

INVESTMENT FORECAST

OFFICE
Portland Metro Area

IPA
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ADVISORS

2020

Portland Office Market Offers Mix of Traditional Stability and Tech-Fueled Growth

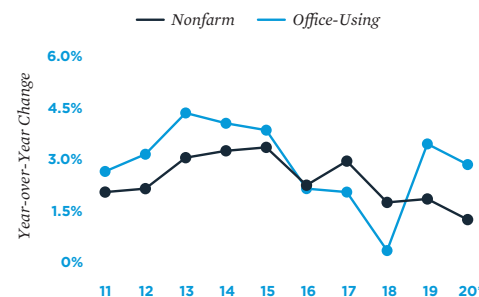
Divergent trends between suburban and CBD office space define the 2020 outlook. Portland suburban office market is emblematic of slower moving, traditional office space. Vacancy is well below 8 percent, supporting much healthier rent growth than found in the CBD. Nonetheless, leasing activity tends to move at a slower pace as tenants have shorter time horizons and occupy significantly smaller footprints. The average rent for suburban space is approximately 30 percent lower than those in the CBD, providing tenants facing sticker shock at lease renewals an alternative to core assets. In fact, the average rent in the CBD soared 42 percent since 2012, when many expiring leases were inked. The metro's core office market is akin to some of the white-hot tech office districts in other West Coast markets. Creative space draws high-profile tenants, including Google and Amazon, though ancillary and supportive firms have been slow to backfill smaller footprints, keeping vacancy elevated and rent growth stable.

Investment market offers variety of strategies due to disparity between core and suburban office trends. Local investors are the primary buyers of suburban assets due to their ability to navigate the traditional office landscape and their connections to tenants. Furthermore, out-of-state buyers searching for a dynamic, tech-driven office market hesitate when completing due diligence on suburban offerings. The average rent, for example, has advanced approximately 32 percent since 2012, well below the pace of gains in the CBD. Institutional capital tends to migrate into creative space in the city's core office districts. Although a supply overhang in the core could take nearly a year to dissipate, the presence of these investors is unlikely to diminish in the near term due to the market's traditional strength. The average cap rate entering the year is near 6 percent, with a 50- to 100-basis-point swing between suburban and core locations.

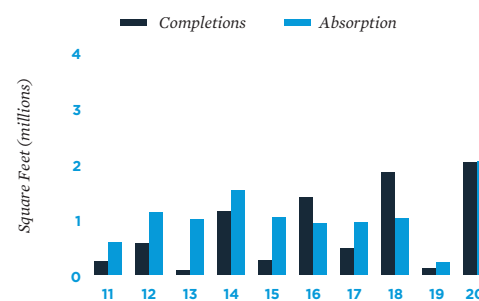
2020 Market Forecast

- Employment** up 1.2%  After generating 22,300 jobs last year, employers are expected to create 15,100 positions in 2020. Office-using employment ticks up 2.8 percent, or by 3,100 jobs.
- Construction** 2.0 million sq. ft.  Developers contribute 2.0 million square feet of office space to existing stock this year, up from approximately 100,000 square feet in 2019. Pre-leasing stands at nearly 75 percent.
- Vacancy** down 20 bps  Vacancy tightens to 9.7 percent by year end, matching the 20-basis-point decline in the rate recorded last year.
- Rent** up 3.2%  Rent growth accelerates from 1.5 percent in 2019. The average asking rent reaches \$28.10 per square foot in 2020.
- Investment**  Investors seeking stabilized properties will target Class B assets in suburban office districts near major thoroughfares while institutional capital awaits top-tier listings in the city's core.

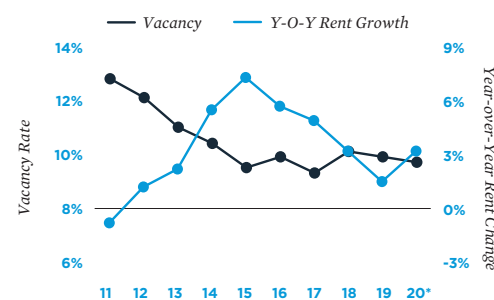
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.