

Market News

2nd Quarter 2019

Portland Market Snapshot

Industrial



VACANCY



4.3%

from 3.7% 4Q2018

RENTAL RATE



\$0.74

from \$0.73 4Q2018
(blended)



Office

VACANCY



7.4%

from 6.6% 4Q2018

RENTAL RATE



\$26.81

from \$26.94 4Q2018

Retail



VACANCY



3.1%

from 3.0% 4Q2018

RENTAL RATE



\$21.85

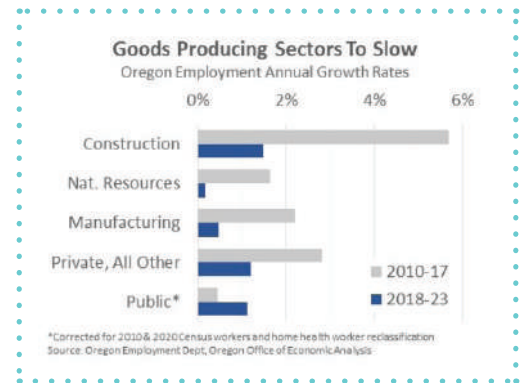
from \$21.84 4Q2018

What's the Scoop?

As summed up by the opening sentence in the May 2019 Oregon Economic and Revenue Forecast, "The economy is on firmer ground today following a rocky start to the year." What many Oregonians have been calling the Longest 8th Inning Ever, Portland's economy has started its long-awaited course correction. Although Oregon's breakneck growth over the last several years has slowed, it is now keeping pace with the national average rate of growth.

The Revenue Forecast also states, "The tighter labor market, somewhat fewer in-migrants, fading federal fiscal stimulus and past interest rate hikes all cool economic activity. That said, Oregon continues to hit the sweet spot." Oregon's continued population growth has been able to balance nicely with the economic gains of business growth. The revenue forecast predicts this trend will continue, at least until the next recession, whenever that comes.

All sectors are expected to have a cooling off period of growth after exceptionally strong periods of gains in previous years. Manufacturing is predicted for slower growth in the coming years with job gains expected to show strongest among the state's food processors and beverage manufacturers, predominantly breweries.



One of the reasons why Oregon's job growth has outstripped the average state is due to its share of prime, working-age labor force. With the in-migration of young, employable workforce matching the job gains of our growing economy, our unemployment rate has been able to hold steady at 4% for the last couple of years. Employers must broaden their search geographically and with creative incentives to fill open positions. According to the Office of Economic Analysis, 60% of new Oregon residents say they moved here for a job or in search of work. As job growth slows, so too will migration. Recent research has revealed about 1 out of every 3 adults in Oregon today was actually born here.

DOUBLE SCOOP ADVANTAGE

There are many advantages to doing business in the State of Oregon: competitive wages and affordable housing for top-notch talent attraction, as well as being a major hub for movement of domestic and international freight via freeways, railways and maritime ports. Check out the inside for the scoop on state and local incentives that make doing business in Oregon even sweeter!



ENTERPRISE ZONE — OVERVIEW —

WHAT:

Property Tax Exemption

Sponsored by city, port, county, or tribal governments, an Enterprise Zone serves as a focal point for local development efforts. In exchange for locating or expanding into an Enterprise Zone, eligible businesses receive total exemption from the property taxes normally assessed on new plant and equipment for up to five years. Enterprise Zones terminate programmatically on June 30, 2025.

HOW:

Companies must apply for the Oregon Enterprise Zone program **before** beginning construction, purchasing equipment, hiring additional staff, or taking any other expansion steps.

Once approved, businesses must fulfill state and local requirements to qualify for the tax exemption, which vary by city/Enterprise Zone and may include:

- Increased and sustained employment
- Agreements with local job training providers and resources
- Specific minimum pay and benefits requirements

Construction-in-Process (CiP)

Before qualified property is placed in service, it may be exempt for up to two years, while construction, installations and so forth are still underway on January 1.

WHERE:

There are currently 73 enterprise zones across Oregon, of which 56 are in rural areas and 17 are in urban areas. Local governments are responsible for creating, amending, managing, and renewing most of these zones.

