

FIGURES | PORTLAND INDUSTRIAL | Q1 2024

# Marked negative absorption to begin the year; Available options remain tight for many users



Note: Arrows indicate year-over-year change

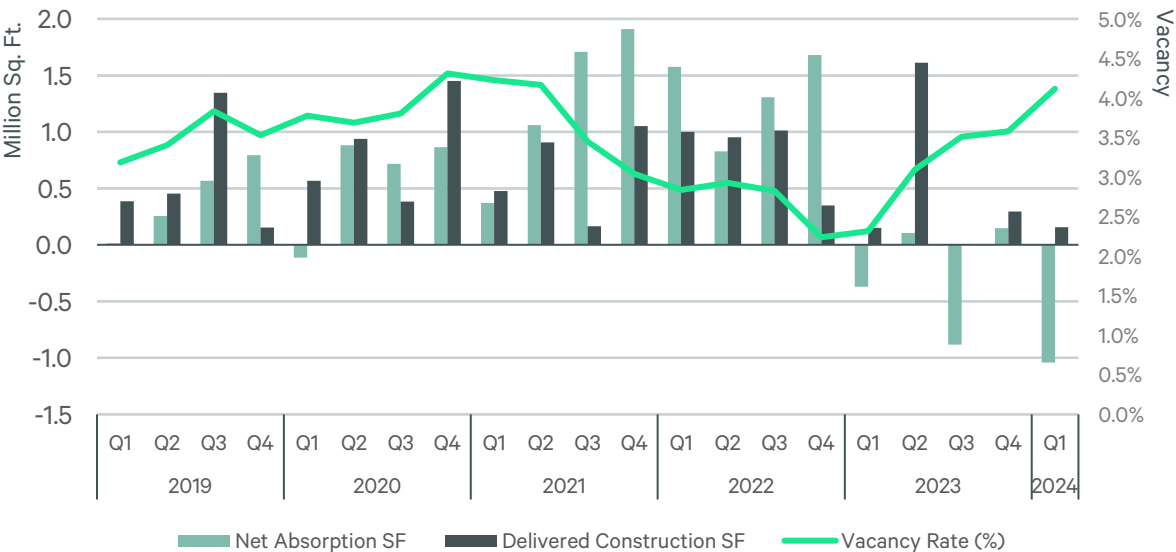
MARKET OVERVIEW

The Portland industrial market kicked off 2024 with negative 1,041,878 sq. ft. of net absorption, a sobering figure for a market that had grown accustomed to strong positive absorption in recent years. Vacancy rose 50 basis points (bps) quarter-over-quarter (QOQ), owing both to the negative absorption and the delivery of Meadowlark Industrial Center, a 155,500 speculative development in Cornelius, OR.

While the continued uptick in available spaces made industrial landlords a bit more eager to lock down deals with potential tenants in Q1, the increase did not translate to a fully comfortable environment for occupiers. Finding suitable spaces remained an uphill task for occupiers looking for most combinations of submarket, size range, and space-use needs. While an increase in overall market vacancy may prevent Class B and C product from seeing the strong rent growth of the 2020-2022 era, institutional landlords remained bullish and continued to push rental rates for new construction, Class A product in Q1.

Over half of the negative net absorption can be attributed to third-party logistics (3PLs) moving out of space. 3PLs and wholesalers saw a significant demand increase in 2021 and 2022, when consumers were spending significantly more on goods than services and supply chain constraints led occupiers to double down on warehouse space to accommodate demand spikes. As macroeconomic headwinds persist and supply chains have stabilized, 3PL and wholesalers are reconsidering their space needs, causing the overall market to shed occupancy. Still, Q1 ended with more total occupied square feet than any quarter in Portland market history before Q2 2022.

