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## INDUSTRIAL MARKET ANALYSIS:

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Indicators suggest that the slow recovery for the industrial market in Portland continues, though most measurements show little change from the first quarter of 2011. Local unemployment dropped to a seasonally adjusted 8.8 percent in June, and the Bureau of Labor Statistics reports a 1.3 percent annual growth rate in manufacturing jobs. While this constitutes moderate growth by the most optimistic of standards, the numbers are just strong enough to categorize Portland's industrial market as being in recovery. Positive signs also include Port of Portland's reported 20 percent increase in shipping volume in the first half of 2011, and an Oregon Office of Economic Analysis forecast of 2.5 percent annual growth in jobs over the next two years.

The second quarter did represent a return to positive absorption, with 315,000 square feet reported by Grubb & Ellis. This quarter puts the industrial market just barely in positive territory for the year after a loss of 120,000 square foot in the first quarter. This absorption was barely enough to push Grubb & Ellis' reported vacancy down 10 basis points to 8.8 percent. The improved vacancy rate was boosted by very modest product delivery over the past three quarters. After no new industrial inventory hit the market in either the fourth quarter of 2010 or the first quarter of 2011, the second quarter saw a relatively modest 71,000 square feet of new construction. This compares with a 10 year quarterly average of just under 600,000 square feet of new delivery.

**Table 1: Industrial Market Vacancies and Asking Rents, Q2, 2011**

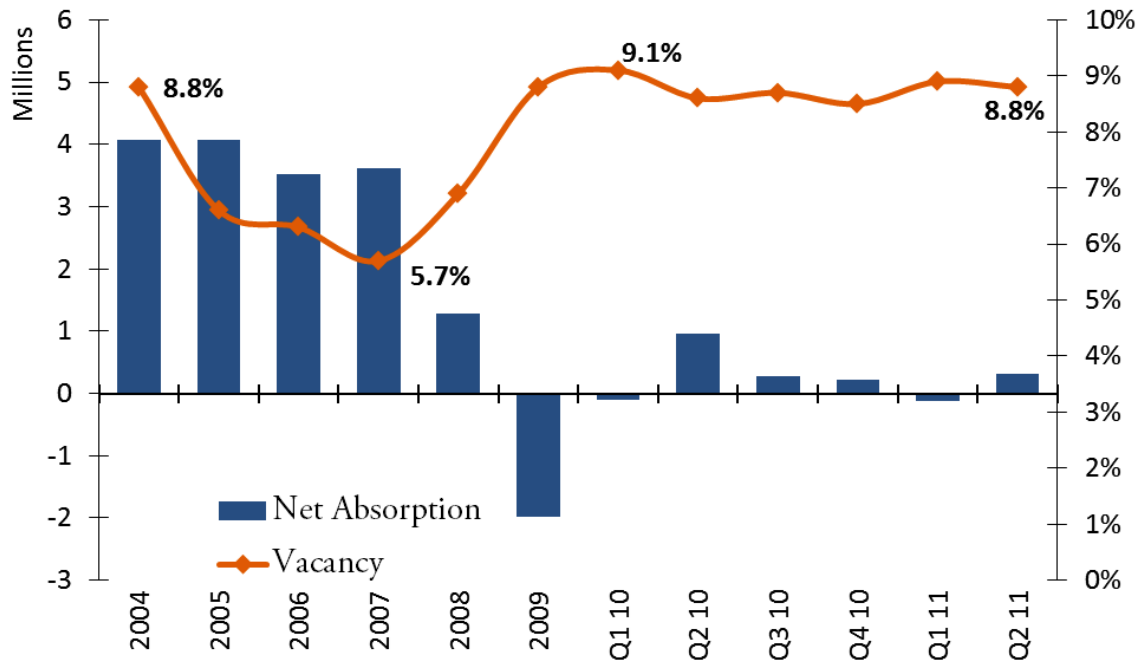
	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.2%	6.8%	8.8%	16.1%	8.4%	8.4%
Previous Quarter	8.1%	7.1%	8.9%	15.9%	8.5%	8.4%
Second Quarter 2010	-	8.6%	8.6%	15.2%	8.4%	8.5%
Second Quarter 2009	8.1%	8.0%	8.5%	13.9%	8.3%	8.3%
Warehouse/Distribution	-	-	10.9%	N/A	N/A	10.9%
Previous Quarter	-	-	10.5%	N/A	N/A	10.5%
Second Quarter 2010	-	10.0%	8.5%	N/A	N/A	9.3%
Second Quarter 2009	N/A	7.7%	8.6%	N/A	N/A	8.2%
R&D/Flex Vacancy	12.2%	-	9.8%	18.3%	N/A	12.2%
Previous Quarter	12.1%	-	10.7%	17.8%	N/A	12.1%
Second Quarter 2010	-	10.0%	8.8%	18.2%	N/A	10.0%
Second Quarter 2009	N/A	9.6%	7.9%	15.1%	N/A	9.6%
Asking Monthly Shell Rates	\$0.38	N/A	\$0.40	N/A	\$0.43	\$0.40
Previous Quarter	\$0.38	N/A	\$0.41	N/A	\$0.44	\$0.41
Second Quarter 2010	\$0.38	N/A	41.0%	N/A	\$0.45	\$0.41
Second Quarter 2009	\$0.40	N/A	41.0%	N/A	\$0.48	\$0.41
Asking Monthly Flex Rates	\$0.78	N/A	\$0.69	N/A	N/A	\$0.74
Previous Quarter	\$0.78	N/A	\$0.69	N/A	N/A	\$0.74
Second Quarter 2010	\$0.81	N/A	77.0%	N/A	N/A	\$0.79
Second Quarter 2009	\$0.93	N/A	\$0.80	N/A	N/A	\$0.87

