

FIGURES | PORTLAND INDUSTRIAL | Q2 2023

Absorption slightly positive; new deliveries and sublease space stabilize rent growth

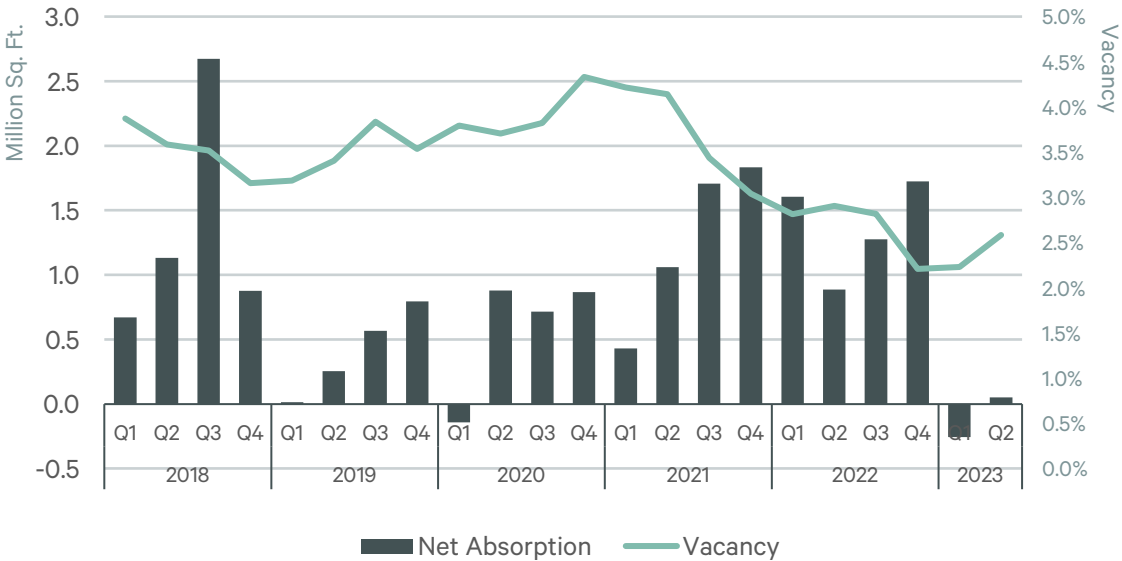


Note: Arrows indicate year-over-year change

HIGHLIGHTS

- Portland's industrial market posted positive 74,122 sq. ft. of net absorption in Q2 2023, a turnaround from Q1's corrected figure of negative 255,508 sq. ft.
- Market-wide vacancy remained low at 2.6%, down 30 bps year-over-year (YoY).
- The two largest industrial deals signed in Q2 were North Coast Electric Co.'s 293,480 sq. ft. lease at Prologis Meadows West, expected to deliver Q1 2024, and Brighton-Best International's 216,200 sq. ft. lease at 138 Logistics Center, a Phelan Development project that delivered in Q2.
- Rental rate ranges for new leases in Class A buildings stayed flat quarter over quarter (QOQ), with metro-wide asking rates between \$0.80-0.90/sq. ft. on a triple net (NNN) basis for spaces 50k sq. ft. and larger. The Q2 rental rate range marked an increase of 13.3% year over year (YOY).
- The industrial development pipeline ended Q2 at 1.9 million sq. ft. actively under construction. Just over 1 million sq. ft. broke ground, all speculative, including at Camas Meadows Business Park and Hidden Glen Industrial Center in Clark County, Portland Portal Phase III in Northeast, and Meadowlark Industrial Center in the Sunset Corridor. Fewer industrial starts are expected in the coming quarters.
- Industrial leasing activity in Q2 stayed largely in line with Q4 2022 and Q1 2023, with just over 2M sq. ft. leased including renewals and expansions.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q2 2023

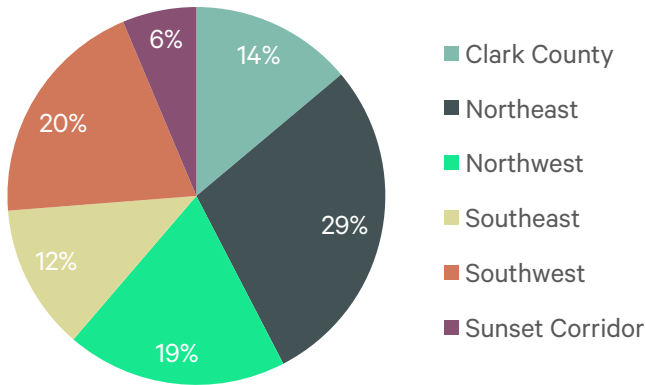
Leasing Activity

Industrial leasing activity in Q2 stayed largely in line with Q4 2022 and Q1 2023, with just over 2M sq. ft. leased including renewals and expansions. Portland benefits from a diverse pool of industrial users, with third-party logistics companies and traditional/high tech manufacturing tenants occupying large spaces across the market.

