
INDUSTRIAL MARKET ANALYSIS:

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While nationwide concerns over the industrial economy continue, Portland indicators suggest hint at positive momentum, even as the pace of recovery seems sluggish. Metro unemployment dropped to a seasonally adjusted 9.1 percent in September, following a trend that led the metro area to private-sector job gains of 14,000 over the past four quarters, with the Bureau of Labor Statistics reporting a 1.9 percent rise in manufacturing jobs, year-over-year. Recent signs, however, show the pace of growth dropping off and mixed signals in an otherwise volatile time.

The third quarter brought strong positive absorption numbers and drops in vacancy across brokerages. Grubb & Ellis reported 578,000 square feet of net absorption, the strongest number seen since the second quarter of 2010. This represents a majority of gains seen this year based on a loss of 120,000 square feet in the first quarter. This pushed reported vacancies from Grubb & Ellis down 40 basis points to 8.4 percent across submarkets. Vacancy dropped across all brokerage reports considered, at a median value of 20 basis points. Warehouse/Distribution greatly outperformed the Flex category, with Grubb & Ellis showing a 90 basis point vacancy drop for Warehouse alongside a 110 basis point rise for Flex.

The improved vacancy rates were boosted by nearly non-existent product delivery over the past four quarters. No new industrial inventory hit the market in

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the first or third quarters of 2011, with only 71,000 square feet in the second quarter, compared with a 10 year quarterly average of just less than 600,000 square feet of new delivery per quarter.

Table 1: Industrial Market Vacancies and Asking Rents, Q3, 2011

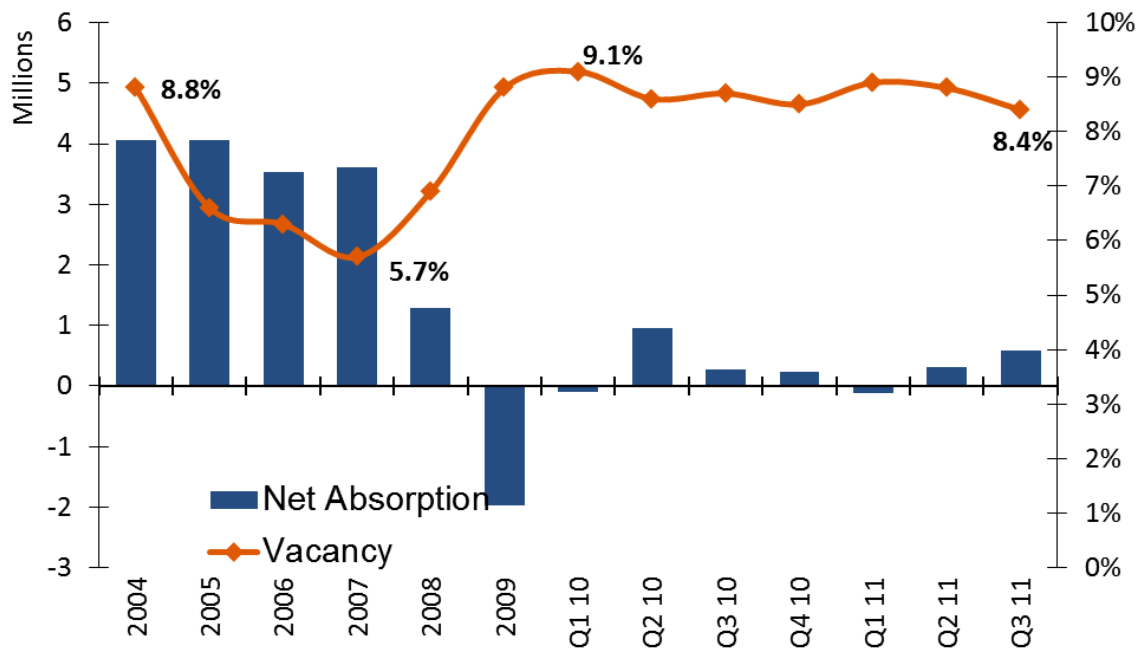
	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.1%	6.6%	8.4%	15.0%	7.7%	8.1%
Previous Quarter	8.2%	6.8%	8.8%	16.1%	8.3%	8.3%
Second Quarter 2010	-	8.6%	8.6%	15.2%	8.5%	8.6%
Second Quarter 2009	8.1%	8.0%	8.5%	13.9%	8.1%	8.1%
Warehouse/Distribution	-	-	9.8%	14.4%	N/A	12.1%
Previous Quarter	-	-	10.9%	N/A	N/A	10.9%
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	13.5%	-	10.9%	18.2%	N/A	13.5%
Previous Quarter	12.2%	-	9.8%	18.3%	N/A	12.2%
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	\$0.37	N/A	\$0.47	N/A	\$0.43	\$0.43
Previous Quarter	\$0.38	N/A	\$0.40	N/A	\$0.43	\$0.40
Second Quarter 2010	\$0.38	N/A	\$0.41	N/A	\$0.45	\$0.41
Second Quarter 2009	\$0.40	N/A	\$0.41	N/A	\$0.47	\$0.41
Asking Monthly Flex Rates	\$0.79	N/A	\$0.66	N/A	N/A	\$0.73
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 dropped 20 basis points to 8.1 percent in the third quarter. All brokerages reported drops in market wide vacancy, with Norris, Beggs and Simpson's vacancy figure falling a striking 110 basis points to 15.0 percent. It is important to note, however, that Norris, Beggs & Simpson's vacancy rates consistently vary significantly from the other reports considered due to the use of different source data. 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. In a break with a three year trend, Norris, Beggs & Simpson reports R&D/Flex vacancy rates dropping. This rate has been steadily struggling since late 2008, when the category bottomed out at 13.2 percent vacancy. This figure may be misleading, however, as both CB Richard Ellis and Grubb & Ellis show jumps in Flex/R&D vacancy of over 100 basis points. No meaningful adjustment in rental rates was seen in the third quarter, reflecting continued stagnation in pricing, but also a sign that what little demand has been seen is holding steady.

