



Oregon Harvests Another Crop of Home-Grown Businesses

Oregon's Top 5 cash crops in descending order are: hazelnuts, hay, wheat, marijuana, and potatoes. (Surprisingly, hops made it to No. 10 on the list). But recently Oregon has been growing another type of crop that didn't make the list: businesses.

Market News

4th Quarter 2016

Portland Market Snapshot

Industrial



VACANCY



Decreases to 3.9%
slightly from 4.0% in
3Q2016

NET ABSORPTION



Positive 858,414 SF



Office

VACANCY



Remains at 7.5%

NET ABSORPTION



Positive 126,176 SF

Retail



VACANCY



Decreases to 3.9%
slightly from 4.2% in
3Q2016

NET ABSORPTION



Positive 491,351 SF



PLANTING THE SEEDS

New businesses are considered the source of innovation for new ideas.

These new firms grow and replace older, less-competitive firms. In 2015, the share of all businesses that were start-ups was at an all-time low causing the Oregon Office of Economic Analysis to report new business formation as one area of potential concern impacting longer term economic growth. A year and a half later, Oregon's Secretary of State reports an increase in the number of new business license applications, although not back to levels previously reported.



TENDING THE CROPS

While new business formation has accumulatively declined, the overall trend remains positive. According to OregonLive, The Oregon Angel Fund tracks startups raising money each year, tracking 207 companies in 2016 compared to 254 in 2015. Over the past 11 years startup investments over \$1 million have increased sevenfold, adding to Oregon's economic base.



HARVEST TIME

2016 was a robust year for mergers and acquisitions. A number of factors create exits for both new and longstanding Oregon businesses including the increased availability of buyers and the challenges with family succession. These businesses started here, grew their worth and performed well, becoming attractive to strategic buyers. These transactions allow for an opportunity for continued growth under new ownership.

Today's methodologies of farming are a far cry from decades past, and so is the culture of business in Oregon. Over the last seven years nearly 9,000 companies disinvested in California, and the Business Journal reports Portland ranked No. 6 on the list of cities to which those companies migrated. The commercial real estate market has felt the resulting pinch of limited inventory and escalated rents.

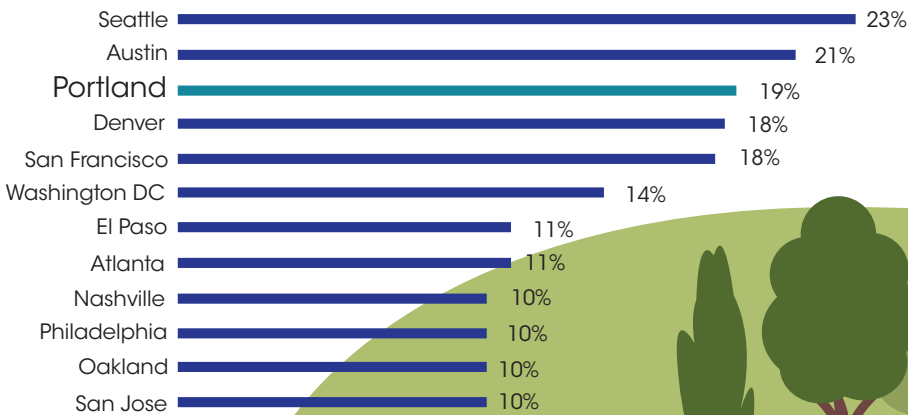


The US Census Bureau reports the Portland metropolitan region added 40,621 new residents from 2014 to 2015, a growth rate of 1.72%. According to oregonmetro.gov, "that's like two full Tri-Met buses every day for a year." One of the largest groups on these buses is 20-and 30- somethings with scientific, technical, or medical degrees. Their search for a higher quality of living at a lower cost compared to the area from which they came has given Portland's emerging tech companies the opportunity to hire and retain top talent. Portland is particularly fortunate to be an attractive destination for this demographic given the relative lack of higher-ed infrastructure in the Portland market. As the only major west coast market without a Pac-12 school, the need for in-migration of talent is critical for the continuing growth of local businesses. Future economic growth depends on this age group since by the time these individuals reach mid-life, the likelihood of migration is greatly reduced. Graduates with STEM degrees earn higher than average wages, driving a larger wedge between low and high earning jobs in Oregon.