Two significant deals in first generation Class A space were signed in Q2 2023, a continuation in the trend of speculative development leasing up quickly: North Coast Electric Co. (Sonepar) in Northwest and Brighton-Best International in Northeast. Cubework took 173,144 sq. ft. in Southeast; the company offers flexible warehouse and office spaces, and the property will still function as available space for users in the market.

Demand for small-bay space remained particularly strong, with companies like BMWC Constructors and Craftsman Label signing leases in the 30-50k sq. ft. range. Vacancy for properties 50k sq. ft. and smaller is in line with the general inventory at 2.5%; smaller properties are expected to remain particularly competitive moving forward as little new development is planned in the size range.

FIGURE 2: Leasing Activity by Submarket, Q3 2022-Q2 2023 (New Leases)



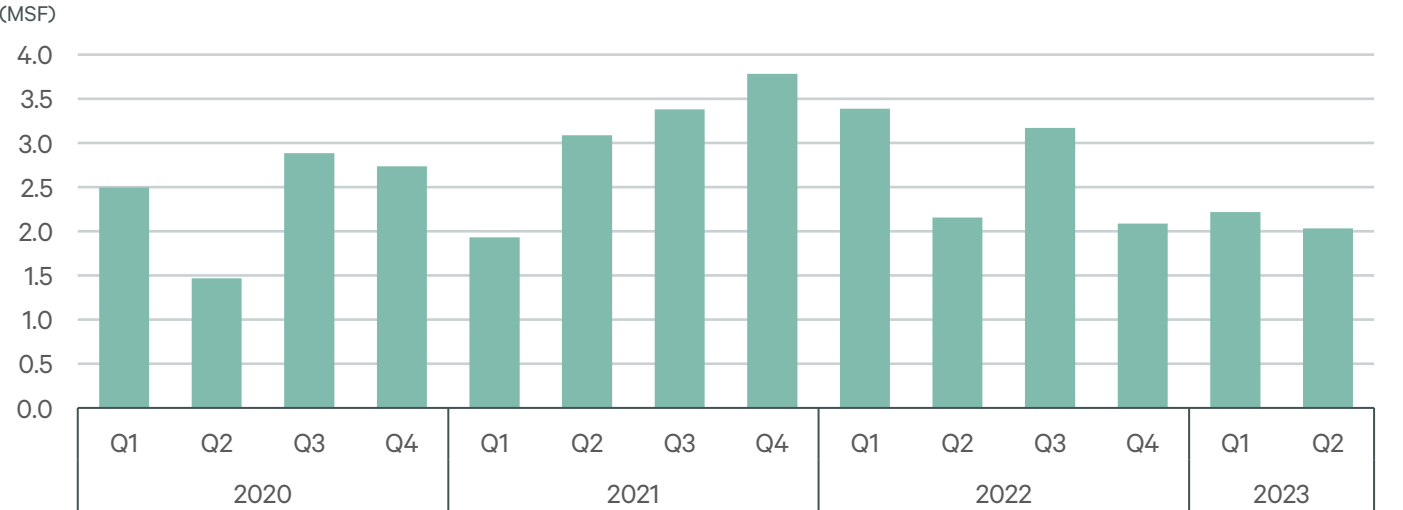
Source: CBRE Research Q2 2023

TABLE 1: Q2 2023 Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Lease Type
North Coast Electric Co. (Sonepar)	293,480	Prologis Meadows West	Northwest	New Lease
Brighton-Best International	216,200	138 Logistics Center	Northeast	New Lease
Cubework	173,144	6433 SE Lake Rd	Southeast	New Lease
Silkcraft of Oregon	91,645	Interstate Crossroads Distribution Center	Northeast	Sublease
Universal Recycling Technologies	75,196	Clackamas Station	Southeast	Renewal
Paul Davis	64,691	Westside Bus Center	Clark County	New Lease

Source: CBRE Research Q2 2023

FIGURE 3: Historical Leasing Activity



Source: CBRE Research Q2 2023

Vacancy and Net Absorption

1.6M sq. ft. in new construction deliveries and an uptick in sublease and direct second-generation vacancies pushed vacancy up 30 bps from the previous quarter to 2.6% across the metro. Even with the slight rise over Q2, the quarter ended lower than the trailing 5-year average of 3.3%. Vacancy in Portland’s industrial business parks was flat at 3.6%.

