

MARKET REPORT

Office
Portland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

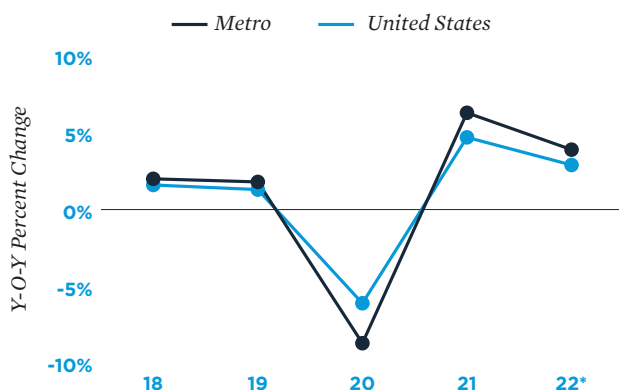
2Q/22

Bright Spots Emerge in Local Office Sector; Construction Concentrated Outside the Core

Suburbs outperform the urban core. The prevalence of remote work and safety concerns downtown during the health crisis prompted a flight to the suburbs that benefited submarkets like Clark County, Southeast Portland and the Westside. Here, local availability has fallen by at least 120 basis points over the past year ending in March. In contrast, the Portland CBD has experienced significant moveouts, as suburban locales offer firms reduced tax burdens relative to the urban core. Looking ahead, future demand in Downtown Portland is expected to improve. As more employers push for a return to offices, it is possible that demand for high-quality office space that includes amenities, such as outdoor space, fitness centers and dining options, rises. Furthermore, the use of concession packages may increase due to the CBD's high vacancy, which has the potential to attract firms seeking discounted Class A space.

Development activity moderates. Elevated buildings costs, labor shortages and difficulties surrounding office construction financing will combine to taper development significantly this year. As of June, just over 1 million square feet of space was underway throughout the metro, with completion dates extending into 2023. Projects slated for delivery in 2022 are concentrated in Clark County and Southeast Portland, with Advantis Credit Union's corporate campus in Oregon City headlining this year's pipeline. Limited supply additions in Downtown Portland should benefit local availability in the near term, as tenants are directed to existing properties.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**47,000
JOBS**
will be created

EMPLOYMENT:

Portland firms added nearly 15,000 positions through April, putting them on pace to increase headcounts by 3.9 percent in 2022. By year-end, total employment will be roughly 5,800 jobs above the pre-pandemic level.



**350,000
SQ. FT.**
will be completed

CONSTRUCTION:

Deliveries taper by more than 1 million square feet relative to last year's total as developers grow office inventory by just 0.4 percent. Approximately 80 percent of the space slated for delivery in 2022 was pre-leased as of June.



**40
BASIS POINT**
increase in vacancy

VACANCY:

Large blocks of sublet availability coming to the market continue to hinder vacancy. Although metrowide availability rises for the third consecutive year, the increase registered in 2022 is notably lower than the prior two years.

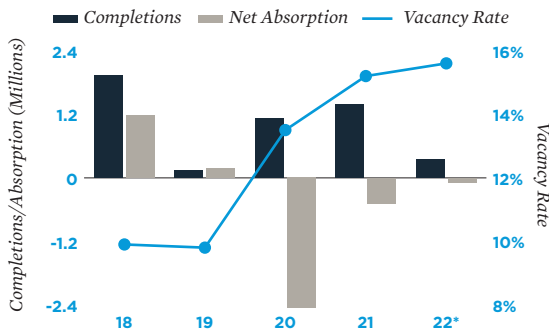


**2.0%
INCREASE**
in asking rent

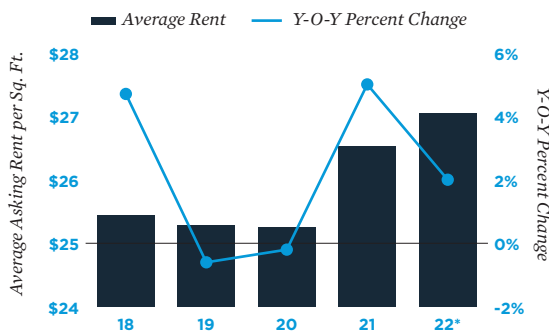
RENT:

The average asking rent increases on an annual basis for the second straight year, building off the 5 percent gain in 2021. The mean market rate will rise to \$27.05 per square foot by year-end, a new high for Portland.

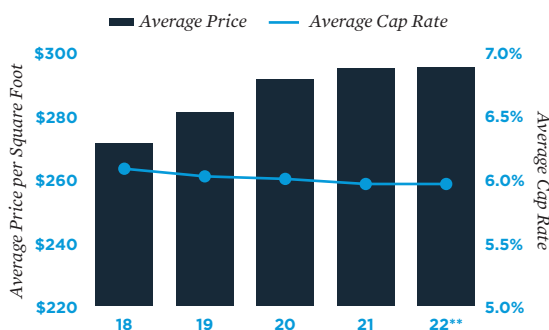
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

1,429,000 sq. ft. completed

- Developers expanded Portland's office inventory by 1.5 percent over the past year ending in March, driven by the 1 million square feet that delivered in the Westside submarket.
- Downtown Portland added just over 60,000 square feet of office space during this span.



VACANCY

130 basis point increase in vacancy Y-O-Y

- Over the past four quarters, metrowide availability rose to 15.9 percent, the highest rate in more than two decades.
- In the central business district, vacancy increased 430 basis points to 25.1 percent, while the suburban rate rose 20 basis points to 12.1 percent during the same time frame.



RENT

2.1% increase in the average asking rent Y-O-Y

- The I-5 Corridor recorded the fastest marketed rent growth in the metro over the past year, increasing nearly 10 percent to an average of \$31.17 per square foot, the highest among all submarkets.
- The average Class A asking rent rose 3.6 percent, while the average rate for available Class B/C space grew by just 0.8 percent.

Investment Highlights

- Despite the ongoing rise of metrowide vacancy, investor confidence is improving in Portland's office sector. Transaction velocity over the past four quarters surpassed the previous yearlong span by roughly 40 percent. However, deal flow remains below levels observed prior to the pandemic. The average sale price rose to \$295 per square foot, while the mean cap rate held steady. At 6 percent, the average first-year return in Portland is comparable to Seattle's mean yield, with local entry costs nearly \$100 per square foot lower on average.
- Numerous large-scale moveouts in the CBD have heightened investor interest in suburban locales. Clark County, Northeast Portland and Westside neighborhoods have each seen a notable uptick in buyer activity, as these areas are home to the lowest vacancy rates in the metro. Pricing here averages around \$250 per square foot, with cap rates that can rise as high as 7 percent. Assets are also highly sought after in the I-5 Corridor and Lloyd District, where mean asking rents are the highest in Portland.
- Buyers are still seeking opportunities in Downtown Portland as well, primarily targeting properties with less than 50,000 square feet that fall in the \$1 million to \$10 million price tranche.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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