
INDUSTRIAL MARKET ANALYSIS:

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In the first quarter of 2011, the Portland industrial real estate market continued to struggle to meet the definition of a recovery. Most major measures portray a local industrial market that is simply holding ground or worse, with few signs of substantial positive movement across brokerage analyses. The most encouraging signs for the coming year are found in national hints of an upswing in trade and manufacturing activity over the past three quarters. Nationally, industrial firm fundamentals are strong and have been improving for more than two years following decreased values of the dollar relative to other major currencies. But rising prices and uncertainty in oil loom large on the horizon and leave many questions as to whether such performance can continue.

CoStar reports a 10 basis point national drop in industrial vacancy to 9.9% with over 30 million square feet of net absorption in the last two quarters, a level of performance not seen since mid-2007. The Portland metro market has failed to keep this pace, however. Despite two consecutive quarters with no new delivery, vacancy either rises or remains flat in five reports considered.

Most industrial activity in the first quarter was owner or user driven. Absorption has been boosted by some industrial tenants taking the opportunity to downsize, upgrade, or improve locations based on low but stabilized rents across submarkets. As has been the case for the past few years, in a market favoring tenants, transactions times are long with owners making substantial concessions in rent and improvements in order to move product. Little to no speculative activity has taken place, as investors view industrial market opportunities warily. Based on

the lack of new speculative product on the market, several firms have chosen to undertake custom build projects to meet their own needs, with the most prominent being Subaru's 413,000 square foot build-to-suit project at Rivergate Corporate Center and McLane Foods' 165,000 square foot refrigerated expansion in Tigard.

Table 1: Industrial Market Vacancies and Asking Rents, Q4, 2010

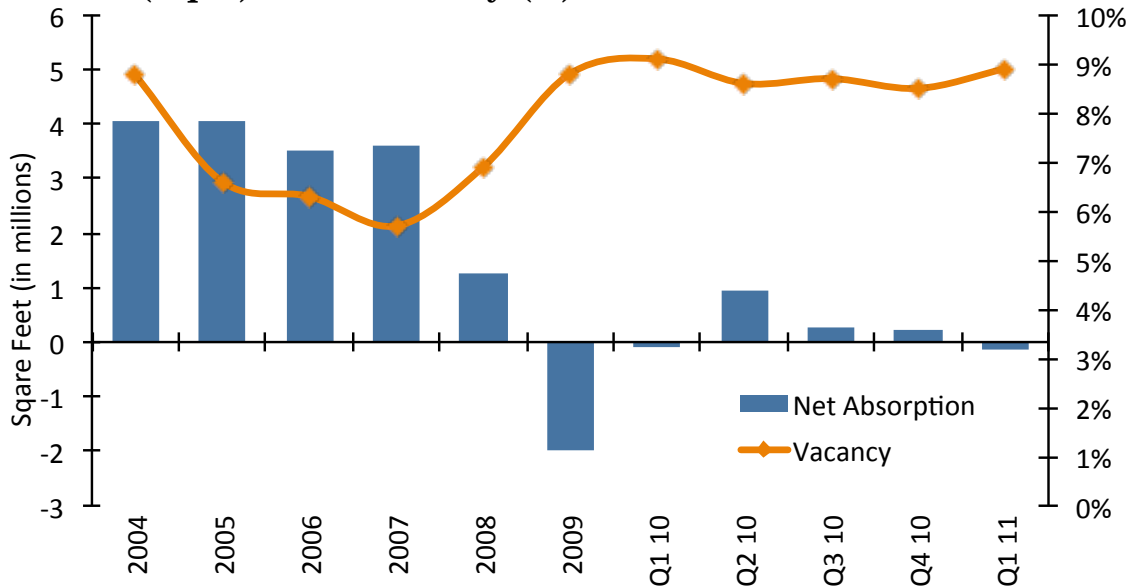
	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	8.1%	7.1%	8.9%	15.9%	8.4%	8.4%
Previous Quarter	8.1%	7.0%	8.5%	15.0%	8.5%	8.5%
First Quarter 2010	8.2%	-	9.1%	14.6%	8.4%	8.8%
First Quarter 2009	7.3%	7.6%	8.0%	13.0%	7.1%	7.6%
Warehouse/Distribution	-	-	10.5%	N/A	N/A	10.5%
Previous Quarter	-	-	8.2%	N/A	N/A	8.2%
First Quarter 2010	-	-	9.1%	N/A	N/A	9.1%
First Quarter 2009	8.0%	7.3%	8.2%	N/A	N/A	8.0%
R&D/Flex Vacancy	12.1%	-	10.7%	17.8%	N/A	12.1%
Previous Quarter	11.2%	-	9.8%	19.1%	N/A	11.2%
First Quarter 2010	-	-	9.2%	18.0%	N/A	13.6%
First Quarter 2009	10.1%	9.5%	7.2%	13.6%	N/A	9.8%
Asking Monthly Shell Rates	\$0.38	N/A	\$0.41	N/A	\$0.44	\$0.41
Previous Quarter	\$0.38	N/A	\$0.43	N/A	\$0.44	\$0.43
First Quarter 2010	-	N/A	\$0.41	N/A	\$0.45	\$0.43
First Quarter 2009	\$0.40	N/A	\$0.42	N/A	\$0.48	\$0.42
Asking Monthly Flex Rates	\$0.78	N/A	\$0.69	N/A	N/A	\$0.74
Previous Quarter	\$0.88	N/A	\$0.70	N/A	N/A	\$0.79
First Quarter 2010	-	N/A	\$0.74	N/A	N/A	\$0.74
First Quarter 2009	\$0.85-\$1.05	N/A	\$0.81	N/A	N/A	\$0.81

