

Amidst healthy demand for new speculative development, Portland industrial market seeing record low vacancy

▼ 2.3%

Overall Vacancy

▼ 3.1%

Park Vacancy

▲ 5.6M

YTD SF Net Absorption

▼ 2.5M

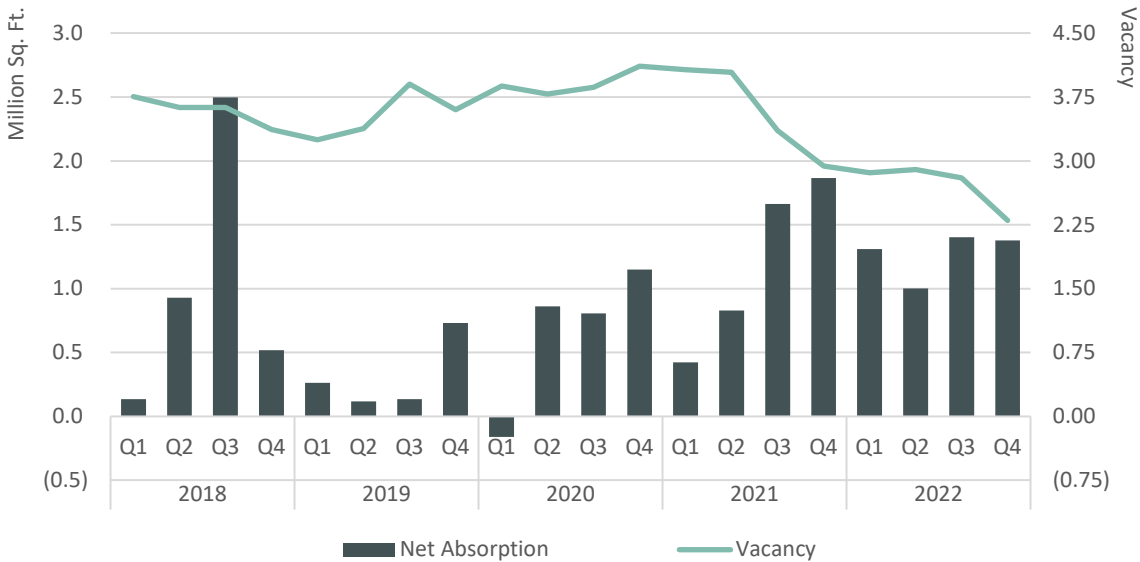
SF Under Construction

Note: Arrows indicate year-over-year change

HIGHLIGHTS

- Portland’s industrial market posted nearly 1.4 million sq. ft. of positive absorption in Q4 2022, bringing the year-to-date (YTD) figure to roughly 5.6 million sq. ft.
- Three leases over 100,000 sq. ft. were signed in Q4 2022, highlighted by Thermal Supply’s 170,089-sq. ft. lease at Vancouver Logistics in Clark County and the 139,495-sq. ft. Chef’s Warehouse lease at Northwest Logistics Park.
- The industrial development pipeline in Q4 2022 totaled 2.5 million sq. ft. all of which is expected to deliver through the end of 2023. One project delivered in Q4 2022; Prologis Meadows – Bldg. E (285,000 sq. ft.).
- Healthy tenant demand has contributed to sustained market-wide vacancy rate compression, down 80 basis points (bps) year-over-year (YoY) to 2.3% in Q4 2022.
- Overall Class A average asking industrial warehouse shell rates in Q4 2022 are between \$0.75 - \$0.80 per sq. ft. on a monthly triple net (NNN) basis. Investors remain cautious yet interested, as rental rate growth is expected to continue in 2023.