QUALIFICATIONS — MENU —

Qualifying factors for potentially exempt property:

- Property must be constructed, added to, modified or installed in the furtherance of the production of income.
- Property must not have been used/occupied inside the Enterprise Zone more than one year before the first exemption.
- Any machinery and equipment must be newly purchased or leased by the authorized business, or newly transferred into the zone from outside the county.
- Only the increase in assessed value, attributable to additions or modifications, is exempt in the case of a building or structure.
- Investment cost must be \$50,000 or more for all of the new real property.

E-Commerce Tax Program

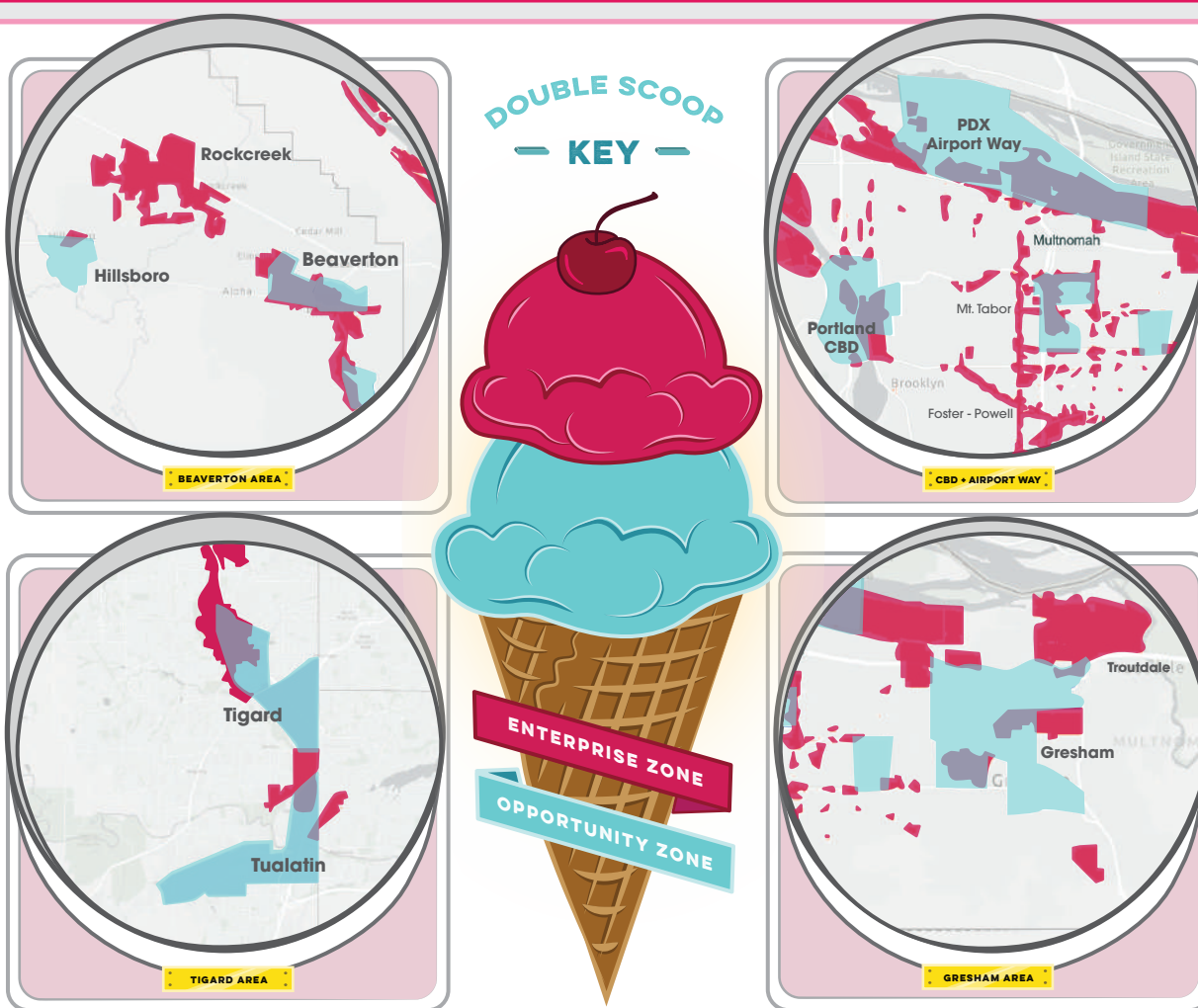
The Electronic Commerce program provides a tax credit to offset State of Oregon personal or corporate income or excise tax. Qualifying companies can receive both Enterprise Zone property tax abatements and E-Commerce tax credits simultaneously. A qualified E-Commerce investment includes material resources, such as facilities, computers, equipment, networks, servers or software related to business-to-business transactions.