FIGURE 1: Net Absorption, Construction, and Vacancy



Source: CBRE Research Q1 2024

## Net Absorption and Leasing Trends

Total leasing activity landed at 1,146,330 sq. ft. in Q1, below the quarterly average of 2.0M sq. ft. since 2015. Absorption similarly underperformed recent years, hitting negative 1,041,878 sq. ft. in Q1. Space is being given back mostly by Wholesale Trade, Retail Trade, and Transportation Distribution & Logistics companies, typically in the 50k – 100k sq. ft. size range. Significant move-outs contributing to negative absorption include a gardening supplies wholesaler moving out of (286,875 sq. ft.) and Terminal Transfer vacating (125,000 sq. ft.), both in the Northwest submarket. While new deals and renewals both dipped in Q1, tenant activity did continue; the largest recorded deal was GTS Interior Supply’s 151,363 sq. ft. renewal in Northwest Portland. Ball Corporation signed a deal to occupy nearly 125,000 sq. ft. of sublease space recently vacated by Javelin Logistics at Prologis Park PDX in the Northeast submarket. Though deal velocity has slowed, tenants in the market remain active; industry professionals are anticipating significant intermarket moves and new-to-market leases to be completed in the coming quarters.

## Vacancy and Availability

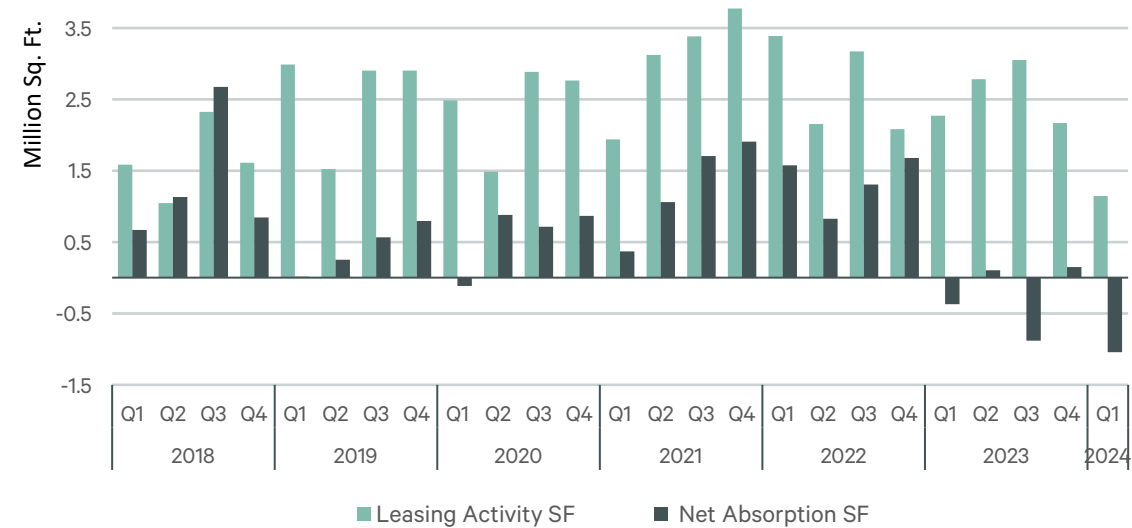
The market-wide vacancy rate was 4.1% at the end of Q1, up 50 bps from the revised Q4 2023 figure of 3.6%. For properties between 250k - 600k sq. ft. in size., vacancy rates are notably higher at 5.5%, while availability rates reach 7.3%. The overall availability rate reached 5.7% in Q1, with the Clark County, Northeast, and Northwest submarkets all reflecting availability rates over 7% . Despite the Ball Corporation sublease, overall sublease availability grew 28% QOQ to 2.5M sq. ft., a contrast to the decline in sublease availability observed in Q4 2023.

TABLE 1: Q1 2024 Key Lease Transactions

Tenant	Size (SF)	Location	Submarket	Lease Type
GTS Interior Supply	151,363	4033 NW Yeon Ave	Northwest	Renewal
Ball Corporation	124,628	Prologis Park PDX	Northeast	Sublease
WEG	70,153	Birtcher Center	Northeast	New Lease
Performance Contracting	63,812	Northwest Corp Park	Northwest	New Lease
Undisclosed	60,000	Halsey Corporate Center	Northeast	New Lease

Source: CBRE Research Q1 2024.