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, and Kidder Matthews Quarterly Reports

The median vacancy between the five brokerages considered in this analysis remained steady at 8.4 percent in the second quarter. Among the five brokerages, three reported a drop in vacancy, and two reported a rise from the first quarter, but none made an adjustment greater than 30 basis points, leading to a sense that the market is treading water.

Norris, Beggs & Simpson reports vacancy rates in a different range, at 16.1 percent, up 20 basis points from the first quarter. They also report R&D/Flex vacancy rates jumping from 17.8 percent to 18.3 percent with negative 48,000 square feet of absorption. Norris, Beggs & Simpson vacancy rates for R&D/Flex have been steadily climbing since late 2008, when the category bottomed out at 13.2 percent vacancy.

**Figure 1: Overall Industrial Net Absorption (SqFt) and Vacancy (%) for Portland Market**



Source: Grubb & Ellis, Industrial Quarterly Reports

Grubb & Ellis showed a strong drop in vacancy in the R&D/Flex category, down 90 basis points to 9.8 percent, offsetting a 40 basis point jump to 10.9 percent vacancy for warehouse/distribution. Swan Island posted the lowest submarket vacancy at 5.2 percent (down from 5.8 percent in the first quarter) while the 217 Corridor in Beaverton & the I-5 South Corridor carry the highest, both above at 12 percent. While submarket vacancies varied across reports, these particular geographies were consistent in each.

Sunset Corridor had the highest overall absorption value of all Grubb & Ellis submarkets, adding 263,000 square feet, with three major transactions listed in Table 2, pushing overall vacancy down 60 basis points to 9.7 percent.

Clark County also posted strong absorption at 234,000 square feet, much of which is attributable to the Sapa Group's 142,000 square foot lease from the Port of Vancouver. Cushman & Wakefield reports the Rivergate District in North Portland as having the highest overall net absorption (161,806 square feet), highlighted by a 156,000 square foot lease by OIA Global Logistics at the Bybee Lakes Logistic Center. Despite this significant absorption, a rise in vacancy of 50 basis points to 9.8 percent was reported.