New sublease spaces put on the market in Q2, including Focus Global Logistics’ 90,862 availability in Northwest, accounted for a net increase of 734k sq. ft. of new sublease availability QOQ. Total available sublease space on the market totaled nearly 2.3M sq. ft. at the end of Q2, equal to roughly 1% of Portland’s industrial inventory.

Portland’s industrial market posted positive 74,122 sq. ft. of net absorption in Q2 2023, a turnaround from Q1’s corrected figure of negative 255,508 sq. ft. but below the 5-year quarterly average of 903,281 sq. ft.

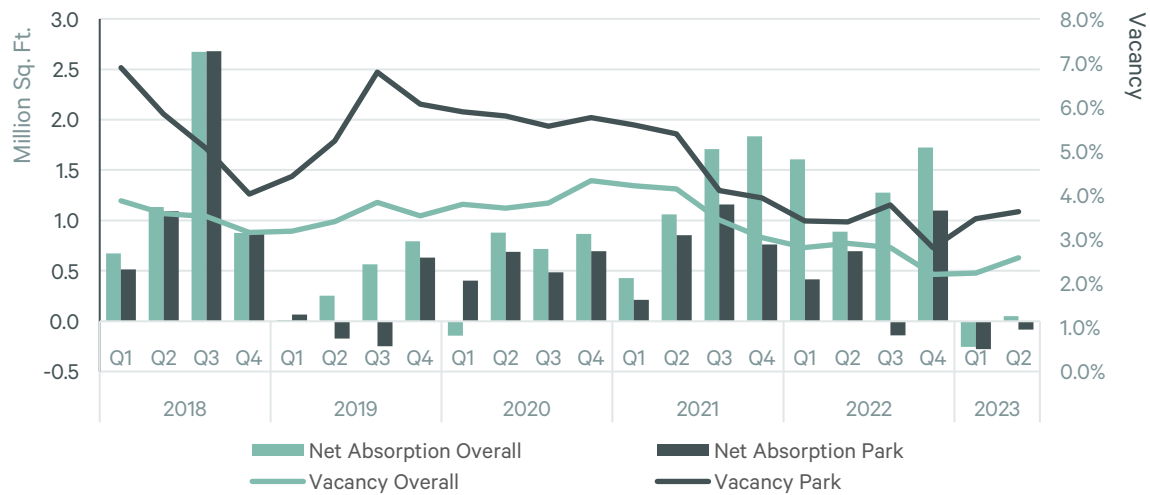
Average Asking Lease Rates

Rental rate ranges for new leases in Class A buildings stayed flat QOQ, with metro-wide asking rates between \$0.80-0.90/sq. ft. on a triple net (NNN) basis for spaces 50k sq. ft. and larger. The slowdown in rate growth is likely in response to the rising availability rate, up 110 bps QOQ to 4.6% due to new deliveries and an uptick in sublease availability. Class A vacancies outside of the urban core continued to strike the highest rates for new leases. For smaller industrial deals in the 10-20k sq. ft. range, a \$0.90+ shell rate was common even in second generation space.