What's the Scoop?

State and local incentives are designed to sweeten our economic growth with tax abatements, forgivable loans, and even cash rebates. The much talked-about Federal tax incentive, Opportunity Zones, provides capital gains tax abatement which has brought national investor attention to the State. Due to its nature of eligibility in pre-determined low income areas, it largely coincides with Oregon's property tax abatement program, Enterprise Zones.

See the map inserts below to see specific highlighted areas in the Greater Portland Metro area. Although qualifying for both abatements needs just the right mix of requirements and follow-through, businesses could reap the rewards of the tax savings double-scoop!

For full map visit <https://bit.ly/316HhXE>



QUALIFICATIONS — MENU —

Qualified Opportunity Zone Business:

- Partnership interests or stock ownership in businesses that operate in a Qualified Opportunity Zone.
- A substantial amount of all tangible property is owned or leased by a business located in a Qualified Opportunity Zone.
- At least 50% of the business' total gross income is derived from the active conduct of a qualified business within a Qualified Opportunity Zone.
- A substantial portion of the business' intangible property must be used in the active conduct of business in a Qualified Opportunity Zone.
- Less than 5% unadjusted basis of property is nonqualified financial property.

Qualified Opportunity Zone Business Property:

- Land
- Building or equipment that is first used by the Qualified Opportunity Fund or the Qualified Opportunity Business
- Building or equipment in a Qualified Opportunity Zone that was previously used but is substantially improved by the Qualified Opportunity Fund or the Qualified Opportunity Business.

OPPORTUNITY ZONE — OVERVIEW —

WHAT:

Capital Gains Exemption

Established by Congress in the Tax Cuts and Jobs Act of 2017, an Opportunity Zone serves as a community investment tool created to encourage long-term investments in designated low-income urban and rural communities nationwide. Opportunity Zones provide a tax incentive for investors to re-invest their capital gains liability into dedicated Opportunity Funds.

HOW:

If the Qualified Opportunity Fund investment is held for:

- **5+ years**
10% exclusion of the deferred gain
- **7+ years**
15% exclusion of the deferred gain
- **10+ years**
The investor is eligible for an increase in basis of the Qualified Opportunity Fund investment equal to its fair market value on the date that the Qualified Opportunity Fund investment is sold or exchanged. There is no limit on the amount of gain that can be deferred in this manner.

WHERE:

Areas qualify as Opportunity Zones by state designation and are certified by the Secretary of the U.S. Treasury's delegation of authority to the Internal Revenue Service. Oregon selected a total of 86 low income census tracts as Opportunity Zones, of which Greater Portland holds 31:

- **Clackamas County**
6 census tracts
- **Washington County**
8 census tracts
- **Multnomah County**
17 census tracts

Strategic Investment Program (SIP)
This statewide program exempts a portion of very large capital investments from property taxes for 15 years.

Food Processing Machinery & Equipment (M&E)
Newly operational M&E is exempt for five years starting in or before 2020, if certified by the Oregon Department of Agriculture.

Strategic Reserve Fund
A discretionary tool used for a variety of projects impacting economic development with final approval from the Governor.

Oregon Investment Advantage
This program helps businesses start or locate new types of operations in a number of Oregon counties potentially eliminating state income tax.

Other Tax Incentives

Oregon Business Expansion Program
This is a cash-based forgivable loan equivalent to the estimated increase in personal income tax revenue from new hiring.

Oregon New Market Tax Credit (NMTC)
Delivers below-market-rate investment options to Oregon businesses and creates jobs in low-income communities.

Solar Development Incentive Program
Provides incentives to owners of photovoltaic energy systems that collect solar energy.

Small Manufacturing Business Expansion Program
This is a cash-based forgivable loan for small manufacturing business expansion projects.

Federal Work Opportunity Tax Credit
Congress provides this incentive to private-sector companies for hiring individuals from target groups.

