

FIGURES | PORTLAND INDUSTRIAL | Q1 2023

Absorption veers negative as overall industrial fundamentals hold steady

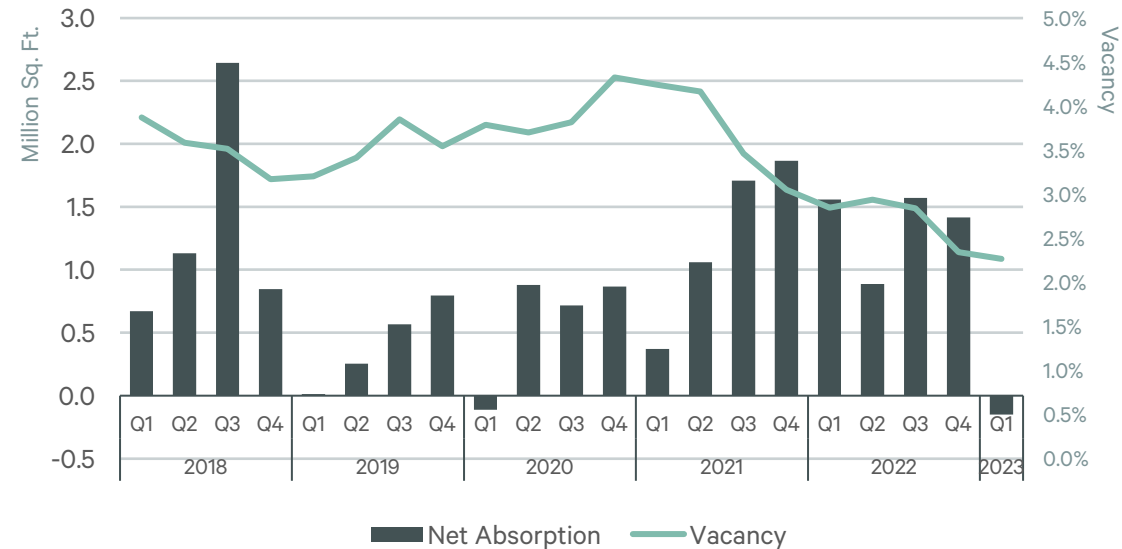


Note: Arrows indicate year-over-year change

HIGHLIGHTS

- Portland’s industrial market posted negative 149,176 sq. ft. of net absorption in Q1 2023, a significantly slower start than the ~1.6 million sq. ft. posted in Q1 2022 and the first negative quarter since Q1 2020. Industry professionals note isolated moveouts that cast doubt on negative absorption becoming a trend, but there is a sense of a market-wide slowdown.
- Five leases over 100,000 sq. ft. were signed in Q1 2023, including two renewals and three new leases. Significant new deals include SureWerx’s 154,648 sq. ft. lease at Prologis PDX 19, and Modomi Modular Housing’s 120,000 sq. ft. lease at the Port of Portland’s Terminal 2.
- The industrial development pipeline in Q1 2023 totaled 2.5 million sq. ft., all of which is expected to deliver no later than Q1 2024. Vancouver Logistics Phase II broke ground, with construction underway at the North Building, a speculative 175,119 sq. ft. light industrial property next to the Phase I building that Thermal Supply leased in Q1 2022.
- Market-wide vacancy remained low at 2.3%, down 50 basis points (bps) year-over-year (YoY).
- Overall Class A average asking industrial warehouse shell rates ended the quarter between \$0.80 - \$0.90 per sq. ft. on a monthly triple net (NNN) basis for spaces 50k sq. ft. and larger, a 13.3% increase YOY.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q1 2023