Rivergate currently awaits the opening of the 413,700 square foot Subaru distribution facility, training center and regional office next to Port of Portland's Terminal 6 between N. Marine Drive and the Columbia River. This facility will

replace Subaru's 175,000 square foot facility at 158<sup>th</sup> Commerce Park and was called "the largest built-to-suit transaction in Portland in a decade"<sup>1</sup> by the Portland Business Journal. Multi-Employer Property Trust (MEPT) holds a 55-year master lease on the land from the Port of Portland, and has contracted with Trammel Crow for development. The facility is expected to open in October.

In North Portland a \$340 million, 400,000 square foot solar manufacturing facility being proposed by SoloPower, expected to employ 200-500 people. Siting is still being considered and a plan for construction has yet to be announced.

**Table 2: Major Industrial Transactions, 2nd Quarter, 2011**

Tenant	Property	(Sq. Ft.)	Submarket
Washington Mgmt Company	19606 NE San Rafael St	812,240	Gresham
ABS Capital Management	21515 NW Evergreen Pkwy	302,000	Hillsboro
Grand & Benedicts Liquidators	2300 Se Beta St	207,615	Milwaukie
Evergreen Data Center LLC	21515 NW Evergreen Pkwy	176,800	Hillsboro
OIA Global Logistics	Bybee Lake Logistics Center	156,000	Rivergate
Sapa Group	Port of Vancouver	142,800	Vancouver
Radisys	5445 NE Dawson Creek	99,898	Hillsboro
Watumull Properties Corp.	6850 NE Campus Dr	83,414	Hillsboro
Bridgeport Distribution	Oregon Business Park III	69,737	Tigard
Bakemark	Rockwood Corporate Center	46,400	Gresham

\*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, Kidder Matthews and Cushman & Wakefield, Industrial Quarterly Reports, Q2 2011

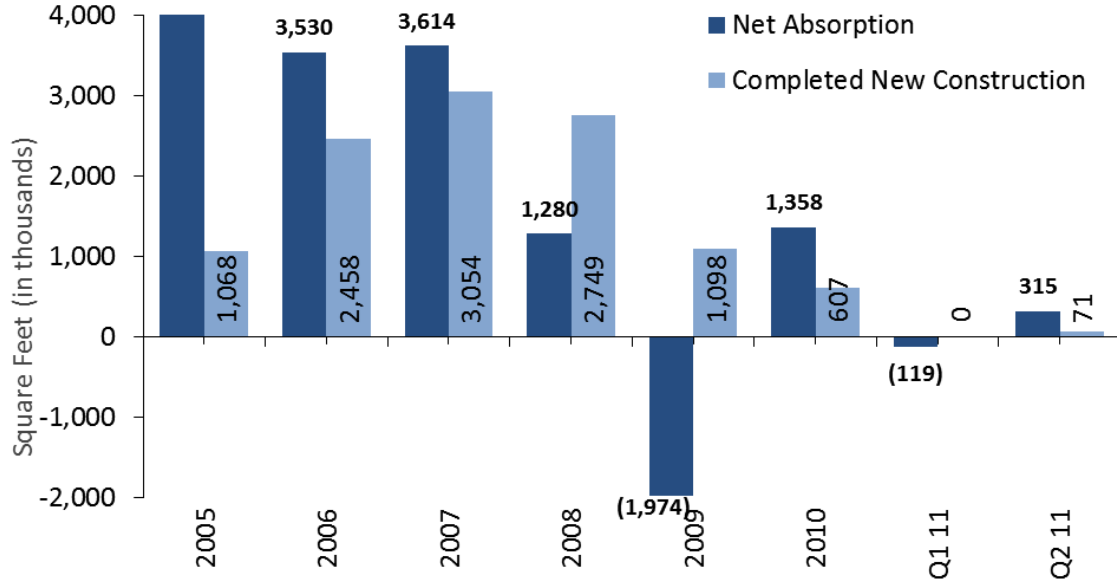
In mid-January, the City of Portland's hotly debated North Reach River Plan was remanded by the State of Oregon Land Use Board of Appeals back to the City Council based on an appeal filed by an industry group, the Working Waterfront Coalition.<sup>2</sup> Addressing the industrial banks of the Willamette River between the Broadway Bridge and the Columbia River, the plan's provisions included strong environmental restrictions through the zoning code, adoption of a new and detailed natural resource inventory, and various development requirements focused around creating a vegetative buffer between the river and industrial development on its banks. LUBA's remand of the plan to the City required, in part, a thorough Economic Opportunities Analysis, a step that Chief Planner Joe Zehnder has recently suggested will not be taken immediately and likely not take place until the comprehensive planning process.<sup>3</sup> This is expected to postpone any provisions of the plan from going into effect until 2013, at the earliest.

