



CAPACITY COMMERCIAL GROUP^{LLC}

PORTLAND INDUSTRIAL SNAPSHOT

Fourth Quarter/Year End 2016

MARKET TRENDS

VACANCY
Industrial Only

↓
3.5%

VACANCY
Industrial & Flex

↓
3.9%

CONSTRUCTION

↓
1.9M SF

RENTAL RATES

↑
VARIABLES
(SEE BELOW)

ABSORPTION (Q4)
Industrial Only

→
858,414 SF

PORTLAND INDUSTRIAL

At year end, Portland's overall vacancy rate for all industrial-related product types fell in the fourth quarter from 4.2% to 3.9%. Warehouse only vacancy fell to a low of 3.5% from a previous 3.9%. Absorption decreased to 858,414 SF this quarter which is a 75% decrease from a near record in the 4Q2015 of 3,358,015. A few select leases that occurred in the final quarter of 2016 were CTDI (210,000 SF), US Warehousing (101,131 SF), UPS (60,000 SF), Terminal Transfer (54,000) and Bridgetown Trucking (51,650 SF).

LEASE RATES have remained unchanged from last quarter. With the continued drop in vacancy, building owners and developers have quietly push rates higher. Asking rates for new Class A space range from \$0.47-\$0.51/SF NNN to as much as \$0.60/SF NNN in the Tualatin market – if visibility is important. Office surcharge rates have been averaging \$0.80/SF but \$0.85-\$0.90/SF for new office is quickly becoming the new norm. As new office construction costs continue to push past the \$100/SF figure, a \$0.90/SF surcharge or higher will be right around the corner (surcharge rates of \$0.90/SF+ are standard in the Seattle market). The Close-in business districts will continue to have upward pressure on rents ranging from an average of \$0.80/SF and in many cases higher. Rivergate continues to be the economic alternative, but with fewer alternatives, rates are beginning to rise into the low \$0.40s/SF there as well.

INVESTMENT SALE ACTIVITY held up well but inventory and opportunities become increasingly difficult to procure. Lincoln Property Co. was able to out-manuever multiple buyers in their acquisition of the Commerce Park portfolio and Park I-84 project. Consisting of five industrial parks located in Milwaukie, Clackamas, Wilsonville and Gresham the 1,392,407 SF portfolio fetched a price of \$112,315,000 or \$80.66/SF. The cap rate landed around 6%. Clarion Partners also acquired the latest PDX Logistics Center Phase II. This free-standing 355,200 SF building (on leased land) transacted at \$36,200,000 or \$102.00/SF and a 5.4% cap. Currently, large blocks of availability on the market include the 250,000 SF Lampros Steel complex in Rivergate, the 260,000 RR Donnelley building in Gresham and the 859,000 SF Safeway campus in Clackamas. The Terminal 1 site in NW Portland (city officials had hoped to be a long-term homeless shelter) was finally sold to Lithia Motors for \$12M (\$2M above original offer). Lithia Motors has plans of developing a 395,000 SF manufacturing hub on the river front 14-acre site.

DEVELOPMENT ACTIVITY (speculative) continues to push forward. Citywide, over 1.9M SF of industrial space is under construction. This is down from the 4Q2015 (2.4M SF) but from all indicators, there is no reluctance to continue building speculative warehouse space. Trammell Crow leads the way with projects citywide and positions as far north as Ridgefield, WA. We also expect additional land acquisition announcements here soon. Specht Development will be finalizing their Vista Logistics Park (three-building) development in Gresham this summer and across the river in Vancouver, Phase I of the Portside Industrial Park is nearing completion on a partially pre-leased development totaling 257,609 SF. Plans for additional phases are also moving forward. Dermody Properties is nearing completion on two of their three-building LogistiCenter at 185 development in NE Portland. This project is the newest Park in the Airport Way corridor which will accommodate tenants in the 15-50,000 SF range.

