



OVERSTATED UNDERSTATEMENT: Lack of Inventory

Ask any commercial real estate broker about the biggest challenge in the Portland market today and you will likely hear "lack of industrial inventory."

It's hard to believe that commercial real estate brokers are belly-aching about lack of industrial inventory when according to recent research, Portland ranks 5th in the country for the most construction cranes. The majority of those cranes are for the construction of residential, office, and hospitality projects, with very little speculative construction. With demand so high, it begs the question as to why the additional supply isn't underway. Several factors come into play when breaking ground on a speculative project.

Market News 2nd Quarter 2017

Portland Market Snapshot

Industrial



VACANCY



Decreases to 3.7%
slightly from 3.9% in
4Q2016

NET ABSORPTION



Positive 869,799 SF



Office

VACANCY



Decreases to 7.2%
slightly from 7.5% in
4Q2016

NET ABSORPTION



Positive 188,736 SF

Retail



VACANCY



Remains at 4.1%

NET ABSORPTION



Positive 126,511 SF



OPTIMISM

There are significant timelines needed to move a piece of land through entitlements and infrastructure requirements. The absence of such activity during the recession has set the marker too low to keep up with demand. Developers who wait until a contract is signed to start a project are wagering their bets that the demand will still be there once the project is complete.



LAND SUPPLY

Concentrating the power for planning and zoning decisions to a single state agency is unique to Oregon. When evaluating a change in the urban growth boundary for a large growing city, the same state laws are imposed as those for a smaller, slower-growing community. These one-size-fits-all regulations are set in place to protect our natural resources, thus limiting land inventory and subsequently raising prices.



ZONING

What builders really need is effective land supply that they can actually build on in relatively short order. The lack of buildable land effectively creates higher prices. With comprehensive plans predicting the future needs of Portland's growing economy, it leaves little room for meeting the needs of current demand. Zoning can be challenged and changed, but at great costs in both time and resources.



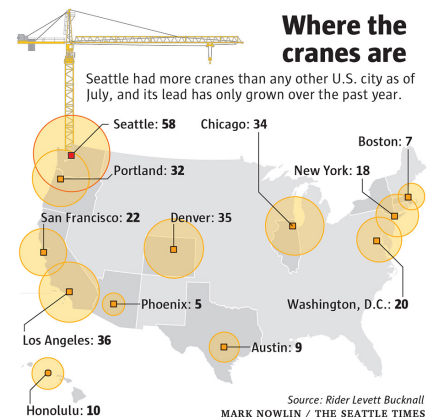
MONEY

Years following the recession, banks have tightened their lending standards and developers are generally using more of their own capital for their projects (compared to earlier this decade, standards have been loosened resulting in an increase of loans for development projects, although at a cautious pace to ensure their portfolios remain balanced.) For the past three years the volume of lending has increased by double-digit rates yet remain lower than a decade ago.

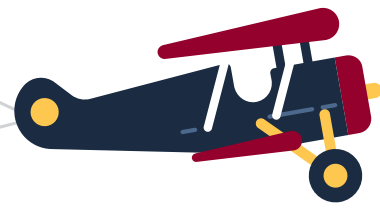


WORKERS

For a couple of years now the word on the street is that there is a lack of skilled construction workers. With Oregon's historically low unemployment rate, there is a lack of workers across all industries, including construction, that affect development.



What's The Buzz?



Portlanders wait nine months a year for weather this beautiful. We have summertime ambitions too, which is why we are providing you with attention-span-of-a-goldfish, easily digestible bites of news. Dive on in, the water's great!

Oregon is currently enjoying record low unemployment, but growth in the state's tech industry has slowed considerably in the past year. Hillsboro has had a number of setbacks, with SureID, Intel, and SolarWorld all laying off large numbers of their workforce.
-OregonLive

Amazon will create 1,500 full-time jobs when it opens its fulfillment center next summer in Troutdale. The 855,000 SF plant will fill vacant lots at the Troutdale Reynolds Industrial Park, occupying 74 acres, by July 2018.
-OregonLive

Nike announced it will cut its global workforce by 2% (about 1,400 people) in a broad restructuring. Facing pressure from investors and competitors like Adidas, Nike said it was shaking up its organization to focus more on consumers in just a dozen cities around the world and on releasing new products faster in those places.
-The New York Times