<sup>1</sup> Culverwell, Wendy. "Subaru inks blockbuster deal at Rivergate", *Portland Business Journal*, January 6, 2011

<sup>2</sup> Redden, Jim. "LUBA sends River Plan back to City Council", *Portland Tribune*, January 24, 2011.

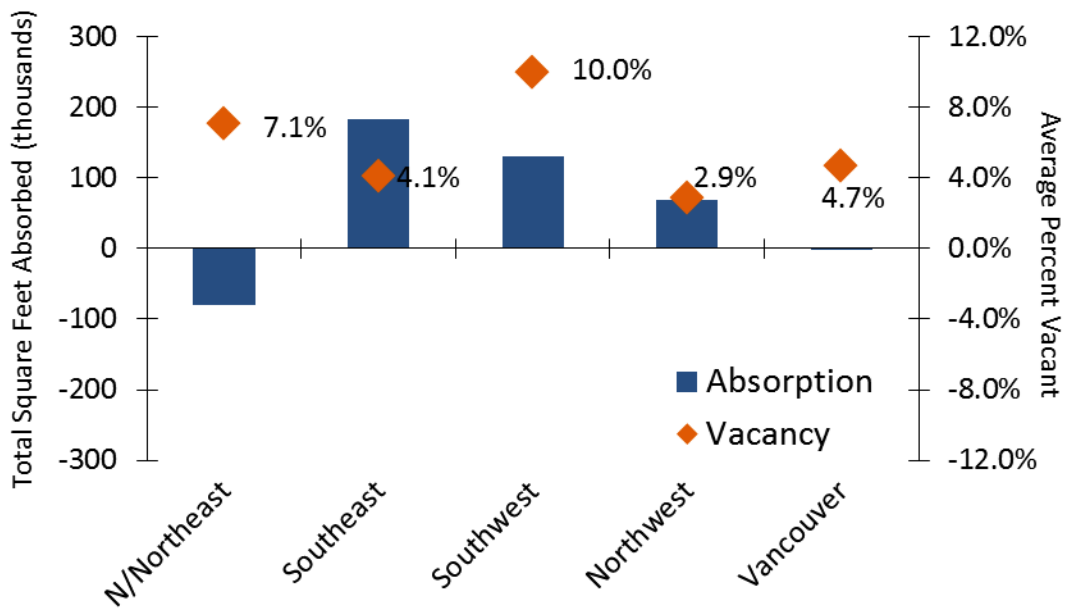
<sup>3</sup> Bjork, Nick. "City of Portland delays River Plan two years", *Oregon Daily Journal of Commerce*, June 30, 2011.

**Figure 2: Industrial Absorption and New Construction (SqFt)**



Source: Grubb & Ellis, Industrial Quarterly Reports

**Figure 3: Submarket Vacancy and Overall Absorption, Q2 2011**



Source: Cushman and Wakefield, Q2 2011 Industrial Quarterly Report