FIGURE 1: Historical Supply & Demand Dynamics

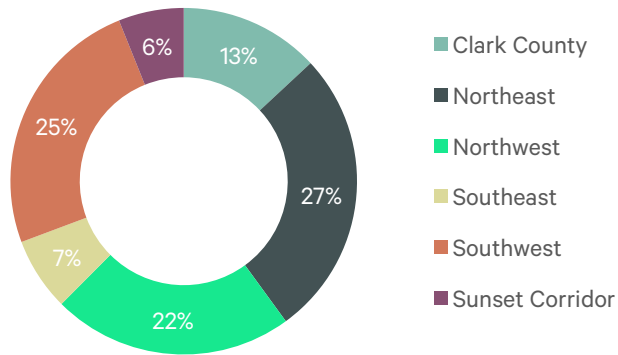


Source: CBRE Research Q4 2022

Leasing Activity

In Portland, demand has noticeably slowed for close-in product where tenants used to pay a premium. Now there is a stronger call for Class A product out in North and South Portland, as well as up in Clark County. The region’s underlying fundamentals have been supported by the growth in the e-commerce and logistics services industries. Third-party logistics companies, e-commerce, and large retailers will continue to increase their footprint in the region in 2023, and nationally are projected to lead demand as companies outsource at a greater clip to mitigate supply chain challenges. In 2022, leasing momentum continued across the Portland metro area with nearly 10.5 million sq. ft. transacting, including renewals and expansions. Three leases over 100,000 sq. ft. were signed in Q4 2022, highlighted by Thermal Supply’s 7-year, 170,089-sq.-ft. lease at Vancouver Logistics and the 139,495-sq. ft. Chef’s Warehouse lease at Northwest Logistics Park. Additionally, MPR Logistics took the rest of Building 11 at Northwest Corporate Park. This is a 95,819-sq. ft. lease expansion from their existing lease in the building signed earlier this year. With roughly 2.5 million sq. ft. of speculative development coming to market in 2023, leasing activity is expected to remain strong with continued demand from new and existing users from across the region.

FIGURE 3: Leasing Activity by Submarket, Q1 2022-Q4 2022



Source: CBRE Research Q4 2022

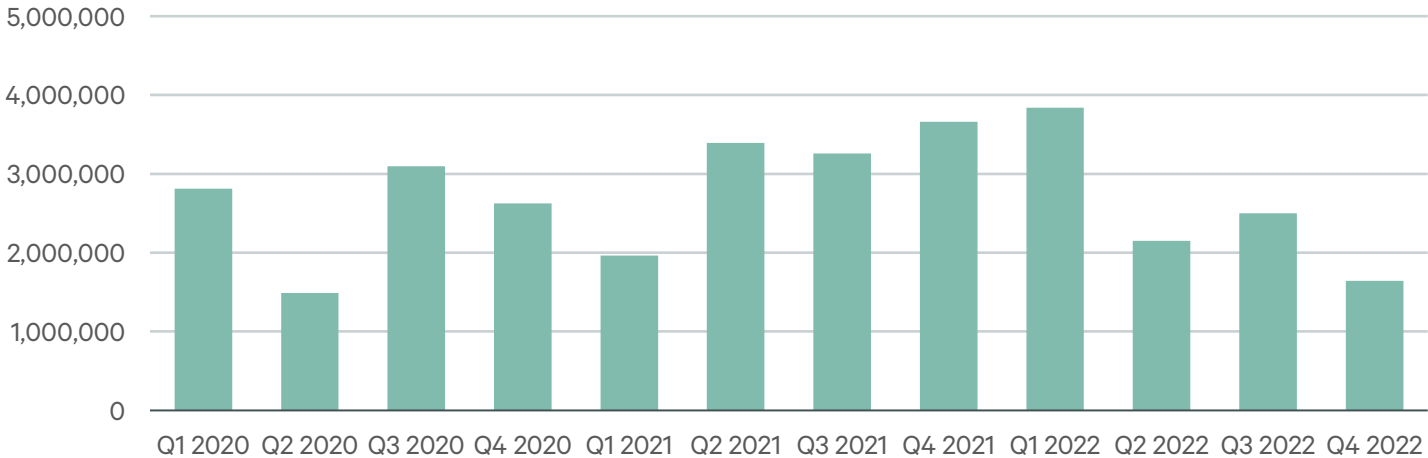
FIGURE 2: Q4 2022 Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Lease Type
Thermal Supply	170,089	Vancouver Logistics	Clark County	New Lease
Chef's Warehouse	139,495	Northwest Logistics Center	Northwest	New Lease
Factory Motor Parts	130,589	Portland Portal Industrial Center	Northeast	Sublease
Airefco, Inc.	99,200	PacTrust Corporate Park	Clark County	New Lease
MPR Logistics	95,819	Northwest Corporate Park	Northwest	Expansion
Owens & Minor, Inc.	86,771	Wilsonville Business Center	Southwest	Renewal