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

Grubb & Ellis report a 40 basis point hike in the vacancy rate to 8.9 percent in the first quarter, approaching the 9.1 percent peak seen in Q4 2010. The average vacancy between the five brokerages considered in this analysis rose 30 basis points. Only Kidder Matthews reported a drop in vacancy, though small at 10 basis points to 8.4 percent, while CB Richard Ellis held their rate steady at 8.1 percent. Consistent with prior reports and reflecting the use of different source data, Norris, Beggs & Simpson reports vacancy rates in a much higher range from other brokerages with a 90 basis point rise in the first quarter to 15.9 percent, a number higher than any seen in the past 5 years of their industrial reports. They also report

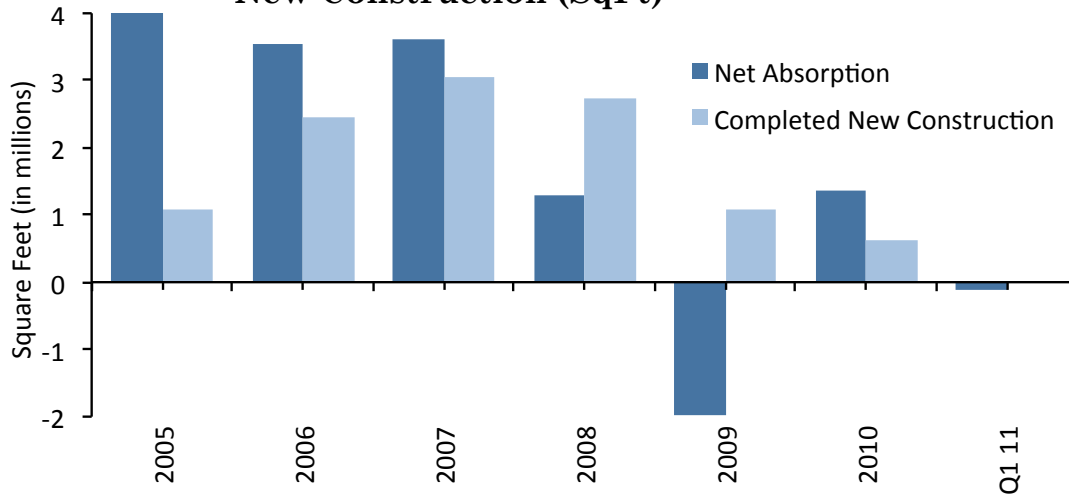
R&D/Flex vacancy rates dropping from 19.1 percent to 17.8 percent in the first quarter with positive 153,618 square feet of absorption, 101,182 square feet of which is within the Southwest Sunset submarket which dropped over 100 basis points in vacancy to 20.4 percent vacancy.

