

MARKET REPORT

Industrial
Portland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

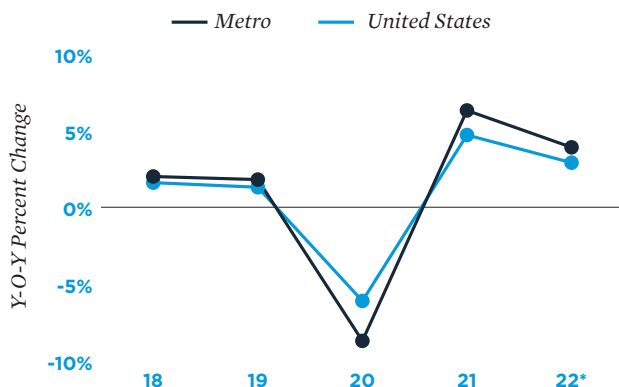
Midyear 2022

Supply Chain Constraints, In-Migration Bolster Need for Additional Industrial Space

Increased port activity bodes well for future demand. Entering the second quarter, metrowide vacancy was roughly 20 basis points below the pre-pandemic level, and the rate is projected to fall even further by year-end. Supply chain limitations are compelling companies to increase their domestic shipping capabilities, which, in turn, has benefited the local industrial sector. In response, the Port of Portland added a weekly container service from MSC in September 2021 to handle increased container traffic, due to logjams at other larger West Coast ports. Local officials have also committed resources to ramp up port-related marketing in an effort to attract more shipping partners moving forward. Additionally, robust population growth is expected to continue in the near term, heightening industrial user demand for properties well suited for last-mile operations.

Development accelerates. Supply additions are projected to nearly double relative to last year's pace, with roughly 70 percent of the active pipeline pre-leased as of June. Intel's expansion of its Ronler Acres campus represents one of the largest industrial developments in the past decade, delivering 1.5 million square feet in Hillsboro. On the speculative side, nearly 172,000 square feet is underway at the Vancouver Logistics Center in Clark County, while 138 Logistics Center in Northeast Portland will total just under 500,000 square feet. Both projects were unaccounted for entering July. However, recent leasing indicates solid demand for modern facilities exists.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook



**47,000
JOBS**
will be created

EMPLOYMENT:

Entering June, the unemployment rate in Portland was roughly 30 basis points above the two-decade low, sitting at 3.5 percent. Total employment is expected to surpass the pre-pandemic peak in 2022, as employers expand headcounts by 3.6 percent.



**2,780,000
SQ. FT.**
will be completed

CONSTRUCTION:

Deliveries surpass 2 million square feet for the third time in the past five years, with developers expanding industrial inventory by 1.4 percent. Projects slated for near-term completion are concentrated in Northeast Portland and the Westside.



**40
BASIS POINT**
decrease in vacancy

VACANCY:

Although deliveries will increase from 2021, high pre-leasing allows for metrowide vacancy to contract on an annual basis for the second consecutive year. The rate will compress to 3.6 percent, 30 basis points below the 2019 rate.

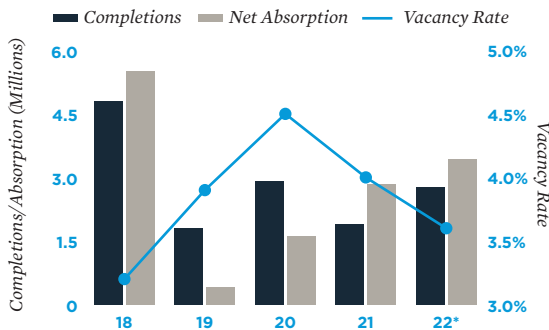


**6.6%
INCREASE**
in asking rent

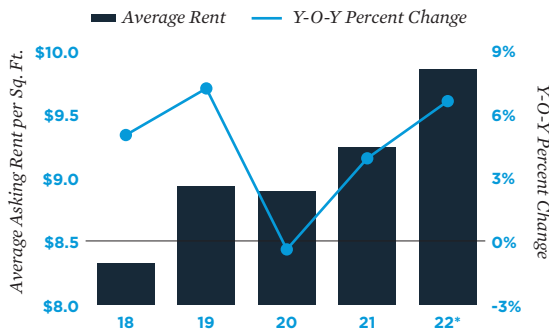
RENT:

Tightening market conditions will facilitate another year of solid rent growth, building off the 3.9 percent gain recorded in 2021. The average asking rate will rise to \$9.85 per square foot, a record mark.

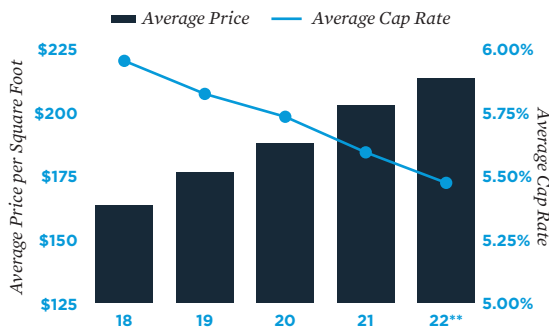
Supply and Demand



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

887,000 sq. ft. completed

- Supply additions over the past 12 months ending in March tapered significantly relative to the prior yearlong interval, with developers increasing industrial inventory by just 0.4 percent.
- Completions during this time frame were concentrated in Northeast Portland, Clark County and the Westside.



VACANCY

120 basis point decrease in vacancy Y-O-Y

- Vacancy compressed by at least 200 basis points in both Northeast Portland and the I-5 Corridor, lowering metrowide availability to 3.7 percent.
- Entering the second quarter, local vacancy in the Westside was nearly 100 basis points below the market average, despite the submarket's rate increasing 70 basis points over the past 12 months.



RENT

5.3% increase in the average asking rent Y-O-Y

- Robust leasing activity has helped facilitate healthy rent gains in Portland, with the average asking rate reaching \$9.56 per square foot in March.
- Southwest Portland, Yamhill County and Westside all notched double-digit rent growth. These locales are the metro's highest priced submarkets, with mean asking rates ranging from roughly \$12 to \$15 per square foot.

Investment Highlights

- Deal flow over the 12-month span ending in March was up over 20 percent relative to the prior yearlong stretch. Warehouses are being targeted most often. However, manufacturing and distribution facilities also garner buyer interest. Increased competition for available listings lifted the metro's average sale price by double digits to \$213 per square foot. This gain compressed Portland's mean cap rate by roughly 20 basis points to the mid-5 percent range.
- Northeast Portland has been the most liquid submarket as of late. Assets here are highly sought after, due to the locale's proximity to Portland International Airport, coupled with access to the Willamette and Columbia rivers. Local entry costs often rise above the market average, with yields that can fall to the low-4 percent span. The potential for increased container traffic at the Port of Portland moving forward may spur additional interest in the area over the coming quarters.
- Buyers targeting manufacturing and distribution facilities are active along the I-5 Corridor. Pricing for assets of these subtypes averages around \$190 per square foot, with first-year returns that generally fall in line with the market mean.

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