Source: CBRE Research Q4 2022

FIGURE 4: Historical Leasing Activity

Total Leasing Activity Sq. Ft. (MSF)



Source: CBRE Research Q4 2022

Vacancy and Net Absorption

Healthy levels of demand continue to drive down YoY vacancy and availability rates. Portland’s overall vacancy rate compression continued in 2022, despite the modest growth in inventory, falling 80 bps YoY to 2.3% in the Q4. Vacancy in Portland’s industrial business parks is 3.1% sits 90 bps lower than the figure recorded in Q4 2021. Portland’s industrial market posted nearly 1.4 million sq. ft. of positive net absorption in Q4 2022, bringing the YTD figure to roughly 5.6 million sq. ft., outpacing the rate of absorption in 2021 by 8.0%. This is also 37% above the 5-year average which is 3.9 million sq. ft. of yearly absorption. Looking forward, the Portland industrial market will remain an attractive option for new and expanding occupier businesses, as the steady growth in e-commerce and logistics services will continue to sustain strong real estate fundamentals in the region.

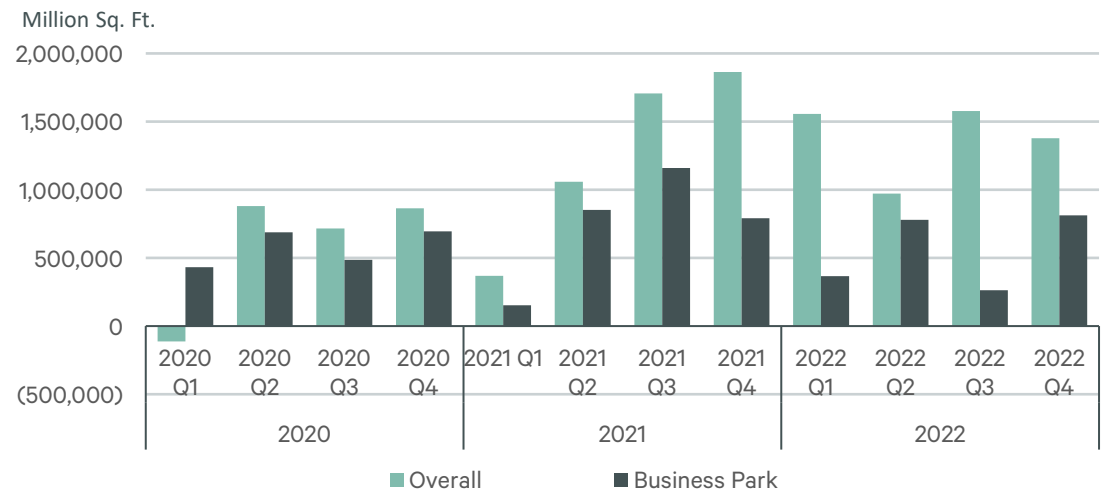
Average Asking Lease Rates

Industrial rent growth continues to outperform other asset types in Portland. Amongst other things, a persistently decreasing vacancy rate due to healthy demand has allowed landlords to continue to push rents. Overall Class A average asking industrial warehouse shell rates in Q4 2022 are between \$0.75 - \$0.80 per sq. ft. on a monthly triple net (NNN) basis. There is a growing distinction between renewals signed in second generation space and new leases signed in higher quality Class A vacancies. Throughout the year, multiple tenants have shown their commitment to the area extending leases in second-generation spaces. On renewals – in some cases, tenants are pushing for a shorter term which can lead to increased rents and higher escalations. Investors remain cautious yet interested, as rental rate growth is expected to continue in 2023.