Film & Video Incentives
Oregon offers cash-based incentive programs to induce film and video productions, including rebate on 20% of the production's goods & services.

Market
News



CAN'T BE A "SIN BUSINESS"

A private or commercial golf course, country club, massage parlor, hot tub facility, sunian facility, racetrack, other facility used for gambling, or any store where alcoholic beverages are sold for consumption off premises.

PORTLAND INDUSTRIAL

Sales

Industrial sales volume in the first half of 2019 outpaced investment during the first six months of the prior two years, and sales volume in the past 12 months was substantially above Portland's historical average. While the industrial sector offers solid yield, with cap rates dependably near 6% for the past several years, Portland often sees lower annual sales volume for industrial properties than for retail, office, or multi-family assets. Institutional industrial sales are still trending 100+ basis points lower on cap rates.

Leases

While vacancy is significantly below the historical average, a large influx of speculative deliveries contributes to some volatility. Of the 2 million SF of speculative space under construction, about 85% is available for lease. Rent gains have contracted, after years of robust growth, and are now comparable to the historical average.

INDUSTRIAL SALES 2019 YTD



\$361,000,000

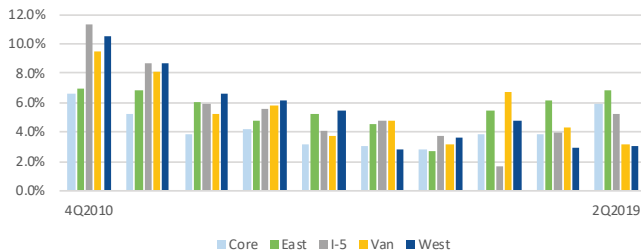


6.0%

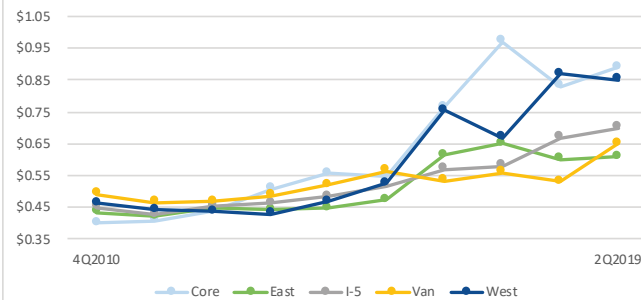


WAREHOUSE

Warehouse Vacancy

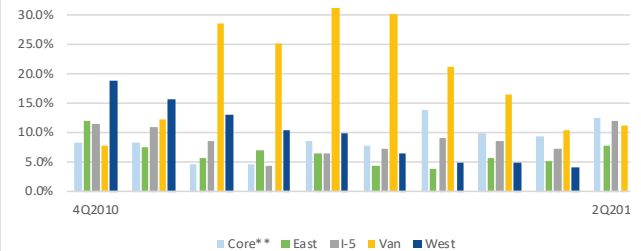


Warehouse Rates

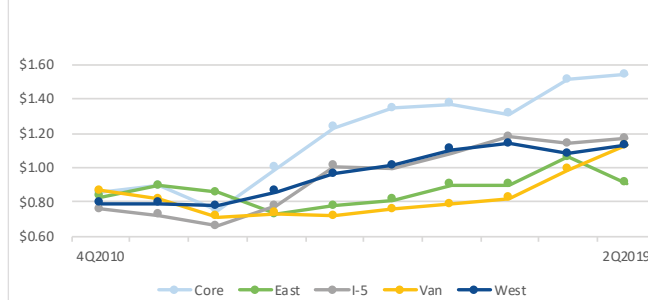


FLEX

Flex Vacancy



Flex Rates



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

Source: CoStar Property



PORTLAND OFFICE

Sales

In the first half of 2019, office investment outpaced the first two quarters of last year, and sales volume has rounded to \$1.25 billion or higher each of the past four years. Office properties here sell at lower prices than comparable assets situated in alternative West Coast metros, including San Jose, San Francisco, and nearby Seattle, making Portland an appealing choice for investors.