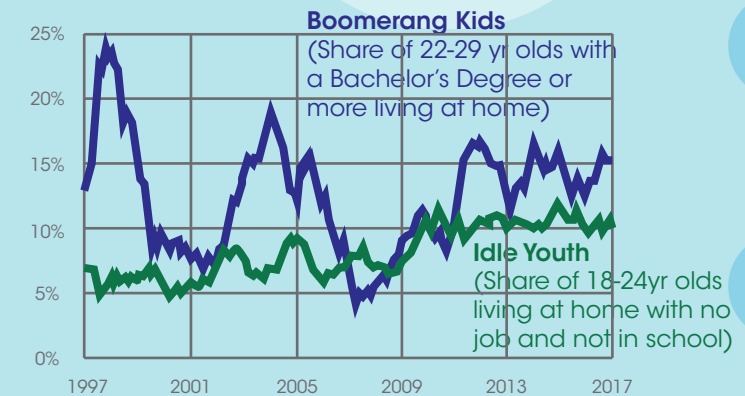
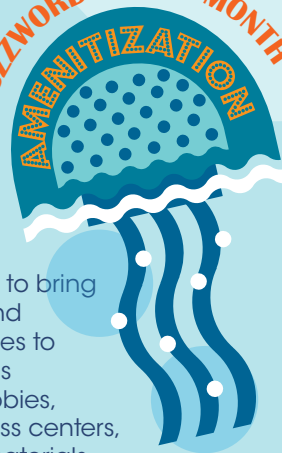
On June 16th Zidell Marine launched its 277th and final barge. Now, the company is preparing to remake itself once again, this time, as a developer. Late last year, the family unveiled sweeping plans to redevelop Zidell Yards.
- OregonLive

Continuing the trend of Portland tech companies being sold to out-of-state buyers, Jive Software, the onetime Portland startup that helped kick off the cities tech renaissance, was acquired by ESW Capital for \$462m. The new owner, who specializes in revitalizing aging software companies, will shift Jive into a portfolio of software businesses it already owns, called Aured.
-Portland Business Journal

BUZZWORD OF THE MONTH

AMENITIZATION:

Bringing elements from the hospitality industry to bring more character and full-service amenities to office buildings. This includes cozier lobbies, top-of-the-line fitness centers, and sustainable materials and initiatives.



The impact of migration on Oregon's economy is a hot topic at the Oregon Office of Economic Analysis. In a recently published article they report that the migration of residents to Oregon ages 22-34 have about the same median household income as those that are Oregon born. More interesting is their data in regards to young Oregonian's still living at home. Remarkably the increase has been the percentage of those that are employed and how those with a college education are outpacing those without a job and not in school.
-oregoneconomicanalysis.com

Portland Metro: \$11.25
(Applies to employers within the urban growth boundary of the metropolitan service district)

Standard: \$10.25

Non-Urban Counties: \$10.00

Next Increase: July 1, 2018

www.oregon.gov.com

Market News

2nd Quarter 2017

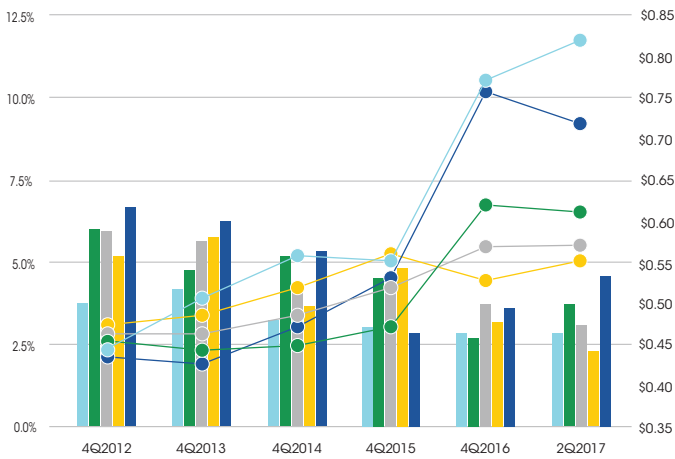
Portland Industrial

Vacancy rates for the Portland industrial market remain well below 5% for the third year in a row. The prolonged period of limited vacancy has further promoted rental rate increases and has been a significant limiting factor on the economic growth in the area.