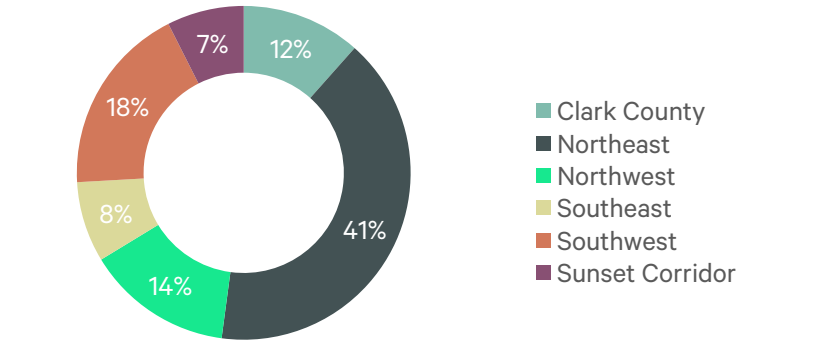
Leasing Activity

While negative absorption in Q1 2023 might raise eyebrows amongst landlords and investors, leasing professionals in Portland are expecting the muted quarter to be a hiccup rather than a reversal of the general growth trend. The metro area saw nearly 1.8M sq. ft. in leasing activity, including renewals and expansions. Though some large industrial users have tempered their expected space needs, others continue to grow. 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 renewals over 100,000 sq. ft. were signed in Q1 2023: Bridgestone Tire and Vinyl Northwest, LLC, both in Gresham (see fig. 3). Three new deals over 100,000 sq. ft. were signed, including SureWerx’s 154,648 sq. ft. lease at Prologis PDX 19 and Portland Bottling’s 104,500 sq. ft. lease at the Clackamas Industrial Center. Demand for small-bay space remained particularly strong, with companies like White Horizon, Wilcox & Flegal, Wayfair, and Kintetsu signing leases in the 30-50k sq. ft. range.

Modomi Modular Housing quickly occupied their 120,000 sq. ft. lease at the Port of Portland’s Terminal 2, where they’ve begun prototyping mass timber modular houses designed as “middle income, or ‘workforce’ housing” meant to be delivered to Oregon communities in need. Modomi was able to convert an existing Terminal 2 warehouse to an advanced manufacturing facility thanks to a \$5 million investment by the Oregon Legislature. (Port of Portland)