AVERAGE ASKING "SHELL" RATES

AREA	NNN SHELL LEASE RATES
Rivergate	\$0.37-\$0.42/SF
Airport Way & East Columbia Corridor	\$0.43-\$0.50/SF
Southeast (Clackamas/Milwaukie)	\$0.41-\$0.45/SF
NW / NE / SE Close In	\$0.50-\$0.75/SF
Southwest & West Side	\$0.42-\$0.55/SF
Tigard / Tualatin / Wilsonville	\$0.42-\$0.55/SF
Clark County (Vancouver, WA)	\$0.45-\$0.55/SF

AVERAGE ASKING SALE PRICES - CITYWIDE

5,000 - 15,000 SF	\$95-\$160/SF
16,000 - 30,000 SF	\$90-\$125/SF
31,000 - 60,000 SF	\$85-\$115/SF
60,000 & Up	\$75-\$110/SF

Statistics provided by CoStar Property®

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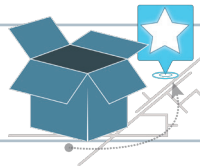
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OVERALL VACANCY

Market wide, industrial (non-flex) vacancy dropped slightly to 3.5%.

Other markets as follows:

- Rivergate: 6.4%
- Airport Way and E. Columbia Corridor: 3.7%
- Southeast (Clackamas/Milwaukie): 3.3%
- Northwest and Close-in markets: 2.2%
- Sunset Corridor / Hillsboro: 2.3%
- Tigard/Tualatin: 4.0%
- I-5 Corridor (Wilsonville): 4.7%
- Clark County (Vancouver, WA): 3.2%



ON THE MOVE - 4TH QUARTER

LEASE ACTIVITY

CTDI leased 210,000 SF at 22638 NE Townsend Way in Wood Village

US Warehousing & Logistics leased 101,131 SF and **UPS** leased 60,000 SF at the Rivergate Logistics Center

Bridgetown Trucking leased 51,650 SF at 7726 NE 33rd Drive off Airport Way

RENEWALS

Aaron's Rents - 98,000 SF

Central Garden - 215,000 SF

SALES ACTIVITY

Lexington Realty Trust purchased the 508,000 SF Nike Distribution Center building in Wilsonville for \$43.1M and a 5.9% Cap

Clarion Partners purchased PDX Logistics Center Phase II for \$36.2M totaling 355,200 SF near the airport at a 5.4% Cap

Winkler Development Corp. purchased a 142,967 SF building in Hillsboro for \$23.2M

Lincoln Property Co purchased the Commerce Park and Park I-84 portfolio consisting of five industrial parks totaling 1,392,407 SF for \$112,315,000 at a 6% Cap

SELECT YEAR-TO-DATE INDUSTRIAL MARKET STATISTICS (WAREHOUSE ONLY)

Market	Existing Inventory		Vacancy		YTD		
	# Buildings	Total RBA	Total SF	Vacancy %	Absorption	Deliveries	Construction SF
Clark County	638	17,986,779 SF	581,229 SF	3.2%	273,760 SF	83,304 SF	392,026 SF
1-5 Corridor	669	26,355,420 SF	1,211,807 SF	4.6%	546,673 SF	509,051 SF	38,812 SF
Northeast	1,835	71,064,036 SF	2,70,830 SF	3.8%	1,644,721 SF	1,166,640 SF	1,264,239 SF
Northwest	357	13,400,619 SF	322,109 SF	2.4%	140,274 SF	0	0
Southeast	1,143	30,426,501 SF	846,996 SF	2.9%	443,122 SF	190,600 SF	0
Southwest & Westside	480	20,677,261 SF	561,212 SF	3.9%	304,232 SF	394,360 SF	242,461 SF
TOTALS*	5,267	182,849,333 SF	6,370,395 SF	3.5%	3,318,759 SF	2,343,955 SF	1,937,538 SF

