Colliers

Portland

Office 24Q1

Key Takeaways

- Shorenstein Properties sold Kruse Way Plaza I & II to Directors Mortgage who had been the majority tenant in Kruse Way Plaza II. At a price of $23 million, the two buildings, totaling 105,400 square feet, traded at $218 per square foot. Colliers represented the seller.
- Relocating within northwest Portland, Jaguar Land Rover signed a 50,000 square foot lease at the Redfox Commons, an adaptive re-use project developed by Langley Investments. Colliers represented the tenant.
- The I-5 South, Eastside, and Clark County submarket clusters all experienced positive demand, as measured by net absorption, in Q1 2024. The emergence of positive demand paints an optimistic outlook that vacancy rates may have peaked in those submarkets.

		YOY	FORECAST
Vacancy Rate	22.5%	▲	▲
Net Absorption	-893K SF	▼	▲
Under Construction	525K SF	▲	▼
CBD Class A Asking Lease Rates (FSG)	$38.45/SF	▲	▼

Summary

The greater Portland office market added more than 893,000 square feet of vacant space through negative net absorption in the first quarter of 2024, pushing the overall vacancy rate to 22.5%. The negative net absorption experienced in the first three months of 2024 is equal to 58% of the 2023's total negative net absorption figure. Portland's Central Business District (CBD) experienced the greatest increase of vacant office space, as occupiers gave back 475,000 square feet increasing the submarket's total vacancy rate to 32.5%. In total, 35% of the office inventory in the CBD is available for lease. The Westside submarket cluster experienced an outsized surge in vacancy as Nike completed their migration back to their newly expanded Washington County campus. The market-wide sublease availability rate continues to hover near historic highs but saw a slight 10 basis point decrease, falling to 3.5%. Across the greater Portland office market total leasing activity fell 10% when compared to the same period a year prior. The average lease size shrunk by 4% during this same period.

Market Indicators

4.38% Unemployment Rate

2.65% GDP change YOY

1.42% Employment growth change YOY

Market Graph

Market Fundamentals - Net Absorption, New Supply, Total Vacancy

Source: Colliers

Historic Comparison

	23Q1	23Q4	24Q1
Total Inventory (in Thousands of SF)	67,986	68,561	68,558
New Supply (in Thousands of SF)	134	158	0
Net Absorption (in Thousands of SF)	-446	-654	-893
Overall Vacancy	19.9%	21.3%	22.5%
Under Construction (in Thousands of SF)	258	525	525
Overall Metro Asking Lease Rates (Gross)	$30.14	$32.48	$31.79

Central Business District Class A Rent Trends

Counterintuitive to typical supply and demand dynamics, average rental rates on a full-service gross basis have continued to climb upwards despite the staggering negative net absorption and rising total vacancy rates that the greater Portland office market has experienced in the last four years. This rent growth has been particularly pronounced among Class A properties in the CBD, where rents increased by 7.5% year-on-year in Q1 2024. While demand for downtown office space has been muted, what little demand there is has been concentrated on highly amenitized Class A space putting slight upward pressure on rates for those spaces. However, the most significant influence on increase of rental rates is the rapid escalation of operating expenses. Between the Q1 2023 and Q1 2024 quoted Class A operating expenses for triple net listings in the CBD increased by 22.5% to an average of $14.05 per square foot. This increase in operating expenses far outpaces the measured rent growth in the same period adding further strain on the operating fundamentals of an already challenged downtown office market.

Portland Office Market - CBD, Class A
Avg. Direct Asking Rate (FSG) & OpEx per Sq. Ft. (NNN Listings)

Source: Colliers

The avg. Direct Asking Rate (FSG) includes NNN rent rates grossed up using quoted operating expenses

+22.5% CBD Class A Operating Expense YoY Change

+7.5% CBD Class A Avg. Direct Rent (FSG) YoY Change

Forecast

The greater Portland office market continued to trend downward in the first quarter of 2024. As tenants are expected to continue giving back space at a pace greater than new leases will absorb the existing the vacancy, total vacancy will continue push upward to unprecedented levels. As buildings continue to hand keys back to lenders and sell out of foreclosure, there will be an opportunity for a resetting of base asking rates. This reduction in base rates and wide variety in available will further lower the barrier of entry for firms looking for office space. This trend will be most pronounced in Portland's downtown as the suburban submarkets have shown initial signs of potentially reaching equilibrium. Investors will have a window to acquire these distressed downtown office assets at a favorable basis. In the same turn, existing operators who successfully navigate the market's choppy waters should see some relief in financing constraints as the Federal Reserve has signaled the possibility of up to three interest rate cuts in the back half of the year.