FIGURE 2: Leasing Activity by Submarket, Q2 2022-Q1 2023



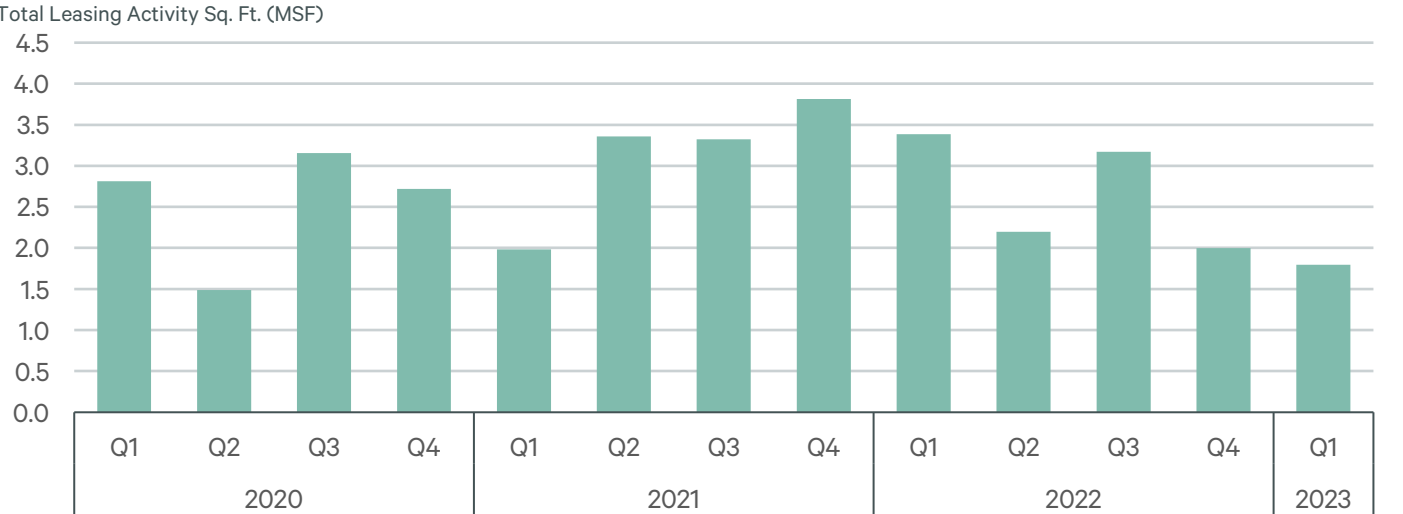
Source: CBRE Research Q1 2023

FIGURE 3: Q1 2023 Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Lease Type
Bridgestone Tire	207,800	Prologis PDX 20	Northeast	Renewal
Vinyl Northwest, LLC	168,000	18600 NE Wilkes St	Northeast	Renewal
SureWerx	154,648	Prologis PDX 19	Northeast	New Lease
Modomi Modular Housing	120,000	Marine Terminal 2 (Port of Portland)	Northwest	New Lease
Portland Bottling	104,500	Clackamas Industrial Center	Southeast	New Lease
Willamette Construction Services, Inc.	70,970	8823 N Harborage St	Northwest	Renewal

Source: CBRE Research Q1 2023

FIGURE 4: Historical Leasing Activity



Source: CBRE Research Q1 2023

Vacancy and Net Absorption

Relatively stable demand over the past 12 months has compressed vacancy and availability rates across the metro area. Portland’s overall vacancy rate ended the quarter at 2.3%, falling 60 bps YoY. Vacancy in Portland’s industrial business parks was 3.7%, bumped up from the previous quarter by new vacant sublease space and Lu Pacific Industrial Park’s new deliveries, landing 20 bps higher than the figure recorded in Q1 2022.

Portland’s industrial market posted a negative 149,176 sq. ft. of net absorption in Q1 2023, a significantly slower start than the roughly 1.6 million sq. ft. posted in Q1 2022 and the first negative quarter since Q1 2020. While industry professionals note isolated moveouts that cast doubt on negative absorption becoming a trend, there is a sense of a market-wide slowdown. Two significant new vacancies included a 265,000 sq. ft. space in Clark County put up for sublease and a 122,310 sq. ft. space in Northwest. For each year from 2018 to 2022 in Portland Q1 net absorption averaged only 8.7% of the total yearly net absorption. Industry professionals expect absorption momentum to increase as the year goes on.