Investment Trends

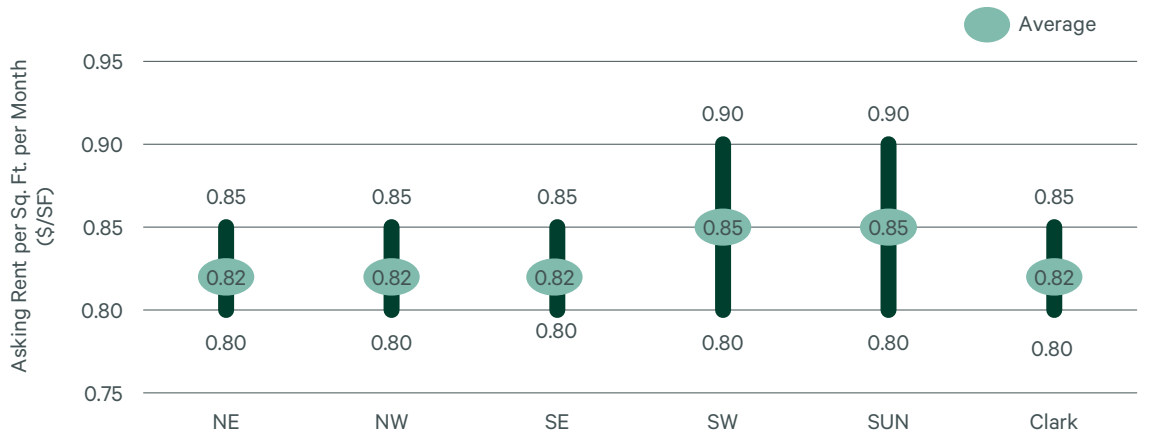
Sales volume was \$42M in Q2 2023, down from the \$174M million recorded in Q1. Sales totaled \$573M between Q3 2022 and Q2 2023, 71% lower than the \$1.2B recorded in the four quarters prior. Although price inflation fell and the Federal Reserve paused interest rate hikes over Q2, capital markets continued to react to still-high debt rates. Sellers were becoming more confident in bringing assets out to market by the end of Q2, but many investors were generally still waiting for actionable signals regarding the timing and depth of a still-looming recession. The only industrial investment sale that closed for over \$10M in Q2 was a flex industrial property located at 5536 NE Hassalo Street in Northeast Portland. PacTrust purchased the property for \$16M, or \$130/sq. ft.

FIGURE 4: Net Absorption – Overall vs. Business Parks



Source: CBRE Research Q2 2023

FIGURE 5: Class A Asking Shell Rental Rate Range (For Spaces 50k+ Sq. Ft.)



Source: CBRE Research Q2 2023

Development Activity

The industrial development pipeline ended Q2 at 1.9 million sq. ft actively under construction. Just over 1 million sq. ft. of new speculative development broke ground, much of it in and around Vancouver, Washington where land is less constrained than the rest of the MSA; by square footage, Clark County accounted for 64% of construction starts in Q2. In Clark County, construction began at Camas Meadows Business Park, Hidden Glen Industrial Center, and the East Building at Vancouver Logistics Phase II. Two buildings broke ground at Portland Portal Phase III in the Northeast submarket, and construction began at Meadowlark Industrial Center in the Sunset Corridor.

Clark County also saw the most completions in Q2, including Burnt Creek Logistics Center, a 681,780 sq. ft. Panattoni development, and four buildings totaling 293,262 sq. ft. at PacTrust Corporate Park. Additionally, Graham’s Ferry Industrial Center delivered 148,279 sq. ft. in Sherwood, OR, and 138 Logistics Center delivered 489,700 sq. ft. across two buildings in Northeast Portland

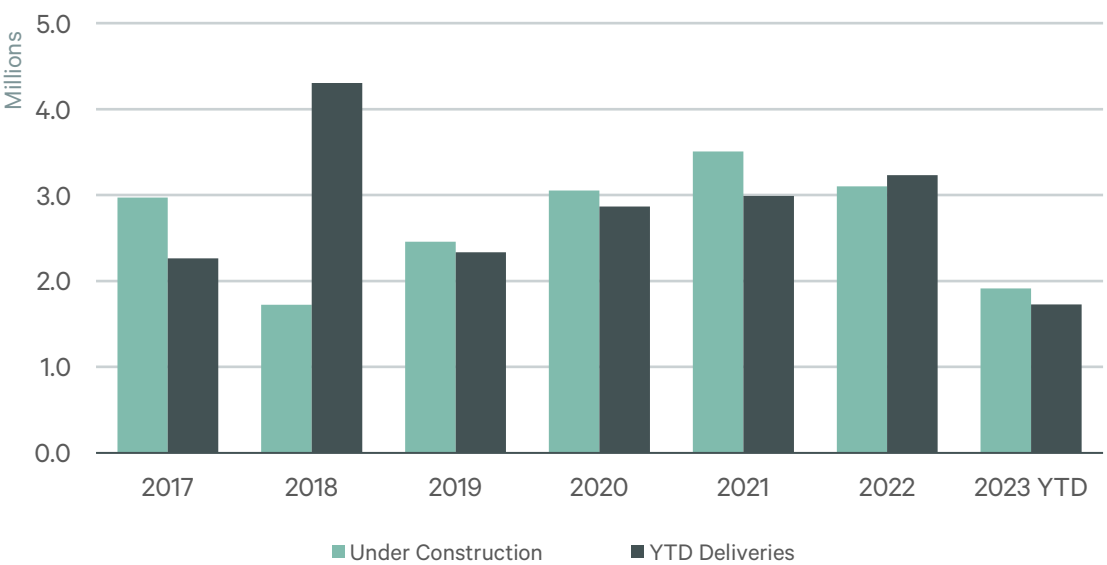
The Vancouver City Council voted in June to extend its moratorium on new industrial projects 250,000 sq. ft. and larger. The moratorium, which first went into effect in December 2022, is meant to give the city time to develop and adopt new land use and development standards for facilities with low-employment-per-acre density. The city made exemptions in February for the Port of Vancouver or certain sectors including manufacturing and wholesale trade. The growing reluctance from municipalities to embrace new e-commerce distribution facilities extended to Oregon, where lawmakers removed retail fulfillment centers’ enterprise zone tax incentive eligibility. The change came via a provision to a bipartisan incentive package for the semiconductor industry.