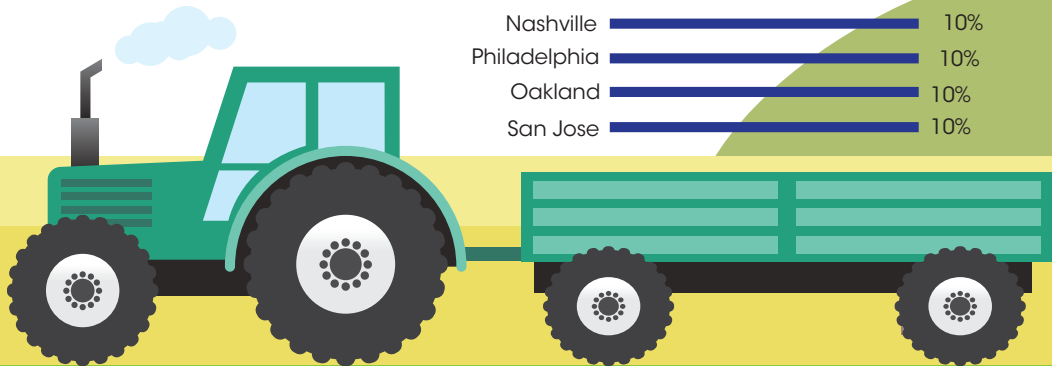
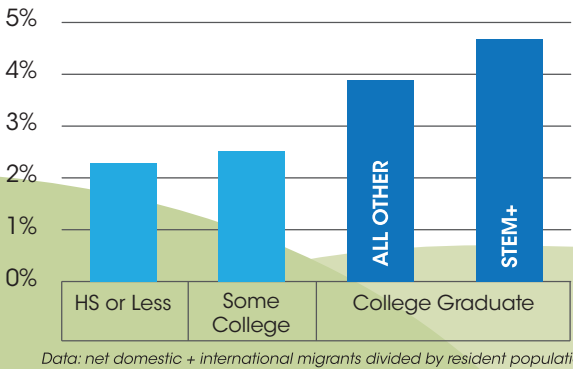
Median Household Income Growth
2010 - 2015

Source: US Census, ACS Table S1901



Educated Influx into Oregon

Migration Rates to Oregon by Educational Attainment among 20-39 Year Olds, 2014
Source: Census, Oregon Office of Economic Analysis



NEW CROP OF OREGON COMPANIES

Start-Ups to Watch in 2016

Zembula | Inpria | Poached Jobs
Nurse Grid | ID Experts | Cairn
Cedexis | Opal Labs | Cloudability
Skyward | SheerID | Mirador Financial

Source: Portland Business Journal



COMPANIES SOLD IN 2016

Sol Republic Headphones | Kobos Coffee | Kuni Automotive
Great Oregon Wine Company | Bank of Oswego | FEI Co.
Woodfeathers, Inc. | Hop Valley Brewing Company | FlightStats
Lattice Semiconductor | Staffing Robot | Mentor Graphics
Bank of the Cascades | Tonkin Dealerships | Precision Castparts
Stancorp Financial | Cascade Microtech | Rentrak

Source: Portland Business Journal; KGW



TOP 10 FASTEST GROWING COMPANIES

Apothecary by Design | Marmoset
Obility | Corios | Graybox
The Rian Group | Sound Rink
HealthSparq | Manifesto Agency | BahFed

Source: Inc.