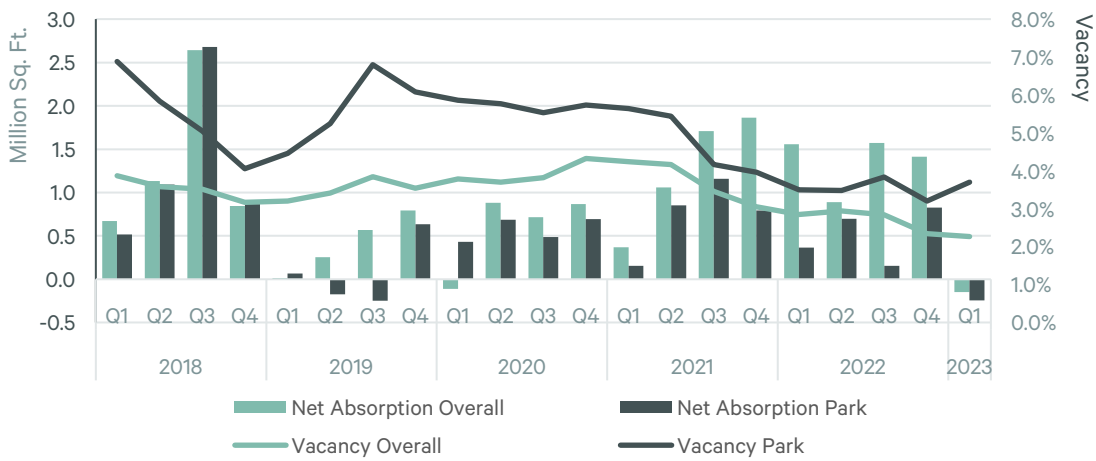
Average Asking Lease Rates

Industrial rent growth continue to outperform other asset types in Portland. Class A vacancies outside of the urban core continue to strike the highest rates for new leases. 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 ended Q1 2023 between \$0.80 - \$0.90 per sq. ft. on a monthly triple net (NNN) basis for spaces 50,000 sq. ft. and larger. This is up from the asking range of \$0.70-80 at the end of Q1 2022, marking a 13.3% asking rent increase YOY. Close-in tenants invested in second-generation spaces have frequently opted for renewals, often striking short-term, high-rate deals. Investors and developers remain cautious yet interested, as rental rate growth is expected to continue in 2023.

Investment Trends

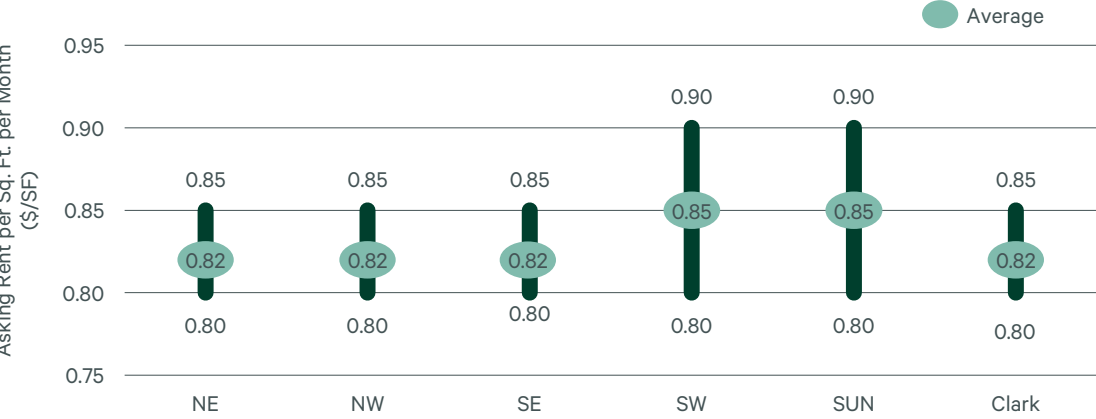
Sales volume was \$103 million in Q1 2023, down from the \$176 million recorded in Q1 2022 (Source: Real Capital Analytics). Capital markets in Q1 continued to react to rising interest rates and still-high levels of inflation. Investors were generally still on the sidelines waiting for actionable signals regarding the timing and depth of a still-looming recession. Investment sales will likely pick up towards the latter half of 2023, as investors get a clearer picture on the debt market. Still, some deals were inked in Q1. Notably, BKM Capital Partners, LLC purchased a 230,212 sq. ft. industrial warehouse at 7002-7014 NE 79th Ct in Airport Way for \$37.3 million, or \$162/sq. ft. The same building sold for \$115/sq. ft. in Q3 2019. No other industrial investment sales closed for over \$10 million in Q1.

FIGURE 5: Net Absorption – Overall vs. Business Parks



Source: CBRE Research Q1 2023

FIGURE 6: Class A Asking Shell Rental Rate Range (For Spaces 50k+ Sq. Ft.)



Source: CBRE Research Q1 2023

Development Activity

As the Portland industrial market continues its growth trajectory, developers are facing increased scrutiny and skepticism from local communities. 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. In Clark County, the Vancouver City Council voted in February to affirm a “temporary moratorium on large warehouse and distribution facilities,” with an amendment raising the square footage limit from 100,000 to 250,000 sq. ft. (City of Vancouver). Various other municipalities and residents across the metro have recently voiced hesitancy about embracing new industrial development. How such local dynamics play out will likely shape where industrial developers choose to pursue projects in the years ahead, with development headwinds potentially having compressional impacts on vacancy.

