
INDUSTRIAL MARKET ANALYSIS

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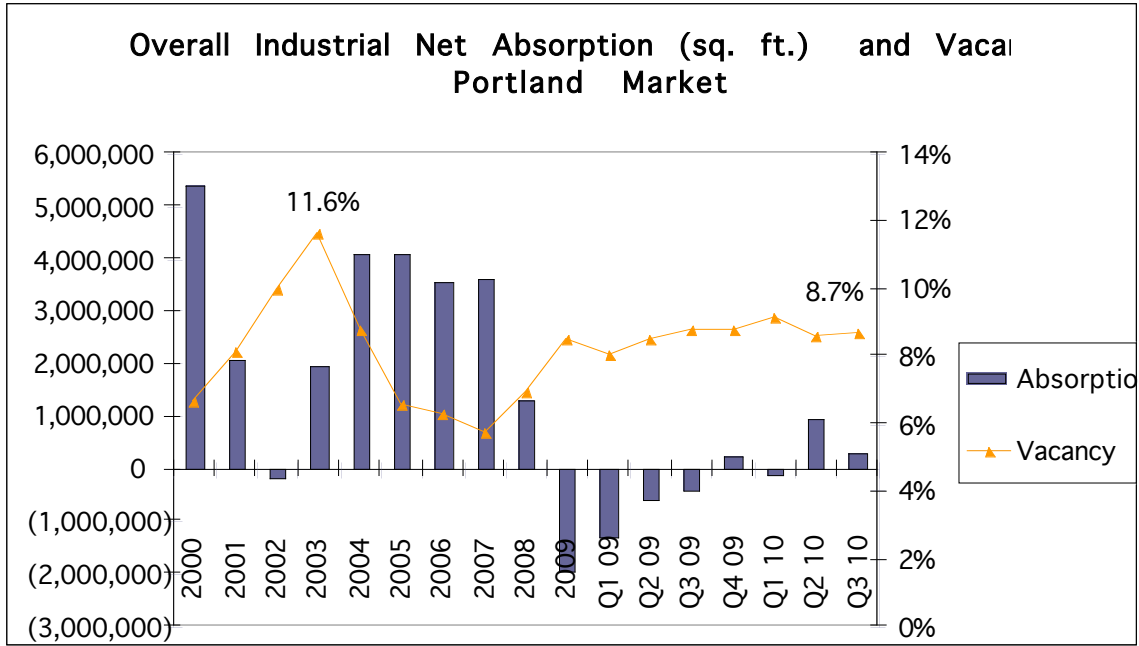
The Portland metropolitan industrial market experienced a slight vacancy rate increase and positive net absorption during the third quarter of 2010 according to Grubb & Ellis. During the quarter vacancy increased by 10 basis points to 8.7 percent, and there was positive net absorption of 276,809 square feet. Year-to-date net absorption in the metropolitan area is about 1,130,000 square feet, so if the trend continues through the fourth quarter the market could absorb 1.5 million square feet for the year. The market gave back about 1.7 million square feet of space during 2009 and the positive net absorption of the last two quarters have been reabsorbing that space.

Norris, Beggs & Simpson (NBS) reported different market data and conclusions in its Industrial/Flex Report than Grubb & Ellis did, which is common because they rely on different data sources. According to NBS, industrial vacancy remained stable at 15.2% with a positive net absorption of 9,992 square feet, while R&D/Flex vacancy increased by 70 basis points to 18.9 percent with 66,775 square feet of negative net absorption.

According to Grubb & Ellis, the warehouse and distribution sector of the market had positive net absorption of 600,341 square feet and vacancy decrease of 10 basis points to 8.4 percent. The R&D/Flex market posted a 323,532 square foot negative net absorption and a 100 basis point vacancy increase, bringing the sector to 9.8 percent vacancy. R&D/Flex rents have dropped \$0.06 to \$0.71 after increasing \$0.03 per square foot during the second quarter of 2010. The Clackamas submarket posted the largest changes with vacancy rates dropping from 8.4 percent to 5.7 percent

during the quarter according to Cushman & Wakefield. Clackamas tenants absorbed 200,000 square feet of additional space

Figure 1: Slightly increased vacancy rate with positive net absorption for the second straight quarter



Construction deliveries to the market totaled 606,000 square feet. The 415,000 square foot FedEx regional distribution hub was responsible for most of that space, and its delivery drops the construction pipeline down to only 60,000 square feet. None of the deliveries in the construction pipeline are speculative.

TA Associates sold its portfolio of Portland properties totaling 475,000 square feet, to Denver based REIT Industrial Income Trust. The trust reportedly paid \$28 million for the properties, indicating a cap rate change of between 50 and 100 basis points from the ProLogis portfolio which was sold in June of 2009. Other than that transaction, there was little sales activity during the quarter. There was however a few land sales like Farwest Steel’s purchase of 20 acres at the Port of Vancouver. The land was purchased for \$5.1 million and the company plans to build a \$30 million facility there.