FIGURE 2: Historical Leasing Activity and Net Absorption



Source: CBRE Research Q1 2024.

FIGURE 3: Available Sq. Ft. and Vacancy Rate by Building Size Range



Source: CBRE Research Q1 2024..

## Industrial Rental Rates and Investment Trends

Average overall asking rental rates on new deals and renewals are currently ranging between \$0.80-0.97/sq. ft. NNN for large Class A warehouse spaces. On a year-over-year basis, the market has continued its path of rental rate growth. However, the potential for more negative absorption in 2024, and persistent inflation that may delay rate cuts until June, have tempered short-term expectations for overall rate growth to continue at the same pace. That said, when considering where throughout the market there may be scarce availability, certain segments may be positioned to outperform.

While sales volume has decreased since 2021, industrial remains a preferred property type for investors and has been the highest share of global investment on a rolling 4 quarter basis. Two notable sales transactions, BKM Capital Partners and Landmark Dividend demonstrated strategic acquisitions of industrial assets in Portland. BKM Capital Partners acquired Airport Way Corporate Park from Stockbridge for \$25 million, reflecting a price per square foot of \$175 and boasting a robust 6.7% Cap Rate. This acquisition includes a three-building, multi-tenant business park, impressively leased to 97% capacity with 15 diverse tenants. On the other hand, Landmark Dividend secured Suntech Corporate Park from Washington Capital Management for \$31.8 million, at a significant price per square foot of \$350.

FIGURE 4: Historical Sales Volume & Sale Price Per SF



Source: CBRE Research Q1 2024

TABLE 2: Q1 2024 Key Sales Transactions

Property	Size (SF)	Submarket	Sale Price	Price/Sq. Ft.	Buyer / Seller
Suntech Corporate Park	90,792	Sunset Corridor	\$31.8M	\$349.70	Landmark Dividend / Washington Capital
PDX Distribution Center Bldg. 2	59,850	Northeast	\$11.1M	\$185.42	BKM / Stockbridge
Airport Way Corporate Park	140,693	Northeast	\$24.5M	\$174.00	BKM / Stockbridge
PacifiCorp Distribution Center	37,027	Southwest	\$8.2M	\$220.11	N/A

Source: CBRE Research Q1 2024

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



Source: CBRE Research Q1 2024

## Development Activity

Portland's industrial development pipeline consists of approximately 3.0 million sq. ft. across various active construction projects. Meadowlark Industrial Center in Hillsboro delivered during the first quarter, adding 155,000 square feet to a submarket that currently has a 1.8% vacancy rate. There was one groundbreaking in the first quarter. Sandy Logistics Center, a 260,000 sq. ft. speculative project being developed by Prologis is expected to deliver before the end of the year in Northeast Portland.

Looking ahead to the second quarter, anticipation builds for the completion of key projects such as Vancouver Logistics Phase II, Portland Portal Phase III, and Sherwood Commerce Center, which are expected to bolster Portland's industrial logistics and distribution infrastructure by nearly 1.0 million square feet across the three projects. Regardless of these developments, Portland's pipeline remains relatively small compared to other major markets across the United States. For example, at the end of 2023, Phoenix, AZ had nearly 40 MSF of projects under construction, which represents 10% of their existing market stock. Although the welcoming of this new inventory in Portland may contribute to more short-term upward pressure on vacancy, it reflects a measured approach to growth and development.

