

INVESTMENT FORECAST

Office
Portland

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Headwinds Remain in Downtown Portland; Investor and Tenant Demand Accelerate Outside Urban Core

Suburbs provide an optimistic outlook. The recovery timeline in Portland remains in limbo as uncertainty stemming from the pandemic still looms over the metro's office sector. Many firms are deciding to reduce their office footprints or relocate to suburban submarkets, which severely impacts office fundamentals in the urban core. Since the onset of the health crisis, over 2.1 million square feet has been returned to the market, lifting the vacancy rate in Downtown Portland above 20 percent entering this year. Although office demand remains muted in the urban core, there has been significant momentum in the metro's suburbs. One of the largest leases in the metro's history was signed last September by ZoomInfo, committing to 366,000 square feet of space in Clark County. Additionally, Apple and Q5id each signed deals totaling at least 44,000 square feet in the Westside submarket. This uptick in leasing indicates that employers are betting on the long-term value of a physical office presence, which may influence a slow and steady increase in demand for space over the next few years.

Investors pursue assets with near-term lease certainty in the suburbs. Transaction velocity remains well below pre-pandemic levels as many investors are deciding to sit on the sidelines due to softening fundamentals in Portland's office market. Despite the decline in deal flow, sale prices are on the rise as buyers target stabilized assets to mitigate risk, compressing average cap rates to the high-5 percent span. Record high vacancy rates in the CBD are shifting investors' focus to Class B properties in suburban submarkets. Buyers are most active in the I-5 Corridor and Southwest Portland, where asking rents are growing at a pace above the market average. Assets in Southwest Portland are also highly sought after by yield-driven investors. Entry costs here generally fall well below the metro average with first-year returns in the low-7 percent range. Low vacancy rates are stimulating investment activity in the Clark County and Westside submarkets as well.

2022 Market Forecast

- Employment**
up 4.1%

Jobs in primarily office-using sectors account for about one-fourth of the metro's 50,000 new hires this year.
- Construction**
600,000 sq. ft.

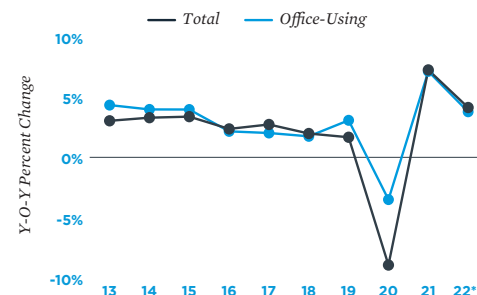
Annual completions fall below 1 million square feet for the first time in three years, as developers expand the metro's office inventory by 0.6 percent in 2022.
- Vacancy**
up 20 bps

Vacancy continues its upward trajectory, increasing for the third consecutive year. The rate will rise to 15.2 percent by year-end, following a 160-basis-point increase in 2021.
- Rent**
up 2.5%

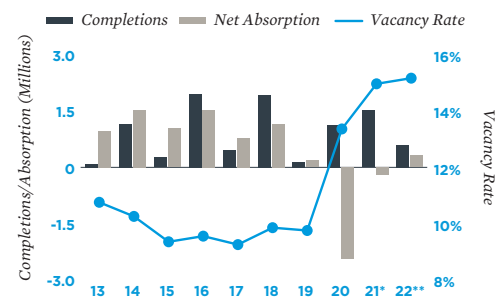
A modest uptick in the average asking rent is expected this year, though rising vacancy will limit gains. The mean marketed rate will move up to \$26.75 per square foot in 2022.
- Investment**

Medical office investment activity will accelerate this year as robust in-migration bolsters the need for health services and heightens buyer interest in these assets.

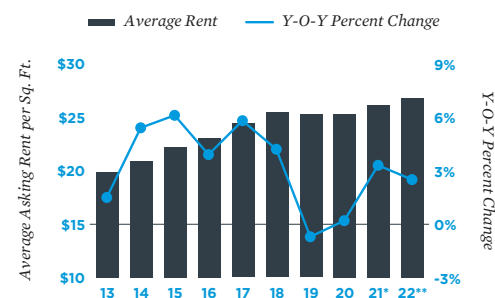
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.