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



Source: Grubb & Ellis, Q1 2011 Industrial Quarterly Report

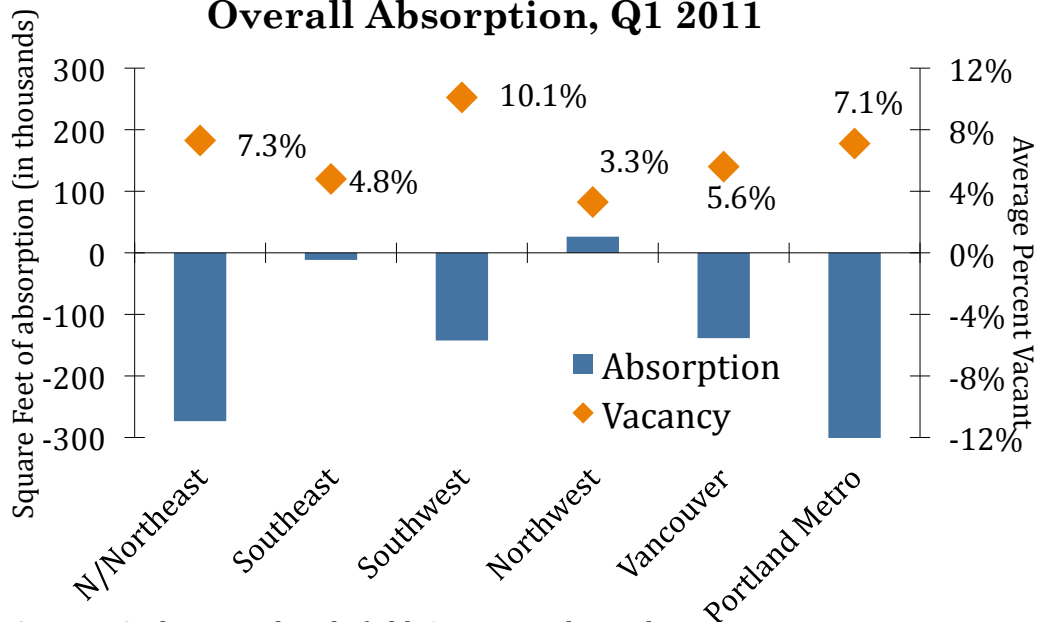
Figure 2: Industrial Absorption and New Construction (SqFt)



Source: Grubb & Ellis, Q1 2011 Industrial Quarterly Report

For all industrial categories, Southwest Sunset remains ahead in terms of vacancy at 6.4%, despite negative absorption over the last quarter. Notably, Norris, Beggs & Simpson vacancy rates for R&D/Flex had been steadily climbing since late 2008, when the category bottomed out at 13.2 percent vacancy, making a drop of this magnitude more significant. The Vancouver submarket reported a nearly 4 percent drop in R&D/Flex vacancy to a 15.6 percent, though the significance of this adjustment may be low given the small number of properties considered in their analysis.

Figure 3: Submarket Vacancy and Overall Absorption, Q1 2011



Source: Cushman and Wakefield, Q1 2011 Industrial Report

Grubb and Ellis report a large jump in vacancy for warehouse/ distribution at 230 basis points to 10.5 percent while Flex/R&D jumps 90 basis points to 10.7%. Swan Island and Close-In Southeast continue to post the lowest submarket vacancies at 5.8 and 6.4 percent respectively, though Swan Island experienced negative 88,718 square feet of absorption and a 360 basis point vacancy jump from the fourth quarter of 2010. The I-5 South Corridor and 217 Corridor in Beaverton had the highest vacancy rates at 12.4 and 12.3 percent respectively. Northwest Portland had the highest overall absorption value of all Grubb & Ellis submarkets, adding an impressive 264,643 square feet driving vacancy down 290 basis points to 6.8 percent.

Table 2: Major Industrial Lease Transactions, 1st Quarter, 2011

Tenant	Property	(SqFt)	Submarket
OIA Global Logistics (short-term)	Rivergate Logistics Center	113,989	Portland
RM Beverage Washington LLC	Columbia Business Center	58,178	Vancouver
RM (Maletis) Beverage	Columbia Business Center	58,172	Vancouver
Stag Parkway	Marine Drive Distribution Center	53,000	N/NE Portland
West Coast Event Productions	NW Naito Parkway	52,380	NW Portland
Power Freight Systems	PDX Corp Center	51,078	E Portland
Wilson Sporting Goods	NE Campus Drive	45,000	Hillsboro
CSI Geosynthetics	SE Columbia Way	43,286	Vancouver
Galaxy Wine Company	Guilds Lake	33,000	NW Portland

Source: Norris Beggs & Simpson, CB Richard Ellis, Kidder Matthews and Cushman & Wakefield Q1 2011