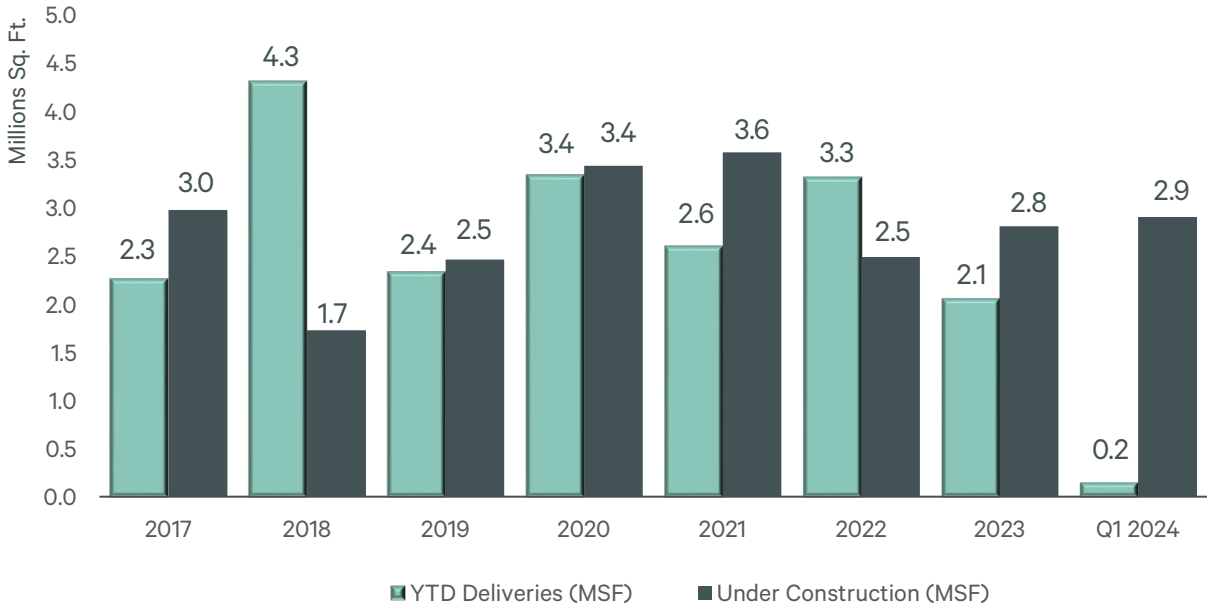
In Kelso, Washington, positioned approximately 50 miles north of Portland, Trammell Crow Company is spearheading the development of the Mid I-5 Industrial Park, encompassing 1.2 million sq. ft. This endeavor, situated on an expansive 82-acre parcel, currently stands as the largest speculative development in the Pacific Northwest.

TABLE 3: Notable Projects Under Construction

Submarket	Property Name	Address	Developer	SPEC/BTS	Size (SF)	Est. Completion
Cowlitz County	Mid I-5 Industrial Park*	2700 Talley Way	Trammell Crow	SPEC	1,185,600	Q4 2024
Clark County	Bridge Point Vancouver	NE 162nd Ave & 58 <sup>th</sup> St	Bridge Industrial	SPEC	646,274	Q4 2024
Northeast	Grainger Industrial Supply	NE Glisan St	Specht	BTS	530,000	Q1 2025
Southwest	Sherwood Commerce Center (Three Buildings)	21600 SW Oregon St	Schnitzer Properties	SPEC	435,107	Q2 2024
Clark County	Vancouver Logistics Phase II (Two Buildings)	7600-7898 NE 88 <sup>th</sup> St	Panattoni	SPEC	338,840	Q2 2024
Clark County	Hidden Glen Industrial Center	6920-7000 NE St Johns Rd	Panattoni	SPEC	288,360	Q2 2024
Northeast	Sandy Logistics Center	12350 NE Sandy Blvd	Prologis	SPEC	256,548	Q4 2024

Source: CBRE Research Q1 2024. \*Outside of Portland MSA and not included in statistics.