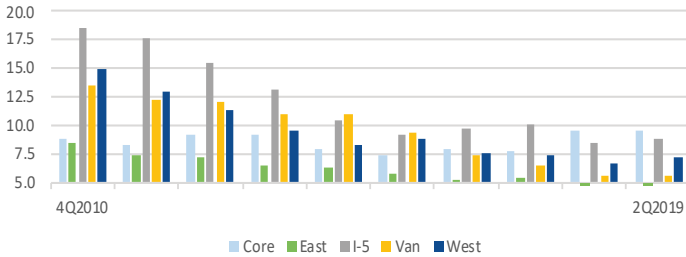
Leases

Creative office space continues to be in high demand among tenants, developers, and investors. Some creative office developments are built from the ground up, such as the Field Office development in Guilds Lake and Tree Farm in SE Close-In, but repositioning existing buildings have proven to be the more popular approach. Towne Storage, Leland James, and US Custom House are all prominent examples of this trend.

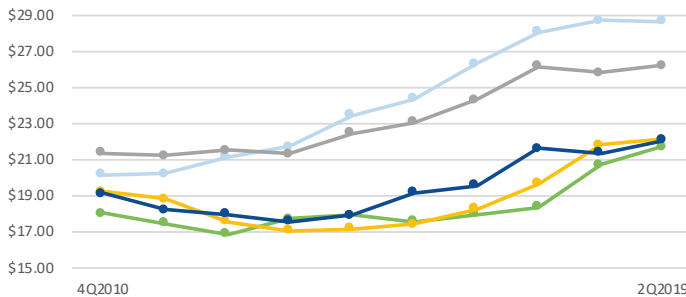


OFFICE

Office Vacancy



Office Rates



PORTLAND RETAIL

Sales

Portland retail sales volume exceeded \$400 million in the first six months of 2019, and annual sales volume has beaten the historical average for six consecutive years.

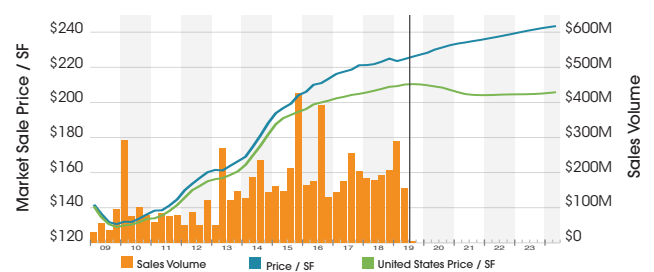
Leases

Vacancy uptick in 19Q2 aside, overall strong demand for retail space in Portland has resulted in vacancy compression since the beginning of the recovery. But despite robust absorption, new construction has been limited, and 2019 is anticipated to see cycle-low deliveries. Rent growth remains stronger in Portland than many other West Coast metros, though annual gains have declined in 2019.

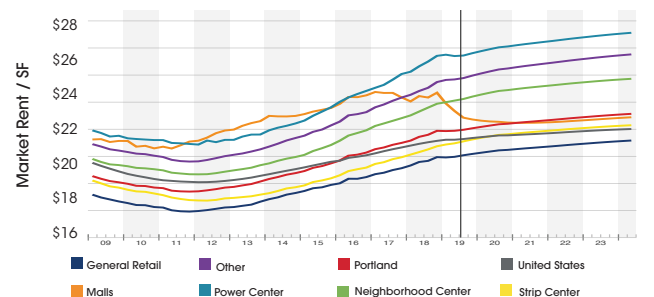


RETAIL

Retail Sales Volume & Price per SF



Retail Market Rent Per SF



OFFICE SALES 2019 YTD



\$954,000,000



6.0%

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

Market News

2nd Quarter 2019



Locally owned by active brokers since 1978, Macadam Forbes continues to grow into a market leader in office, industrial, investment, retail, and land/development transactions throughout the Portland metropolitan area and beyond.



**Seller
Representation**



**Buyer
Representation**



**Landlord
Representation**



**Tenant
Representation**



**Investment
Services**



**Development
Representation**

Do you want to receive electronic issues of this newsletter?

Send a request via email to:
marketing@macadamforbes.com



1800 SW First Avenue, Suite 650
Portland, OR 97201
503.227.2500
www.macadamforbes.com

All of the information contained herein was obtained from other parties we consider reliable. We have no reason to doubt its accuracy, however we do not guarantee it. The views expressed herein by the author do not necessarily represent the view of Macadam Forbes, Inc. or any of its affiliates.