Market News

4th Quarter 2016

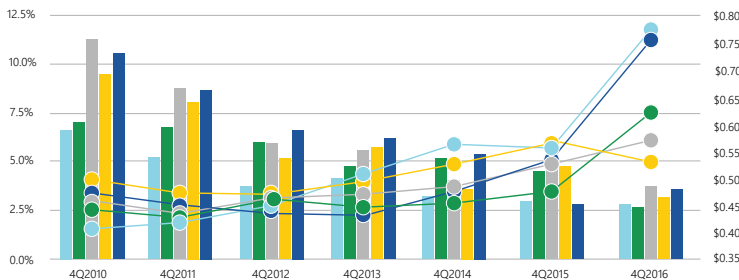
Portland Industrial

As we head into 2017, industrial inventory continues to diminish, with the overall industrial vacancy rate at 3.9%. Especially lacking is small industrial space (less than 10,000 SF) and larger space (over 20,000 SF). The hope is for new industrial inventory to come on the market and alleviate the tightness of supply and the escalation of rent. The prospect of new institutional construction isn't assured due to the lack of industrial land available to develop and the increasing costs of construction. Tenants contemplating expansion should consider building their own facilities. Banks are eager to lend to owner/users during these times of historically low interest rates, which are already beginning to increase significantly.



Warehouse

■ = Vacancy Rate —●— = Rental Rate



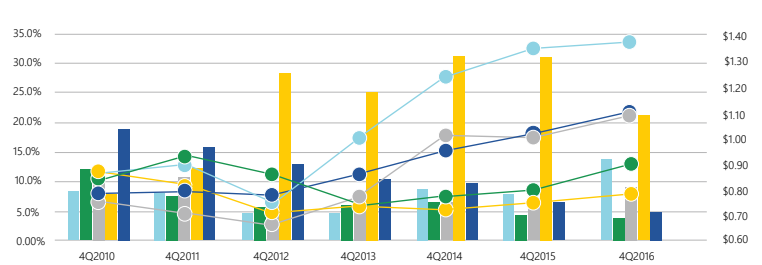
Core East I-5 Van West

Source: CoStar Property



Flex

■ = Vacancy Rate —●— = Rental Rate



Core East I-5 Van West



SMALL and LARGE Battle For Industrial Square



Tenants in smaller industrial spaces attempting to renew their leases are taken aback by the increased rental rates. If their lease term began five years ago, mid-recession, their rates could jump upwards of 47%. Not only are the rates high but concessions in the form of free rent, or allowances for office expansion, modification, and cosmetic touch-ups, are nearly non-existent for this size of space.



Tenants seeking larger industrial spaces will find more of a welcome. The Great Recession has dampened the spirits of landlords to "over-improve" space. Most institutional industrial property owners will not build out office in more than 10% of a space unless the tenant commits to lengthy lease terms (120+ months) and have strong assurances the tenant is capable of fulfilling the lease obligation.

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

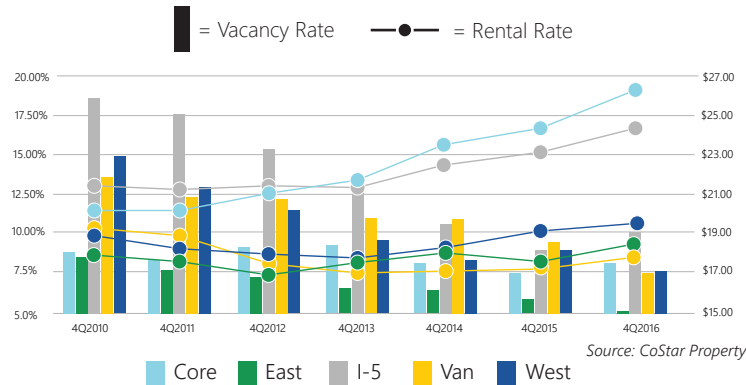
West:

Beaverton, Hillsboro, Aloha, Cornell

Portland Office



Industrial buildings once used for manufacturing are being repurposed into creative office space. Jerry Johnson, a real estate professor at Portland State University and leader of the consulting firm Johnson Economics explains it to be the “business side of gentrification”. He further explains, “a tech firm may have 175 square feet per employee while a manufacturing firm might be 500 square [feet] per employee. People using their spaces less intensively will be displaced.” The rule of thumb for creative open space for startup and small technology companies has been decreasing from 200 to 250 square feet to as low as 100 to 150 square feet of “usable” office space per person. In the 1970s, typical offices spanned 500 to 700 square feet per employee.