FIGURE 6: Annual Under Construction and SF Delivered, 2017 – Q1 2024



Source: CBRE Research Q1 2024

TABLE 4: Market Statistics by Submarket

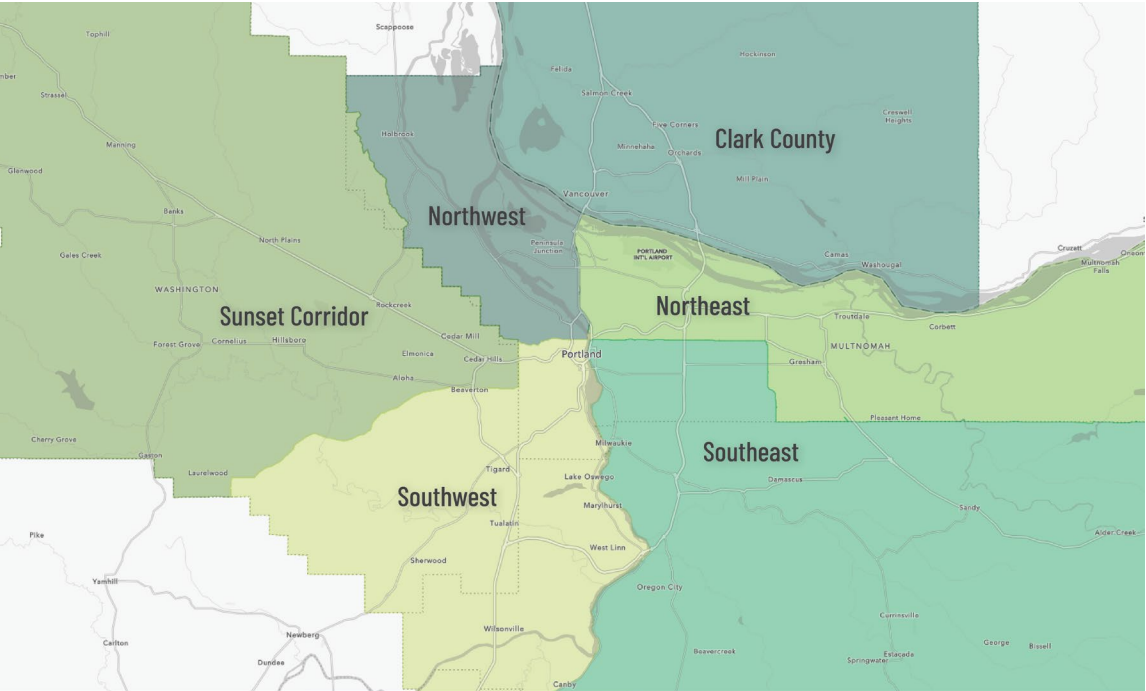
Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Available Sublease (SF)	Q1 2024 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
Base Figures								
Northeast	50,195,517	5.8	7.3	889,601	(522,019)	(522,019)	999,218	-
Northwest	39,789,837	5.8	7.9	962,731	(567,485)	(567,485)	-	-
Southeast	31,333,727	1.8	2.5	48,531	2,279	2,279	-	-
Southwest	39,593,669	2.6	4.9	243,823	(102,530)	(102,530)	445,007	-
Sunset Corridor	32,378,927	1.8	3.3	75,155	86,090	86,090	-	155,500
Clark County	27,433,013	6.1	7.2	266,131	61,787	61,787	1,460,580	-
Total	220,724,690	4.1	5.7	2,485,972	(1,041,878)	(1,041,878)	2,904,805	155,500

TABLE 5: Market Statistics by Building Size Range

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	Available Sublease (SF)	Q1 2024 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	YTD Deliveries (SF)
Base Figures								
0 – 49,999 SF	63,475,902	3.3	4.6	264,520	(169,047)	(169,047)	-	-
50,000 – 99,999 SF	44,883,735	3.6	5.6	592,289	38,741	38,741	70,320	-
100,000 – 249,999 SF	55,073,427	5.1	6.7	532,973	(113,126)	(113,126)	1,113,393	155,500
250,000 – 599,999 SF	36,915,963	5.5	7.3	1,096,190	(781,319)	(781,319)	1,074,818	-
600,000+ SF	20,375,663	3.3	3.3	-	(17,127)	(17,127)	646,274	-
Total	220,724,690	4.1	5.7	2,485,972	(1,041,878)	(1,041,878)	2,904,805	155,500

Source: CBRE Research Q1 2024

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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