Recent Transactions

SALE
Kruse Way Plaza I & II
I-5 South
105,431 SF
$23,000,000
Colliers transaction

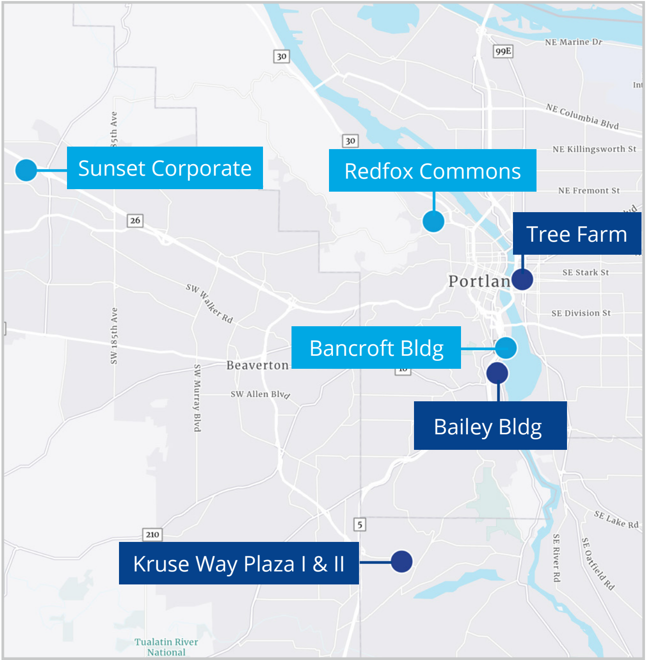
SALE
Tree Farm*
CBD Perimeter
40,026 SF
$5,073,750

SALE
The Bailey Building
CBD Perimeter
11,600 SF
$2,500,000

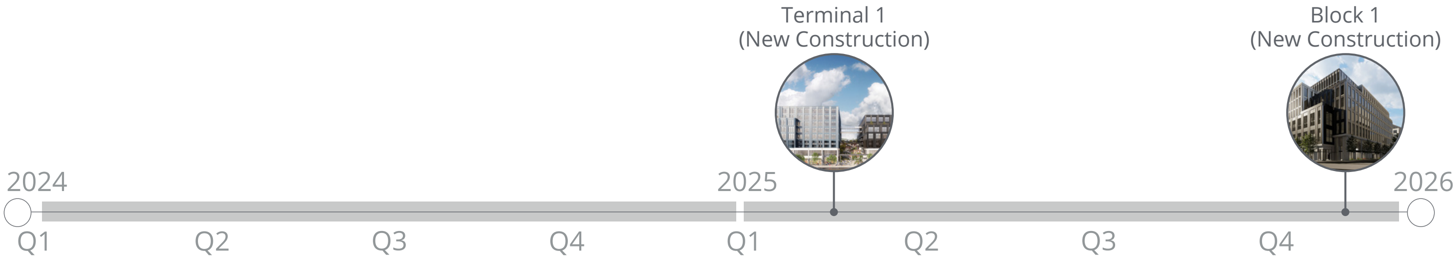
LEASE
Jaguar Land Rover
Redfox Commons
CBD Perimeter
50,000 SF
Colliers transaction