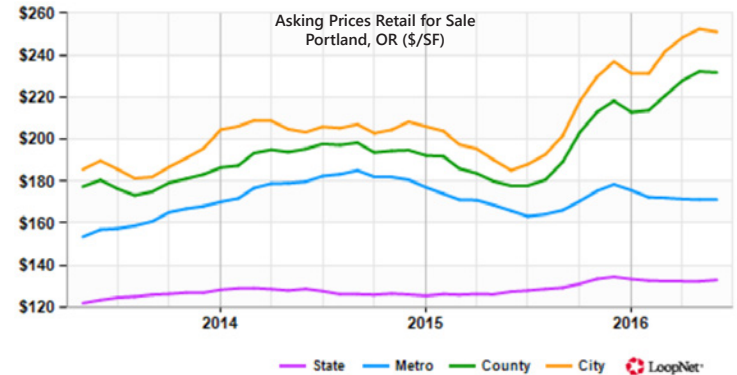
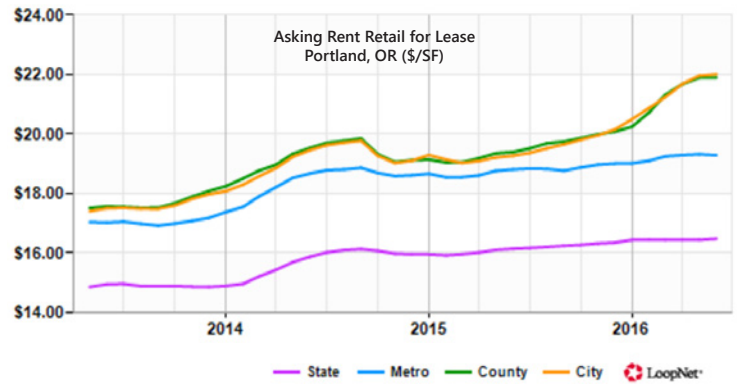
PROPERTY TO WATCH | Zidell Yards



One of Portland's most visible industrial businesses, Zidell Marine Co., will redevelop its waterfront barge building facility in the South Waterfront district. This decision was two-fold:

the facility was unable to produce today's larger barges, and it is more profitable to redevelop the longtime industrial property into high-density office and retail. The redevelopment could bring 20 new buildings and five million square feet of new development to the neighborhood.

Portland Retail



The biggest story in retail news is the effect of the historic snowfall on local businesses.

Whether it was because employees couldn't make it to work or because no customers would come in, many Portland businesses had to keep their stores closed for more than a week this January.



Of the 60 Macy's announced to close, two of those locations

are in Oregon. The closing of the downtown Portland and Salem locations sometime in March will result in the loss of 149 jobs, though look for the Portland location to become more creative office space.

CLICKS TO BRICKS

Corporate giant Amazon has turned the Portland area into a laboratory for a new type of store, while smaller online brands have sought the city out for brick-and-mortar locations. This is due to Portland being known for its hipness (thanks Portlandia) and celebrating its makers and entrepreneurs. Portland is also relatively inexpensive - at least compared to bigger cities also known for their cool factor. So-called “clicks-to-bricks” companies usually prefer major markets, such as New York, if they can afford it. For these companies it's more about marketing than money. For companies looking to spiff up their brand image to attract early adopters and sophisticated shoppers, Portland is a good place to do it inexpensively.

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