Projects under construction at the end of Q1 2023 totaled 2.5 million sq. ft., of which all is speculative development expected to deliver no later than Q1 2024. The bulk of the development activity is occurring in both Clark County (1.1 million sq. ft.) and Southwest (715,000 sq. ft.), accounting for 70% of the projects actively under construction. Burnt Creek Logistics (664,653 sq. ft.) marks the largest project under construction in the Portland metro area. New construction projects ended Q1 at 12.7% preleased. However, CBRE leasing professionals are anticipating several significant 2023 deals that will strengthen the preleasing statistic.

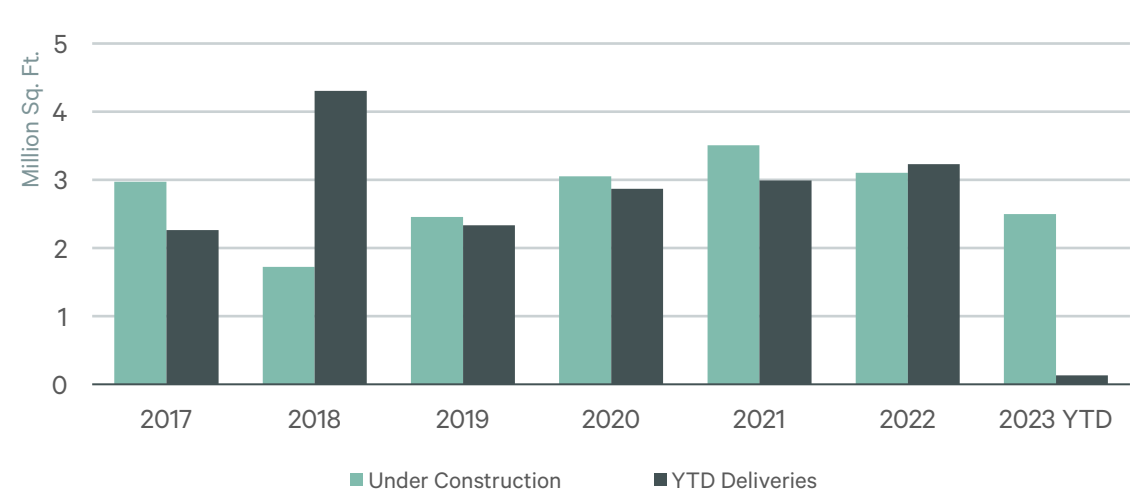
In Clark County, the Vancouver Logistics Phase II North building (1 of 2) broke ground. The speculative property is expected to provide 163,721 sq. ft.; a second building of similar size is planned as part of the project. Two speculative buildings totaling 131,594 sq. ft. delivered in Q1 at the Lu Pacific Industrial Park in Tualatin. Expected Q2 deliveries, including 138 Logistics Center and Grahams Ferry Industrial Center, will deliver roughly 638,000 sq. ft. of new space.

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	Q4 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
Clark County	Vancouver Logistics Phase II	7600-7898 NE 88 th St	Vancouver	SPEC	163,721	Q4 2023
Southwest	Grahams Ferry Industrial Center	25190 SW Grahams Ferry Rd	Wilsonville	SPEC	148,279	Q2 2023

Source: CBRE Research Q1 2023

FIGURE 7: Annual Development Activity



Source: CBRE Research Q1 2022

Submarket Performance

In Q1 2023, Northeast and Southwest were the submarkets with the most leasing activity (buoyed by renewals), while Southeast posted the strongest net absorption at 269,063 ft. Vacancy remained low across the board. Q1 ended with space particularly tight in the Southeast submarket, where the vacancy rate landed at 1.3% (down 160 bps YOY) and in the Sunset Corridor, where the vacancy rate landed at 1.5% (down 100 bps YOY). In the Southeast submarket, Q1 deals like Portland Bottling’s 104,500 sq. ft. lease and Mega Home, Inc’s 68,675 sq. ft. lease paired with the lack of recent industrial development have pushed vacancy down from its recent high of 6% in Q4 2020.