TABLE 2: Notable Projects Under Construction

Submarket	Property Name	Address	City	Spec/BTS	Size (SF)	Est. Completion
Southwest	Sherwood Commerce Center	21600 SW Oregon St	Sherwood	SPEC	435,107	Q4 2023
Clark County	Vancouver Logistics Phase II (North & East Buildings)	7600-7898 NE 88 th St	Vancouver	SPEC	338,840	Q4 2023
Northeast	Prologis Meadows West	1501 N. Schmeer Rd	Portland	BTS	293,480	Q1 2024
Clark County	Hidden Glen Industrial Center	6920-7000 NE St Johns Rd	Vancouver	SPEC	288,360	Q4 2023
Northeast	Portland Portal Phase III (Buildings A & B)	NE Sandy Blvd & NE Airport Way	Gresham	SPEC	216,696	Q1 2024
Clark County	Camas Meadows	NE Goodwin St	Camas	SPEC	187,106	TBD
Sunset Corridor	Meadowlark Industrial Center	N 4 th Ave	Cornelius	SPEC	155,500	Q1 2024

Source: CBRE Research Q2 2023

FIGURE 6: Annual Development Activity



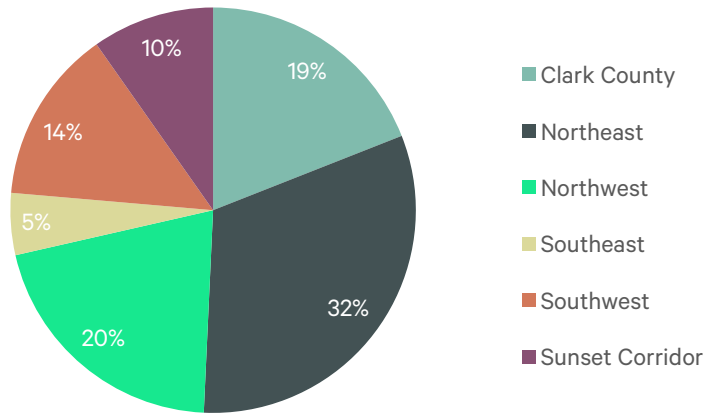
Source: CBRE Research Q2 2023

Submarket Performance

In Q2 2023, Northeast and Southeast were the submarkets with the most leasing activity. Southeast posted the strongest net absorption for the second quarter in a row at 146,341 sq. ft. Vacancy rose the most in Clark County (130 bps) and Northwest (60 bps). Space remained tightest in the Southeast submarket, where the vacancy rate landed at 1.5% (down 130 bps YOY) and in the Sunset Corridor, where the vacancy rate also landed at 1.5% (down 120 bps YOY). Leasing professionals reported increased activity and users in the market in Southeast and softer interest in the Northeast and Northwest submarkets. Absorption numbers reflect the noted strength in Southeast and slack in Northwest, while Northeast has still seen solid absorption through the end of H1 2023 (see fig. 7).