Warehouse

■ = Vacancy Rate ●— = Rental Rate

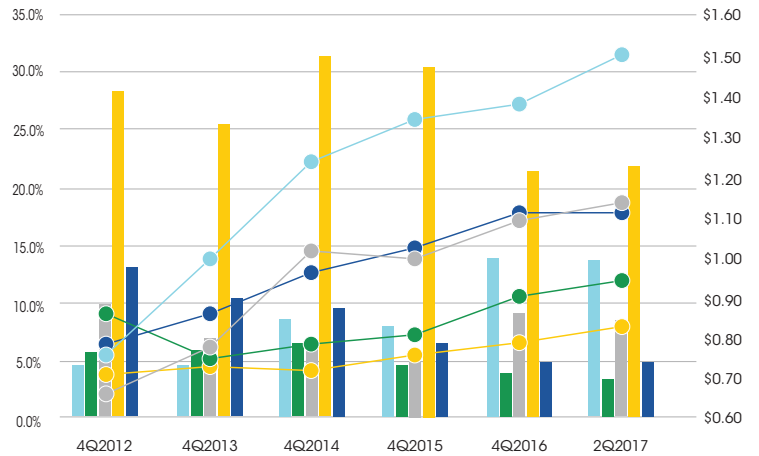


■ Core ■ East ■ I-5 ■ Van ■ West



Flex

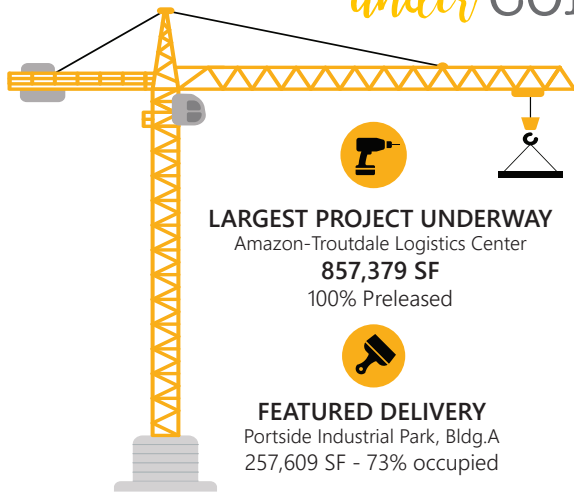
■ = Vacancy Rate ●— = Rental Rate



■ Core ■ East ■ I-5 ■ Van ■ West

Source: CoStar Property

under CONSTRUCTION



LARGEST PROJECT UNDERWAY
Amazon-Troutdale Logistics Center
857,379 SF
100% Preleased



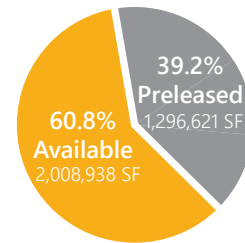
FEATURED DELIVERY
Portside Industrial Park, Bldg.A
257,609 SF - 73% occupied



2nd QUARTER DELIVERIES
529,920 SF
in 4 buildings



FEATURED DEVELOPMENT
Big Eddy Commerce Center
153,232 SF - 62% preleased



Total Under Construction
3,305,559 SF

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

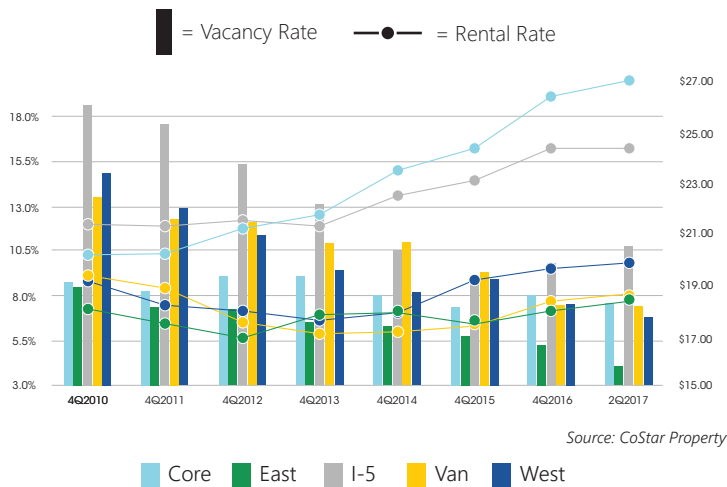
West:

Beaverton, Hillsboro, Aloha, Cornell

Portland Office



The Portland Metro office market saw positive net absorption in 2Q2017. Net absorption in the CBD was positive 152,063 SF, and positive 36,673 SF in the suburbs.

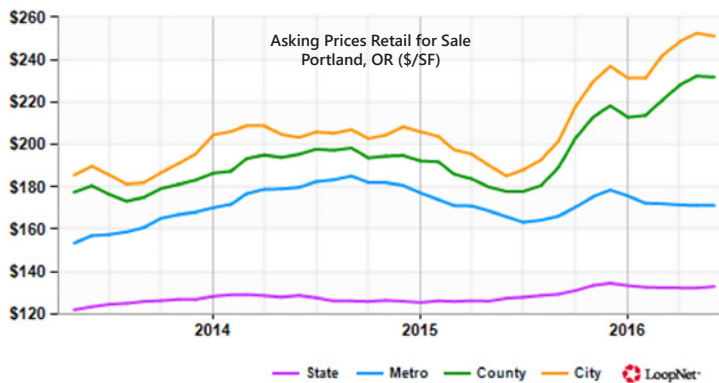
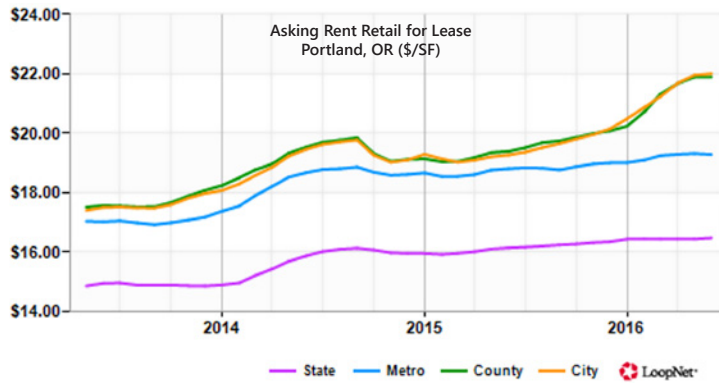