Investment Trends

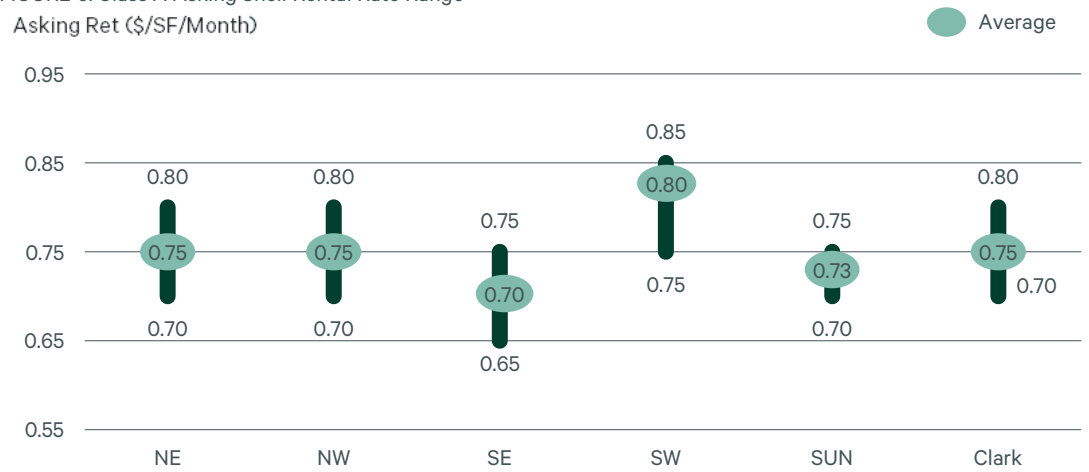
Sales volume was \$748.4 million in 2022, down from the \$1.3 billion recorded in the previous year. Investment sales will likely pick up towards the latter half of 2023, as we get a clearer picture on the debt market. In 2022 capital markets experienced rapidly rising interest rates and record levels of inflation. However, owner-users have more strongly considered selling in this environment. Owners that have occupied their buildings for prolonged periods of time can still realize substantial gains to create liquidity. For example, in October 2022, Pacific Lumber and Truss Co. sold its warehouse complex at 10515 SW Allen Blvd for \$31.7 million. They had previously purchased the 105,000-sq. ft. facility for \$7.2 million in 2014.

FIGURE 5: Net Absorption – Overall vs. Business Parks



Source: CBRE Research Q4 2022

FIGURE 6: Class A Asking Shell Rental Rate Range
Asking Ret (\$/SF/Month)



Source: CBRE Research Q4 2022

Development Activity

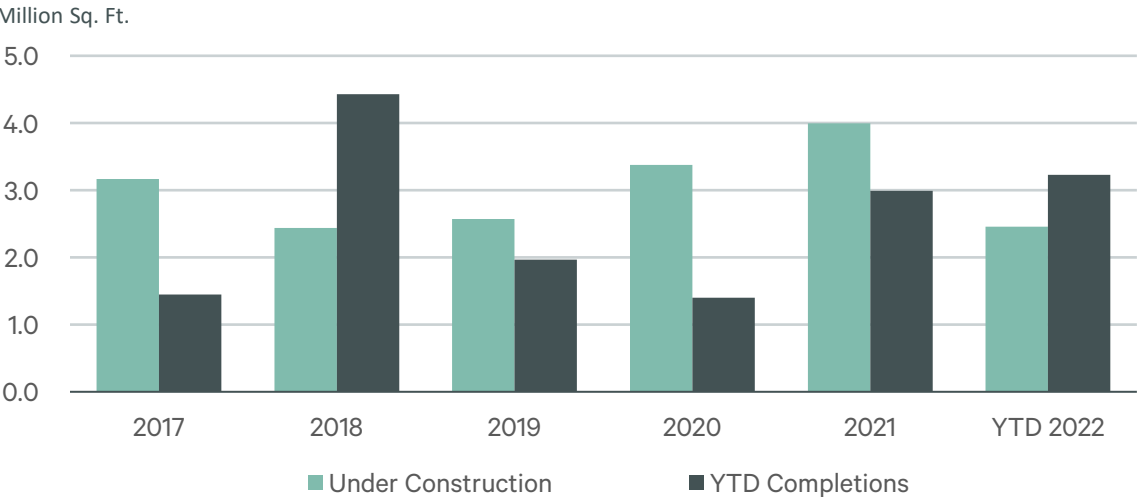
Industrial professionals are closely watching Vancouver’s temporary six-month moratorium on new applications for industrial developments 50,000 sq. ft. and larger. Despite high demand from developers, the low job density associated with typical warehouse facilities is pushing the local government to pause and investigate potential long-term effects. The industrial development pipeline in Q4 2022 totaled 2.5 million sq. ft., of which all is speculative development expected to deliver in 2023. The bulk of the development activity is occurring in both Clark County (1.0 million sq. ft.) and Southwest (715,000 sq. ft.) as accounting for 68% of the projects actively under construction. Burnt Creek Logistics (664,653 sq. ft.) marks the largest project under construction in the Portland metro area. In the Northeast submarket, 138 Logistics Center offers two, state-of-the-art distribution warehouses totaling 489,700 sq. ft on 25.56 acres in Airport Way, one of Portland’s premier industrial gateways. In Q4 2022, all the speculative development under construction remains available for lease. However, in recent years, new speculative development has performed well, seeing high volumes of leasing activity and absorption. Portland’s industrial market welcomed 3.2 million sq. ft. in 2022. Speculative development accounted for 49% of the new deliveries, of which 75% has already been leased. Build-to-suit (BTS) projects narrowly made up the larger share of new deliveries, of which 83% was delivered in the Sunset Corridor. The completion of Amazon’s 285,000-sq. ft. BTS facility at Prologis Meadows in the Northeast submarket is the only Q4 delivery.