The Sunset Corridor, known as a major semiconductor and data center hub, is expected to get a boost from the passage of Senate Bill 4, an incentive package meant to attract semiconductor companies to Oregon. The two-part bill includes \$210M mostly earmarked for grants and loans for land acquisition and development and gives Gov. Tina Kotek the power to shift urban growth boundaries through 2024 “as long as she determines that doing so is the only way a semiconductor project can move forward”.

FIGURE 7: Available Space Distribution by Submarket



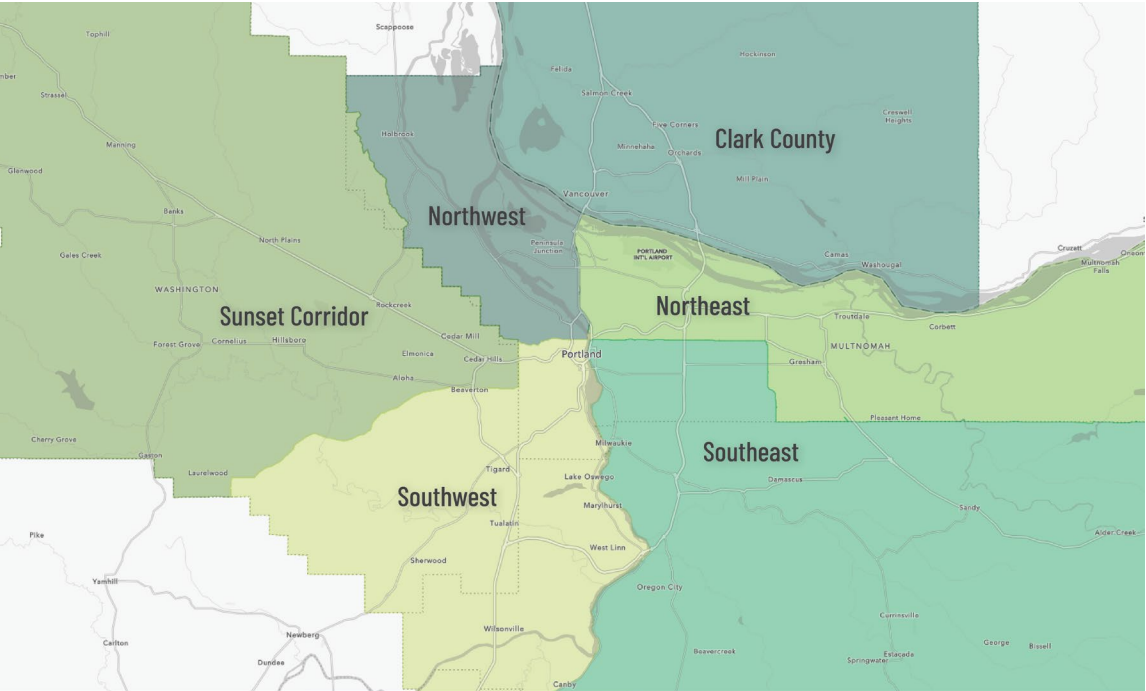
Source: CBRE Research Q2 2023

TABLE 3: Market Statistics by Submarket

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
Base Figures							
Northeast	49,990,936	2.9	6.2	127,005	218,294	-	489,700
Northwest	39,231,357	3.6	5.9	(171,598)	(476,269)	293,480	-
Southeast	31,333,727	1.5	2.2	146,341	394,524	-	-
Southwest	39,028,669	2.0	2.9	(65,366)	(10,728)	435,107	279,858
Sunset Corridor	32,493,262	1.5	1.6	5,654	21,125	155,500	-
Clark County	27,361,280	3.9	8.3	32,086	(328,332)	814,306	957,895
Total	219,439,231	2.6	4.6	74,122	(181,386)	1,698,393	1,727,453
Business Park Figures							
Northeast	22,735,371	3.1	7.7	(85,030)	(5,405)	-	-
Northwest	10,747,786	6.0	11.0	(10,282)	(88,093)	-	-
Southeast	7,646,262	0.7	3.9	(7,306)	33,862	-	-
Southwest	17,855,320	2.8	4.4	19,489	49,232	435,107	131,579
Sunset Corridor	9,649,733	3.6	4.4	38,373	54,836	-	-
Clark County	12,165,859	5.6	13.2	(39,436)	(405,794)	-	664,653
Total	80,800,331	3.6	7.5	(84,192)	(361,362)	435,107	796,232

Source: CBRE Research Q2 2023

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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