LEASE
Planar Systems, Inc.
Sunset Corporate Park, Building C
Westside
45,414 SF

LEASE
Tesla
Bancroft Building
CBD Perimeter
43,216 SF



Under Construction



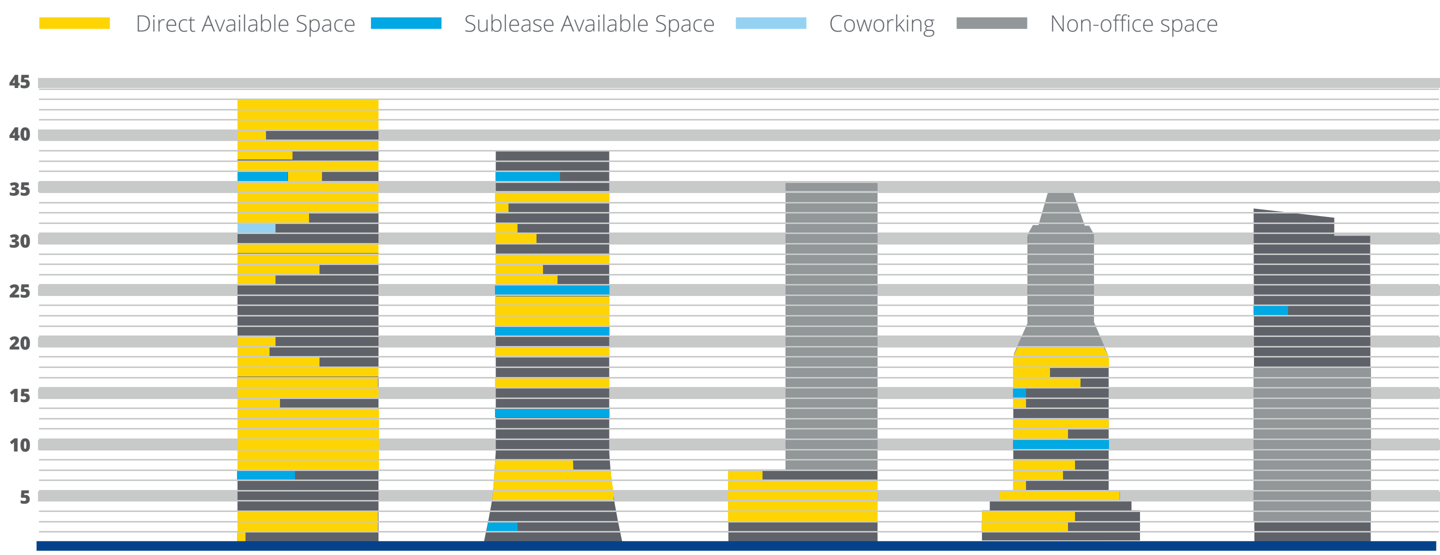
Property	Submarket	Developer/Owner	Project Type	Size (SF)	Delivery
Terminal 1	Clark County	Lincoln Property Company	New Construction	360,000	Q1 2025
The Waterfront - Block 1	Clark County	Lincoln Property Company	New Construction	165,000	Q4 2025

Notable Deliveries

Property	Submarket	Developer/Owner	Project Type	Size (SF)	Delivery	Preleased
Troy Laundry Building	CBD Perimeter	AJ Capital Partners	Renovation	51,010	Q1 2024	65.7%

* auction sale

Premier Skyline Availability



	U.S. BANCORP TOWER	WELLS FARGO CENTER	BLOCK 216	KOIN TOWER	PARK AVENUE WEST
Address	111 SW 5th	1300 SW 5th	900 SW Washington	222 SW Columbia	760 SW 9th
Avail. Office Space	547,680 SF	248,436 SF	129,706 SF	175,100 SF	4,042 SF

	PACWEST CENTER	FOX TOWER	MODA TOWER	SIXTH + MAIN	UMPQUA BANK PLAZA
Address	1211 SW 5th	805 SW Broadway	601 SW 2nd	1050 SW 6th	1 SW Columbia
Avail. Office Space	226,687 SF	147,349 SF	56,717 SF	177,560 SF	94,433 SF

Portland | 24Q1 | Office | Market Statistics

Class	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
Downtown (CBD & CBD Perimeter)											
Class A	16,804,152	30.6%	5.7%	36.2%	32.6%	31.7%	(177,883)	(177,883)	-	-	$38.81
Class B	14,530,683	27.6%	3.3%	30.9%	29.9%	28.1%	(288,115)	(288,115)	-	-	$28.42
Class C	4,502,696	20.9%	0.6%	21.4%	19.9%	19.2%	(29,712)	(29,712)	-	-	$23.55
Total	**35,837,531**	**28.1%**	**4.1%**	**32.2%**	**29.9%**	**28.7%**	**(495,710)**	**(495,710)**	**-**	**-**	**$33.26**
Suburban (Westside, I-5 South, Eastside, Clark County)											
Class A	8,900,756	16.6%	4.2%	20.8%	16.4%	16.2%	(38,839)	(38,839)	525,000	-	$30.54
Class B	18,873,610	12.5%	3.1%	15.6%	15.9%	13.9%	(377,142)	(377,142)	-	-	$27.59
Class C	4,946,134	5.9%	0.0%	5.9%	5.3%	5.7%	18,518	18,518	-	-	$21.23
Total	**32,720,500**	**12.6%**	**3.0%**	**15.5%**	**14.4%**	**13.3%**	**(397,463)**	**(397,463)**	**525,000**	**-**	**$28.20**
Greater Portland											
Class A	25,704,908	25.7%	5.2%	30.9%	27.0%	26.4%	(216,722)	(216,722)	525,000	-	$36.97
Class B	33,404,293	19.0%	3.2%	22.2%	22.0%	20.0%	(665,257)	(665,257)	-	-	$28.12
Class C	9,448,830	13.0%	0.3%	13.3%	12.2%	12.1%	(11,194)	(11,194)	-	-	$23.01
GRAND TOTAL	**68,558,031**	**20.7%**	**3.5%**	**24.2%**	**22.5%**	**21.3%**	**(893,173)**	**(893,173)**	**525,000**	**-**	**$31.79**

