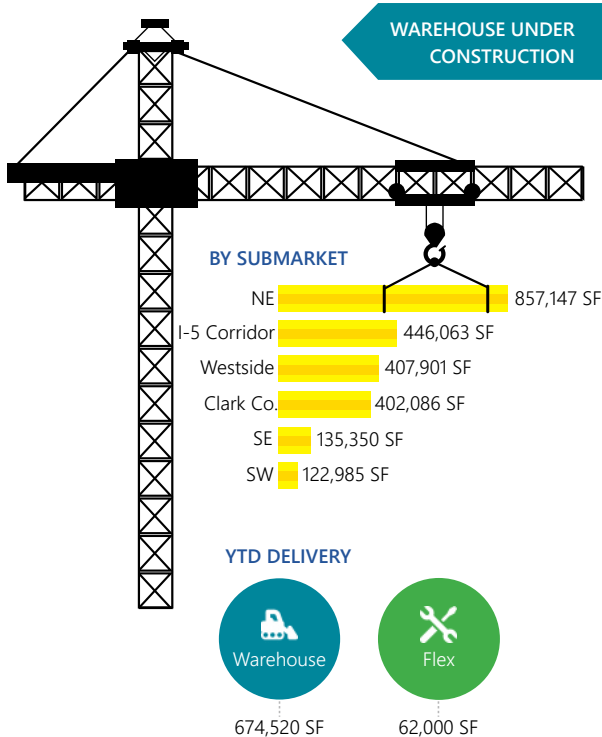


Flex

█ = Vacancy Rate ●— = Rental Rate



Source: CoStar Property



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 Retail



The average asking rental rate per sq ft/year for retail commercial properties in Portland, OR as of Apr 16 was \$21.69. This represents an increase of 5.8% compared to the prior 3 months, with an increase of +13.6% year-over-year. County-wide, average rental rates in Portland are +7.1% higher at \$21.68 per sq ft/year for retail commercial properties currently for lease.

Retail Property No. of Listings - Sale Trends



Retail Property Total \$ Available For Sale - Sale Trends



Retail Property Total SF Available - Lease Trends



Retail Property Total SF Available - Sale Trends

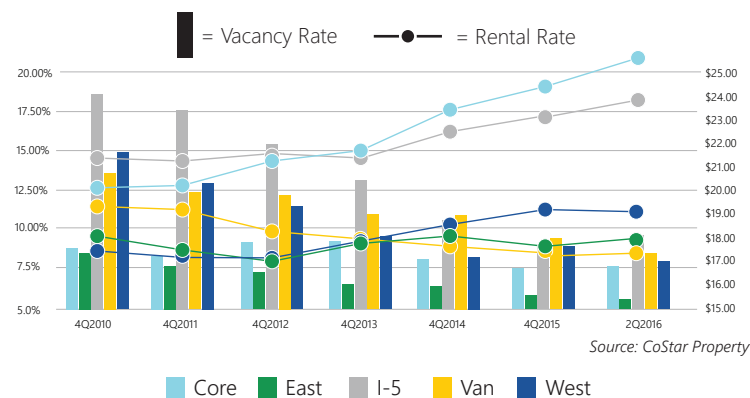


Source: LoopNet

Portland Office



Current Portland market trends data indicates an increase of +1.0% in the median asking price per square foot for office properties compared to the prior 3 months, with an increase of +12.4% compared to last year's prices



Market Location Definitions

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I-5:

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

Vancouver:

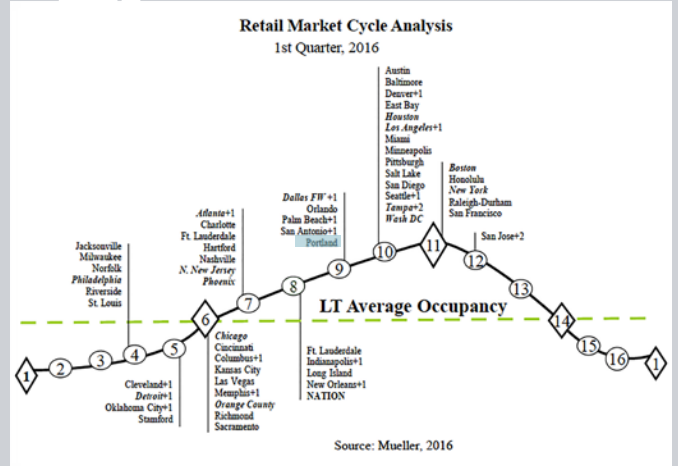
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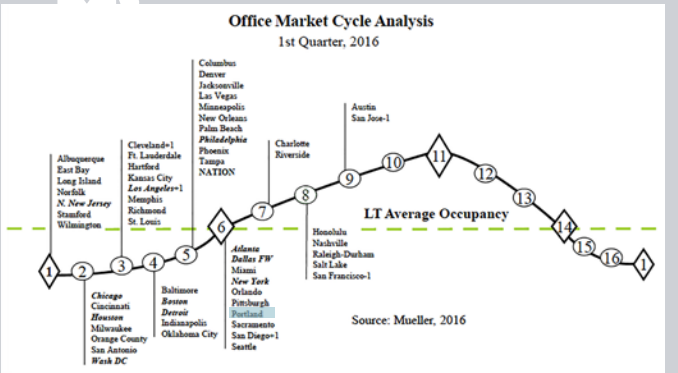
DR. MUELLER SAYS:



Bankruptcies of national big box retailers has created opportunities for creative adaptive reuse of retail space. With a mix of retailers expanding and contracting, retail has been able to move towards demand/supply equilibrium point.



DR. MUELLER SAYS:



The national office market has been slow to recover and realized its first pause in recovery in the last 6 years. It is speculated as to whether or not the national office market will reach past equilibrium point.



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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