FIGURE 8: Notable Projects Under Construction

Submarket	Property Name	Address	City	Spec/BTS	Size (SF)	Est. Completion
Clark County	Burnt Creek Logistics	5920 NE 162 nd Ave	Vancouver	SPEC	664,653	Q4 2023
Northeast	138 Logistics Center	4600 NE 138 th Ave	Portland	SPEC	489,700	Q2 2023
Southwest	Sherwood Commerce Center	21600 SW Oregon St	Sherwood	SPEC	435,107	Q2 2023
Northeast	Prologis Meadows West	1501 N. Schmeer Rd	Portland	SPEC	293,480	Q3 2023
Clark County	PacTrust Corporate Park	4203-4215 NE 78 th St	Vancouver	SPEC	293,262	Q4 2023
Southwest	Grahams Ferry Industrial Center	25190 SW Grahams Ferry Rd	Wilsonville	SPEC	148,279	Q3 2023

Source: CBRE Research Q4 2022

FIGURE 7: Annual Development Activity



Source: CBRE Research Q4 2022

Submarket Performance

Throughout 2022 the Sunset Corridor and Northwest were two of the Portland metro area’s top performing industrial submarkets across most indicators, including net absorption, rate of vacancy compression, and new construction and delivery volume. In Q4, vacancy in the Sunset Corridor at 2.2% sits 80 bps lower than the figure recorded in Q4 2021. Absorbing 1.6 million sq. ft., the Sunset Corridor was also the largest contributor to the Portland area’s overall net absorption figure in 2022. Also, a growing presence of co-location data centers, expansive fiber network infrastructure and access to Asia Pacific undersea cables, have all combined to put the region on the map as a major secondary data center hub.

Industrial vacancy in the Northwest submarket at 2.1% sits 270 bps lower than the figure recorded a year ago. The Northwest submarket recorded 1.4 million sq. ft of net absorption in 2022. Absorption was assisted by MPR Logistics leasing roughly 200,000 sq. ft at Prologis’ Northwest Corporate Park in 2022, initially signing a deal in Q3 and completing an expansion of their existing lease in Q4. Additionally, the Daimler Trucks of North America - 205,000-sq. ft. lease at Forum Swan Island Phase II and the Fulcrum Logistics - 158,577-sq. ft. lease at 5910 N. Cutter Cir. are reflective of the current level of demand in the submarket.

Industrial Employment

Distribution and manufacturing employment are the primary determinants of demand. We define “distribution employment” as all of the whole sale trade sector plus transportation (trucking and warehousing). The latest estimates of distribution and manufacturing employment for Portland are 109,600 workers and 131,400 workers, respectively. Over the last five years Portland’s distribution employment has grown by 2.5% while manufacturing employment has grown by 1.2%. Over the last 12 months distribution employment has grown by 4.2% and manufacturing employment has grown by 7.1%.