Submarket Clusters | 24Q1| Office | Market Statistics

Class	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
CBD											
Class A	13,563,684	31.8%	4.2%	36.0%	31.5%	30.4%	(142,080)	(142,080)	-	-	$38.45
Class B	9,003,985	31.8%	4.0%	35.8%	35.1%	31.6%	(321,303)	(321,303)	-	-	$27.74
Class C	2,626,950	27.3%	0.8%	28.1%	26.7%	26.3%	(11,662)	(11,662)	-	-	$24.78
Total	**25,194,619**	**31.3%**	**3.8%**	**35.1%**	**32.3%**	**30.4%**	**(475,045)**	**(475,045)**	**-**	**-**	**$33.32**

Submarket Clusters | 24Q1 | Office | Market Statistics

Class	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construc-tion	Deliveries YTD	Avg Direct Asking Rate (FSG)
CBD Perimeter											
Class A	3,240,468	25.6%	11.8%	37.4%	37.5%	37.1%	(35,803)	(35,803)	-	-	$40.67
Class B	5,526,698	20.7%	2.1%	22.8%	21.6%	22.3%	33,188	33,188	-	-	$30.13
Class C	1,875,746	11.9%	0.2%	12.1%	10.3%	9.3%	(18,050)	(18,050)	-	-	$19.63
Total	**10,642,912**	**20.6%**	**4.7%**	**25.4%**	**24.5%**	**24.5%**	**(20,665)**	**(20,665)**	**-**	**-**	**$33.04**
Westside											
Class A	1,645,000	25.3%	0.2%	25.5%	24.2%	23.4%	(39,768)	(39,768)	-	-	$26.24
Class B	7,089,342	16.7%	6.2%	22.9%	22.6%	16.5%	(440,558)	(440,558)	-	-	$25.57
Class C	1,461,508	3.5%	0.0%	3.5%	3.3%	4.3%	14,489	14,489	-	-	$16.01
Total	**10,195,850**	**16.2%**	**4.3%**	**20.5%**	**20.1%**	**15.8%**	**(465,837)**	**(465,837)**	**-**	**-**	**$25.44**
I-5 South											
Class A	3,063,431	19.5%	3.4%	22.9%	21.7%	21.2%	(14,974)	(14,974)	-	-	$37.70
Class B	4,471,050	15.6%	2.1%	17.7%	18.4%	18.8%	14,047	14,047	-	-	$33.66
Class C	829,806	4.5%	0.0%	4.5%	4.0%	5.4%	11,118	11,118	-	-	$20.46
Total	**8,364,287**	**15.9%**	**2.4%**	**18.3%**	**18.2%**	**18.3%**	**10,191**	**10,191**	**-**	**-**	**$35.10**
Eastside											
Class A	911,165	22.8%	5.2%	28.0%	16.9%	17.9%	9,273	9,273	-	-	$23.32
Class B	3,199,411	7.2%	0.6%	7.7%	7.6%	8.9%	42,557	42,557	-	-	$23.16
Class C	1,757,034	8.4%	0.0%	8.4%	7.7%	7.7%	153	153	-	-	$22.28
Total	**5,867,610**	**10.0%**	**1.1%**	**11.1%**	**9.1%**	**9.9%**	**51,983**	**51,983**	**-**	**-**	**$23.00**
Clark County											
Class A	3,281,160	7.8%	6.6%	14.4%	7.4%	7.6%	6,630	6,630	525,000	-	$26.70
Class B	4,113,807	5.9%	1.1%	6.9%	8.0%	8.1%	6,812	6,812	-	-	$24.12
Class C	897,786	5.9%	0.0%	5.9%	4.9%	4.1%	(7,242)	(7,242)	-	-	$23.86
Total	**8,292,753**	**6.6%**	**3.1%**	**9.7%**	**7.4%**	**7.5%**	**6,200**	**6,200**	**525,000**	**-**	**$25.29**

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