

MARKET REPORT

Office
Portland Metro Area

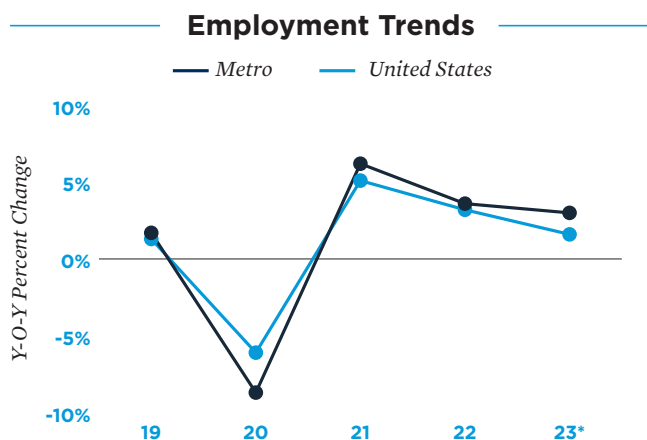
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

Some Office Tenants are Finding Favorable Opportunities Amid Recalibrating Property Metrics

Discounted rents aid core's office use. From April to June 2023, the CBD had 168,000 square feet of Class A space absorbed on net. This was the core's largest three-month total since the end of 2017, and resulted in the lowest annual rise in the local top-tier vacancy rate in over the past five years. Lower rents in historically-coveted core locations are supporting a tenant utilization recovery, with some office users finding options that are now within their budgets. In the CBD, the average Class A asking rate fell 2.8 percent since the onset of the pandemic, compared to a marketwide gain of 2.4 percent in the span. Recent commitments encouraged by these discounted rents include those made by Aon, Orrick, Miller Nash, and All Classical Radio. Alongside the boost to net absorption, move-ins like these will provide momentum for an economic recovery, as improving foot traffic signals more businesses to return to the CBD.

Vast majority of construction is in Clark County. As of September, nearly all of the 540,000 square feet underway was slated for one submarket. Still, prospective tenants in Clark County may be hard-pressed to find newly-built offices, as two-thirds of the space is pre-leased. Additionally, the local Class A vacancy rate fell to a record low of 7.7 percent in June, a dynamic that may steer tenants looking to lease high-quality offices to other submarkets that feature more newly-built vacant stock. The CBD is one of such areas, where deliveries added 213,000 square feet to the local total in the first half.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**37,000
JOBS**
will be created

EMPLOYMENT:

Overall job growth in 2023, at 3.0 percent, will nearly double the long-term mean. However, traditionally office-using firms add just 2,000 roles this year, less than one-half of the typical addition per annum in this sector.



**310,000
SQ. FT.**
will be completed

CONSTRUCTION:

Deliveries taper to a four-year low in 2023, as stock expands by 0.3 percent annually. A mere 17,000 square feet is slated for completion during the second half, which will be the lowest final six-month total since 2013.



**190
BASIS POINT**
increase in vacancy

VACANCY:

Marketwide, vacancy will lift to 17.9 percent this year. As the Class B/C metric rose 100 basis points from April to June amid nominal supply additions, further elevation may primarily arise from these floor plans.

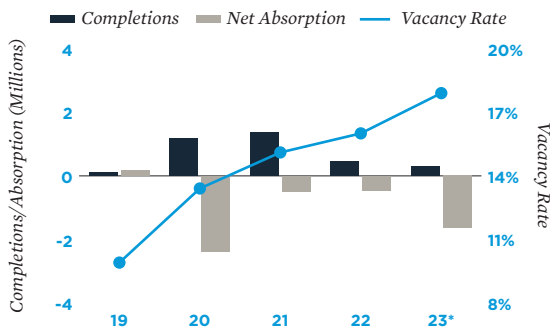


**2.0%
DECREASE**
in asking rent

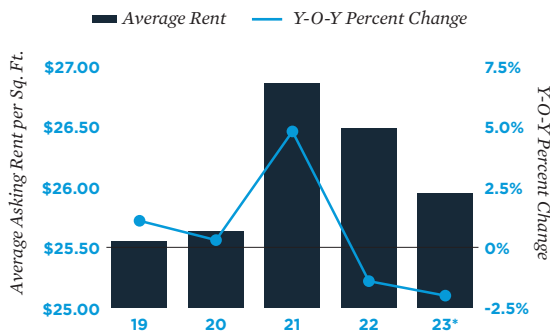
RENT:

The average asking rent falls to \$25.95 per square foot in 2023. Northeast Portland and the I-5 Corridor, which noted 1.7 percent growth in the first half, may sustain momentum as they anticipate no completions of note.

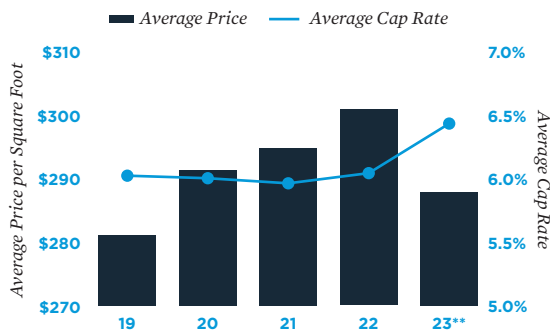
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

431,000 sq. ft. completed

- The CBD's 293,000-square-foot delivery slate comprised most of the 0.4 percent stock expansion noted by Portland over the year ended in June.
- Southeast Portland and Clark County were the only other submarkets that had any completions of note during the span. Supply additions in each sub-market totaled 76,000 and 62,000 square feet, respectively.



VACANCY

150 basis point increase in vacancy Y-O-Y

- Vacancies in the Westside and Southeast Portland each increased by more than 200 basis points, propelling the marketwide rate up to 17.3 percent.
- Clark County and Northeast Portland were two of only three Pacific Coast submarkets with 5 or more million square feet of office stock and sub-7 percent vacancy. The other was South Bay in San Diego.



RENT

1.8% decrease in the average asking rent Y-O-Y

- While the average Class A and B/C asking rates fell at the same clip, lowering the overall mean market rate to \$26.15 per square foot, a comparatively higher number of submarkets noted growth among top-tier options.
- The mean Class A rent jumped by more than 4 percent in Southeast Portland and Clark County, and fell beyond 3 percent in the CBD and Westside.

Investment Highlights

- Portland's average per-square-foot office price was \$288 for trades made during the year ended in June, marking a 3 percent fall from the prior period, and the metro's lowest benchmark since 2019. The reduction primarily arose from the CBD, where a larger portion of Class B assets trading pulled entry costs for most deals under \$160 per square foot. Still, this activity is buoying local investment as more transactions have been completed in the core over the first eight months than in the entirety of 2022.
- More offices have changed hands in downtown Vancouver through the first eight months of 2023 than in any of the past five years. Investors targeted Class B and C assets here, with much of the deal flow originating from 1031 exchanges. The ongoing construction of the Vancouver Waterfront district will continue to be a significant draw for buyers here, with its build-out already motivating headquarter relocations from the likes of ZoomInfo.
- Portland's crisis standards of health care, enacted late 2022, limited off-site visits and contributed to flattening medical office trades in 2023. Still, trades could pick up, as Portland is expected to report improved net in-migration this year, which will increase the need for health services overall.