The Sunset Corridor has gained a reputation as a data center hub, attracting users with its expansive fiber network infrastructure and access to Asia Pacific undersea cables. In recent years, land prices in the area rose as landowners recognized the potential to sell to data center developers. Recently, however, planned data center projects in the area have stalled or fizzled out due to years-long waits for electrical power delivery. In turn, the rapid growth in land values is expected to slow or reverse until power availability is more certain.

Industrial Employment

Distribution and manufacturing employment are the primary determinants of demand. We define “distribution employment” as all the wholesale trade sector plus transportation (trucking and warehousing). The latest estimates of distribution and manufacturing employment for Portland are 108,900 workers and 131,900 workers, respectively. Over the last five years Portland’s distribution employment has grown by 2.3% while manufacturing employment has grown by 1.1%. Over the last 12 months distribution employment has grown by 1.8% and manufacturing employment has grown by 5.4%. According to CBRE’s Econometric Advisors, industrial employment is projected to grow by 3,500 jobs during the 2023-2028 period.

FIGURE 9: Market Statistics by Submarket

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Q1 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
Base Figures							
Northeast	49,600,044	2.7%	4.4%	175,105	175,105	489,700	-
Northwest	39,227,791	3.0%	5.0%	(233,271)	(233,271)	293,480	-
Southeast	30,483,017	1.3%	2.3%	269,063	269,063	-	-
Southwest	39,120,390	2.3%	3.1%	(51,586)	(51,586)	583,386	131,579
Sunset Corridor	32,670,723	1.5%	1.8%	16,421	16,421	-	-
Clark County	26,340,361	2.6%	4.7%	(324,908)	(324,908)	1,133,014	-
Total	217,442,326	2.3%	3.6%	(149,176)	(149,176)	2,499,580	131,579
Business Park Figures							
Northeast	22,843,011	2.6%	5.5%	167,848	167,848	-	-
Northwest	10,747,786	5.8%	8.5%	(71,811)	(71,811)	-	-
Southeast	7,646,262	0.3%	3.1%	62,048	62,048	-	-
Southwest	18,095,320	4.3%	6.1%	(88,361)	43,217	435,107	131,579
Sunset Corridor	9,654,902	4.0%	5.0%	17,413	17,413	-	-
Clark County	11,501,206	4.7%	7.6%	(330,848)	(330,848)	664,653	-
Total	80,488,487	3.7%	6.0%	(243,711)	(243,711)	1,099,760	131,579

Source: CBRE Research Q1 2023

The map illustrates the four quadrants of the Portland, Oregon metropolitan area, each with a distinct color and label:

- Northwest:** Shaded in dark blue, located in the upper left quadrant. It includes areas like Topkill, Spravel, Manning, Glenwood, Gales Creek, North Plains, Barks, Forest Grove, Cornelius, Hillsboro, Rockcreek, Cedar Mill, Elmora, Cedar Hills, Alaha, and Beaverton.
- Northeast:** Shaded in light blue, located in the upper right quadrant. It includes areas like Scappoose, Hobbes, Fells, Salmon Creek, Five Corners, Minnehaha, Orchards, Mill Plain, Vancouver, Peninsula Junction, Camas, Washougal, Troutdale, Corbett, and Gresham.
- Southwest:** Shaded in yellow, located in the lower left quadrant. It includes areas like Pike, Vanhall, Carlton, Dundee, Newberg, Wilsonville, Canby, West Linn, Maryhurst, Lake Oswego, Tigard, Tualatin, Sharwood, Laurelwood, and Salmon.
- Southeast:** Shaded in green, located in the lower right quadrant. It includes areas like Clatsop, Multnomah Falls, Clatsop, Oregon, Corbett, Gresham, Pleasant Home, Sandy, Alder Creek, George, Bissell, Eucade, Springwater, Beaver Creek, and Carmichael.

Major highways and geographical features are also shown, including the Willamette River, Mount Hood, and the Portland International Airport.

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..

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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