Tech and apparel companies are continuing to be attracted to the City's core, with Autodesk signing a lease for the Town Storage building, moving them off Kruse Way. Other companies including Chrome, Sorel and Squarespace also opened new or expanded office spaces in the CBD so far this year. However, as rental rates continue climbing upward, not all tenants are staying in the core: Westside Athletic Club closed its doors after 20 years in the US Bancorp Tower due to rising rents.

Office properties in the suburbs continue to be slower to recover post-recession than those in the CBD. With urban features having more of a presence in and around suburban properties, along with ample free parking and lower rents and local taxes, the spread between urban and suburban vacancy is the smallest it's been in 12 years, while true occupancy costs for suburban space are markedly lower than CBD alternatives.



Portland Retail



Oregon Convention Center Hotel Breaks Ground

The new 600 room Hyatt Regency, located directly north of the Convention Center, broke ground in July, and is expected to open in 2019. \$60 million of the \$224 million budget will be funded by revenue bonds backed by lodging taxes paid by hotel guests in the city. The new development will also feature a 442 space parking garage, a welcome addition in a neighborhood that is synonymous with lack of parking. The Hyatt Regency is one of 15 new Portland hotel projects in the works, most of which are located on the Westside.



SOLD: Jantzen Beach Retail Center

Kimco Realty Corp, a New York real estate investment firm, purchased the Jantzen Beach Center in July for \$131.8 million. Despite the struggle that enclosed retail malls have felt as of late, the outdoor center has flourished as a destination for tax-free shopping for Washington residents, and was 96% leased at the time of the sale. Although no new developments have been announced for the site, Kimco has stated that the 67-acre lot could allow for "mixed-use densification opportunities."

Market Location Definitions

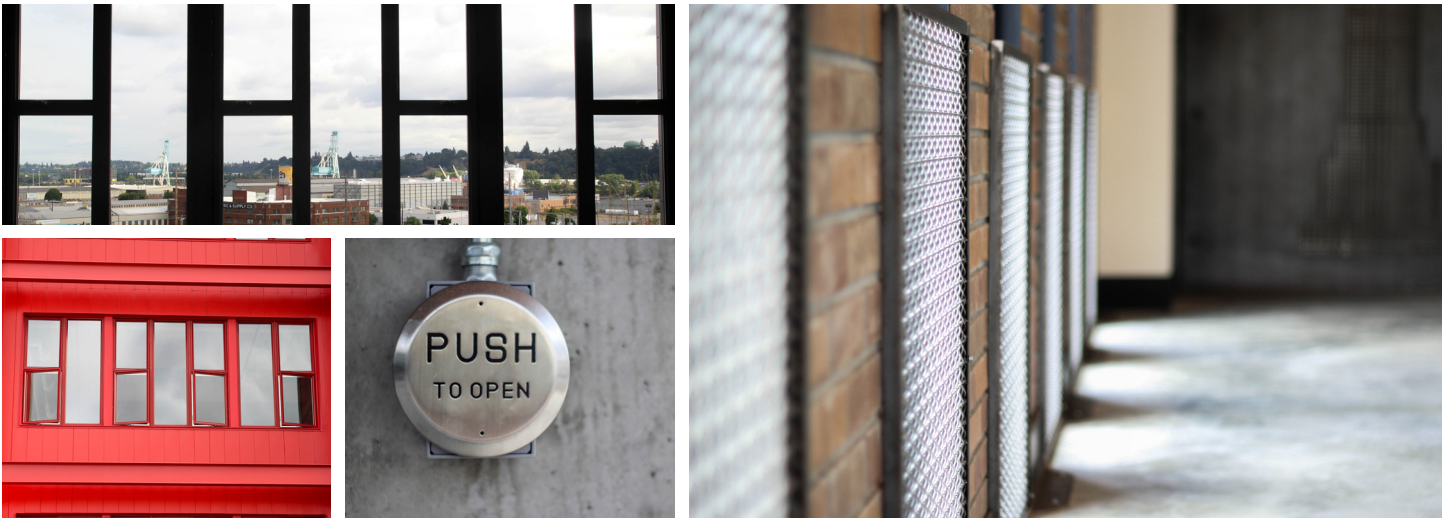
Core:
 Downtown, Close-In Northwest, Close-In Northeast, Close-In Southwest, Close-In Southeast

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



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