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



Source: Grubb & Ellis, Industrial Quarterly Reports

Swan Island posted the lowest submarket vacancy at 4.4 percent (down from 5.2 percent in the second quarter) while the 217 Corridor in Beaverton & the I-5 South Corridor carry the highest. Both saw drops of over 50 basis points from the second quarter. I-5 South Corridor posted the highest absorption of the submarkets, at 365,000 square feet, followed closely by NE/Columbia Corridor at 226,000 square feet, with a vacancy rate of 8.2 percent. While submarket vacancies varied across reports, these particular geographies were consistent in each. Following strong absorption numbers in the second quarter (263,000 square feet), Sunset Corridor experienced negative absorption of 88,000 square feet. Milwaukie/ Clackamas saw the worst absorption numbers, losing 143,000 square feet, pushing the submarket's year-to date net absorption to a negative 393,000 square feet, by far the hardest hit among Grubb & Ellis' submarkets.

Table 2: Major Industrial Transactions, 3rd Quarter, 2011

Tenant	Property	SqFt	Submarket
Georgia Pacific	Joe's Warehouse	275,391	Wilsonville
SoloPower	Marine Drive Distribution Center	225,250	Portland
PCC Structural's (expansion)	Commerce Park McLoughlin	91,481	Milwaukie
Tucker Rocky	Birtcher Center	76,491	Portland
Reading Group/ABC Dist.	4426 NE 158th	73,000	Portland
Aosom, LLC	6710 McEwan Rd	46,980	Lake Oswego
Worm's Way	Logisticourt at Portal Way	45,000	E Columbia Corridor
Tim Gallagher, LLC	217 Distribution Center	30,224	Portland

**Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Kidder Matthews Industrial Quarterly Reports*

In August, SoloPower cemented its long discussed location in Portland with the lease of a 225,250-square-foot building in North Portland's Rivergate District. The San Jose located firm has been considering Oregon for some time, and pulled back from plans to locate the thin-film solar plant in Wilsonville earlier this year. The Oregonian reports that the long-discussed project will benefit from:

"... \$14 million in state tax credits, a \$20 million state energy loan and an estimated \$16.5 million in tax abatements for locating in...a designated 'enterprise zone.' The company will also use part of a \$197 million loan guarantee from the U.S. Department of Energy to develop the Portland plant."¹