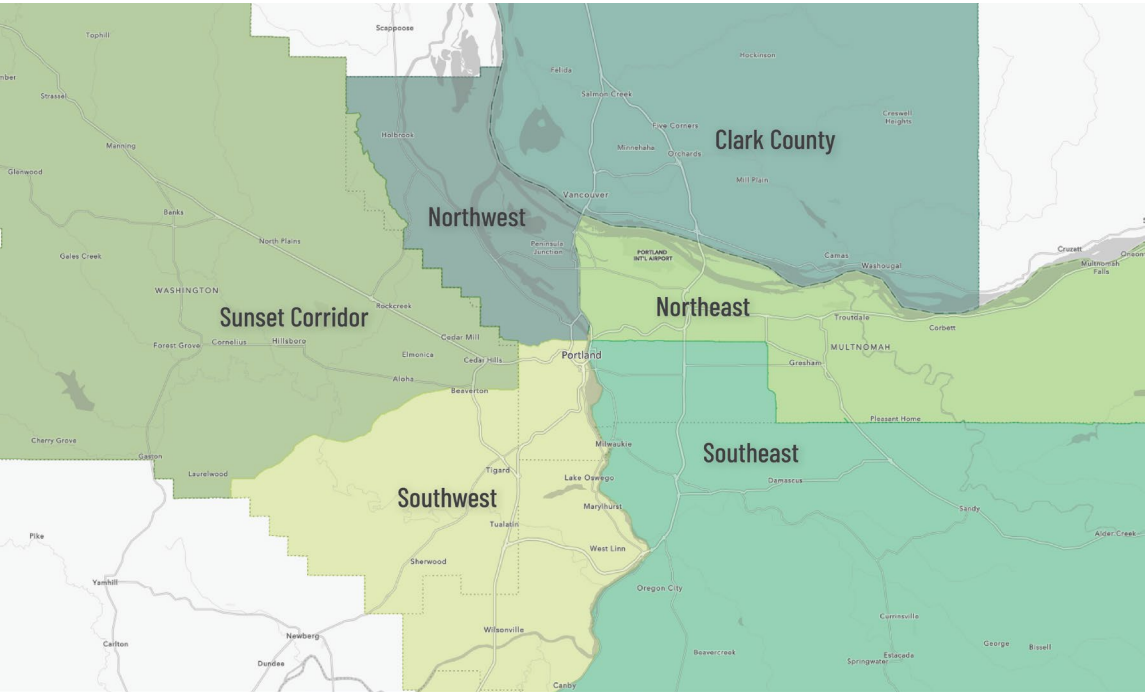
According to CBRE’s Econometric Advisors, industrial employment is projected to grow by 12,300 jobs during the 2022-2027 period. During the same time period, new supply is expected to average 3.3 million sq. ft., while net absorption s expected to average 2.5 million sq. ft., lagging new supply.

FIGURE 9: Market Statistics by Submarket

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Q4 2022 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
Base Figures							
Northeast	49,598,255	3.1%	4.3%	437,430	457,284	489,700	422,991
Northwest	39,247,791	2.1%	3.3%	470,597	1,423,695	293,480	228,046
Southeast	31,312,102	2.4%	2.9%	(20,905)	243,645	-	-
Southwest	38,988,811	2.0%	2.4%	243,398	1,181,238	714,980	588,995
Sunset Corridor	32,670,723	2.2%	2.5%	106,857	1,594,348	-	1,351,743
Clark County	26,340,361	1.6%	3.1%	140,716	680,151	957,895	638,882
Total	218,158,043	2.3%	3.2%	1,378,093	5,580,361	2,456,055	3,230,657
Business Park Figures							
Northeast	22,841,222	3.4%	5.8%	426,852	281,864	-	285,000
Northwest	10,747,786	4.0%	6.3%	218,139	516,960	-	-
Southeast	7,646,262	0.3%	2.1%	3,881	253,083	-	-
Southwest	17,963,741	3.9%	4.7%	143,340	868,238	435,107	588,995
Sunset Corridor	9,654,902	4.2%	5.1%	47,357	355,951	-	269,045
Clark County	11,501,206	1.2%	3.0%	(25,895)	(53,781)	664,653	-
Total	80,355,119	3.1%	4.8%	813,674	2,222,315	1,099,760	1,143,040

Source: CBRE Research Q4 2022

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied immediately..

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in Multnomah, Washington, Clackamas, and Clark counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

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