Table 1: Industrial Market Vacancies and Rates, 2nd Quarter 2010

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-wide Vacancy	-	8.60%	8.60%	15.20%	8.60%
Previous Quarter	8.20%	8.70%	9.10%	14.60%	8.90%
Second Quarter 2009	8.10%	8.00%	8.50%	13.90%	8.30%
Second Quarter 2008	5.80%	6.30%	6.70%	N/A	6.30%
Warehouse/Distribution Vacancy	-	10.00%	8.50%	N/A	9.30%
Previous Quarter	-	10.40%	9.10%	N/A	9.80%
Second Quarter 2009	N/A	7.70%	8.60%	N/A	8.20%
Second Quarter 2008	N/A	5.80%	6.80%	N/A	6.30%
R&D/Flex Vacancy	-	10.00%	8.80%	18.20%	10.00%
Previous Quarter	-	-	9.20%	18.00%	13.60%
Second Quarter 2009	N/A	9.60%	7.90%	15.10%	9.60%
Second Quarter 2008	N/A	9.20%	6.50%	N/A	7.90%
Asking Monthly Shell Rates	-	N/A	\$0.41	N/A	\$0.41
Previous Quarter	\$0.39	N/A	\$0.41	N/A	\$0.40
Second Quarter 2009	\$0.40	N/A	\$0.41	N/A	\$0.41
Second Quarter 2008	\$0.39	N/A	\$0.42	N/A	\$0.41
Asking Monthly Flex Rates	-	N/A	\$0.77	N/A	\$0.77
Previous Quarter	\$0.75-\$1.00	N/A	\$0.74	N/A	\$0.74
Second Quarter 2009	\$0.85-\$1.05	N/A	\$0.80	N/A	\$0.80
Second Quarter 2008	\$0.85-\$1.06	N/A	\$0.82	N/A	\$0.82

Figure 2: 415,000 sf FedEx distribution hub delivered during third quarter

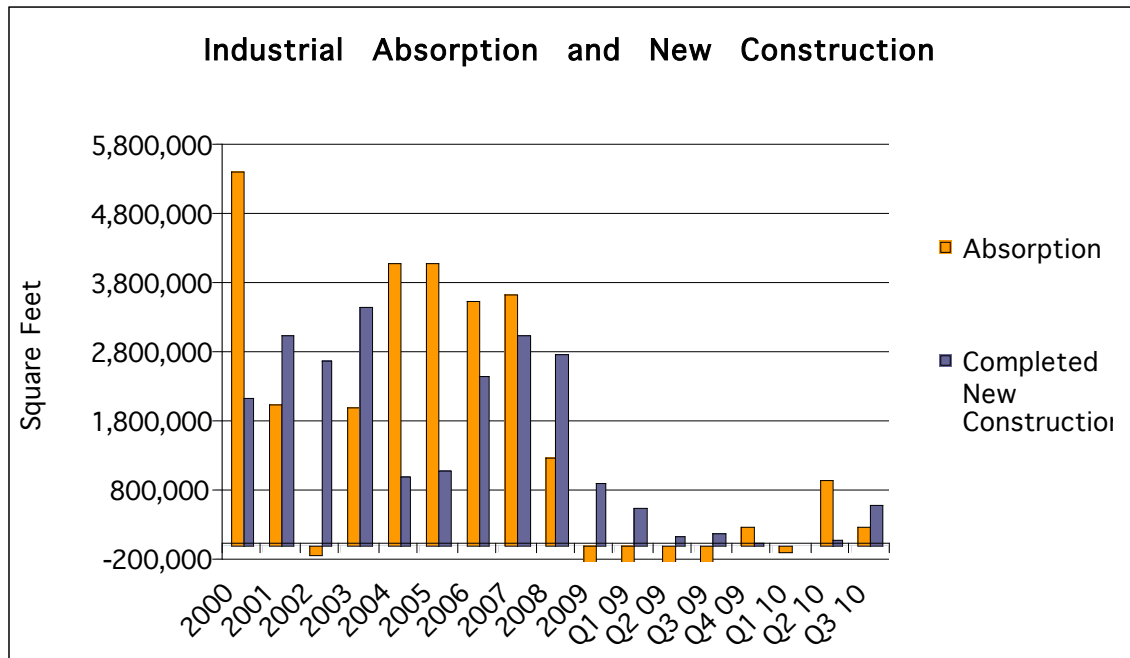


Table 2: Major Industrial Lease Transactions, 3rd Quarter 2010

Tenant	Property	Size (Sq. Ft.)	Submarket
Sunlight Supply	2501 Kotobuki Way	92,640	Central Vancouver
PFX Pet Supplies	Columbia Corporate Park	70,000	North/Northeast
Sky High Sports	11101-11131 SW Greenburg Rd.	45,000	Southwest 217
SERVPRO of Tigard/Tualatin	Nelson Business Center	38,505	Southwest I-5
Greenberry Industrial	Columbia Business Center - Bldg 40	32,576	Central Vancouver
Total		278,721	

Metro has been discussing adding additional industrial land within the Urban Growth Boundary and have said they would make a decision by the end of the year. Some are concerned that large parcels of industrial land are rare within the UBG, while those opposed to the proposal point to underutilized and brown field land which could be developed. In a preliminary recommendation, 310 acres of land west of Hillsboro was targeted for potential expansion by Metro. Currently there are only three industrial buildings with more than 200,000 square feet which are available to lease in the metropolitan area. Only one of these is within the city limits of Portland.

LaCrosse Footwear's Danner brand has been manufacturing boots and operating out of its 36,000 square foot Northeast Airport Way Road space for 20 years. An increase in boot orders caused the firm to split its operation between two new sites. One site is a 4,000 square foot building which has commercial space and a repair center. The other is a 59,000 square feet manufacturing center within a new 140,000 square foot building on Portland Way Road. The company spent \$9 to \$10 million on renovations and construction of the two buildings.