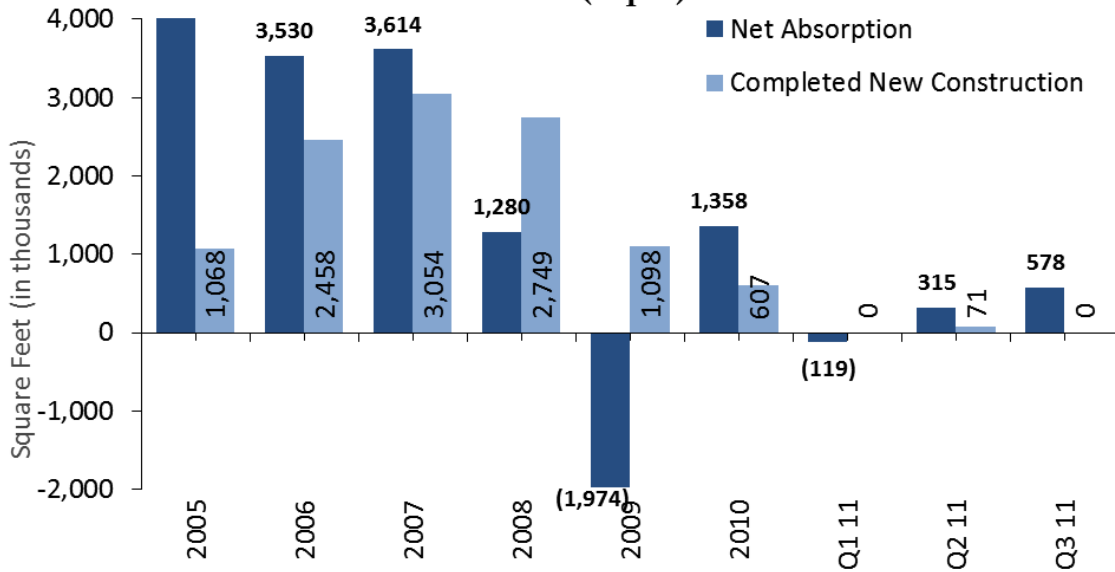
The \$340 million manufacturing facility is expected to employ 170 people at the outset, with the potential to grow to 500 in the coming years. The site is one of the few locations of its size currently available in the Portland market. Colliers third quarter report suggested that there are less than five large block options available for lease in the Portland market. As Tom Talbot of Kidder Matthews discussed the significance of the signing, "Now there are no other vacant buildings larger than 150,000 square feet anywhere in the North/Northeast Portland submarkets. Any large users may be forced to look to new construction as the only solution to operating in large spaces. Continued leasing of large blocks of space will certainly lead to lower vacancies and higher rents."

Rivergate also 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 158th Commerce Park and was called

¹ Njus, Elliot. "SoloPower leases 225,250 square feet in North Portland", *The Oregonian*, August 29, 2011

“the largest build-to-suit transaction in Portland in a decade”² 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 had been expected to open in October.

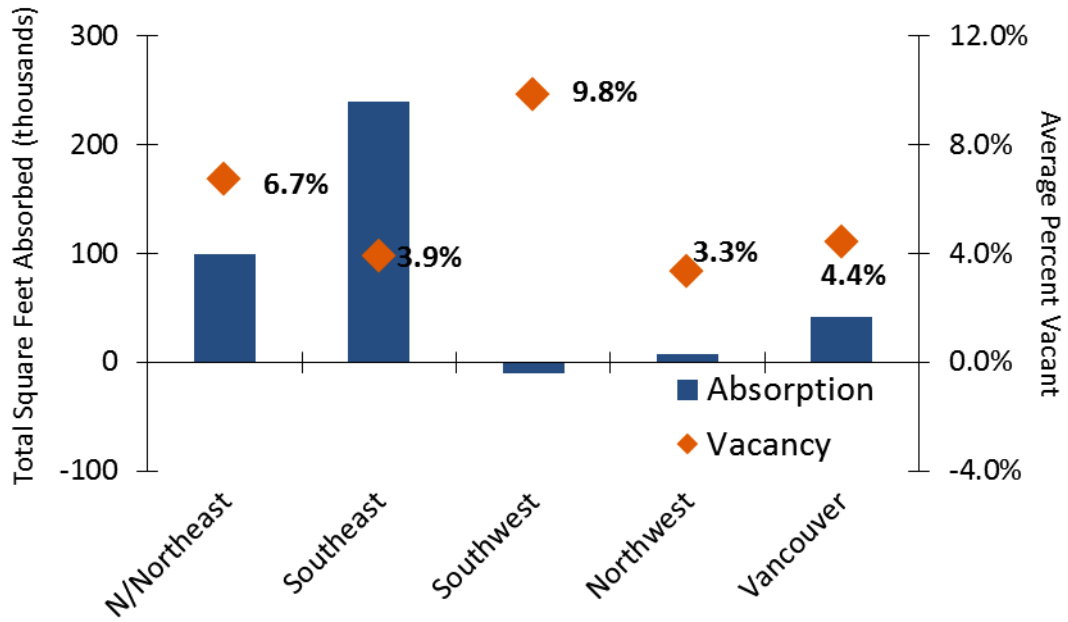
Figure 2: Industrial Absorption and New Construction (SqFt)



Source: Grubb & Ellis, Industrial Quarterly Reports

² Culverwell, Wendy. “Subaru inks blockbuster deal at Rivergate”, *Portland Business Journal*, January 6, 2011

Figure 3: Submarket Vacancy and Overall Absorption, Q3 2011



Source: Cushman and Wakefield, Q3 2011 Industrial Quarterly Report