* Does not include all markets

HISTORIC TOTAL MARKET STATISTICS

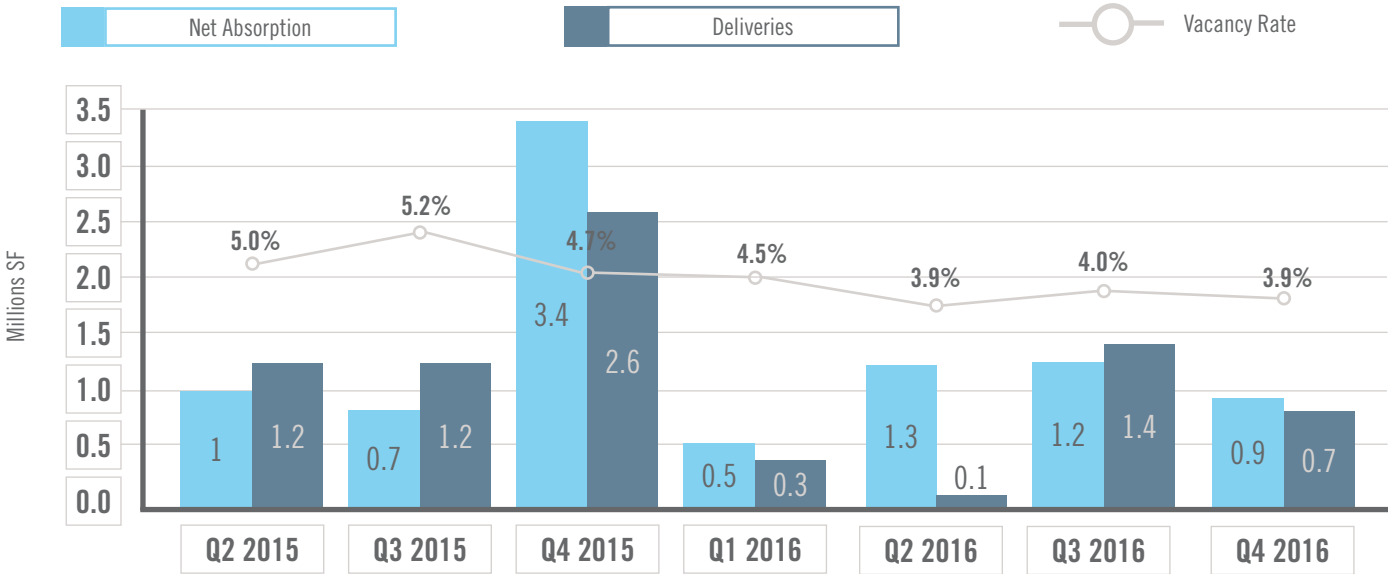
Period	Existing Inventory		Vacancy			Net Absorption	Deliveries		Under Construction		Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vacancy %		# Blds	Total RBA	# Blds	Total RBA	
Q4 2016	6,088	204,112,177 SF	7,539,962 SF	8,034,479 SF	3.9%	858,414 SF	6	726,835 SF	15	1,937,538 SF	\$7.62
Q3 2016	6,082	203,385,342 SF	7,907,906 SF	8,166,058 SF	4.0%	1,152,417 SF	12	1,359,000 SF	16	1,791,321 SF	\$7.75
Q2 2016	6,072	202,038,742 SF	7,777,227 SF	7,971,875 SF	3.9%	1,256,043 SF	2	62,988 SF	23	2,800,397 SF	\$7.50
Q1 2016	6,071	201,982,337 SF	8,918,765 SF	9,171,513 SF	4.5%	454,835 SF	6	307,532 SF	22	2,510,973 SF	\$7.22
Q4 2015	6,068	201,740,981 SF	9,063,407 SF	9,384,992 SF	4.7%	3,358,015 SF	11	2,575,832 SF	23	1,949,361 SF	\$7.03
Q3 2015	6,059	199,467,565 SF	10,192,751 SF	10,469,591 SF	5.2%	679,915 SF	13	1,222,695 SF	32	4,160,831 SF	\$6.92

Statistics provided by CoStar Property®

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MARKET ABSORPTION & DELIVERIES PAST 7 QUARTERS



Statistics provided by CoStar Property ©

SUMMARY & FORECAST

We ended the year as expected, in positive territory. The Portland and SW Washington markets continued performing in the same initial direction as we did late in 2015 with good activity (we wouldn't say red-hot) and trending in a positive direction.

Developers have responded to the demand, both in the larger SF class (100,000 SF and up) and smaller, 20-50,000 SF range with over 1.9MM SF under construction and another 2MM+ SF in the planning stages for late 2017, through 2018.

Larger users looking for space in excess of 250,000 SF continue to find very few alternatives statewide. Ground-up opportunities exist but delivery dates (today) push projects well into 2018, which in many cases doesn't work for 3PL's sourcing space for a particular client.

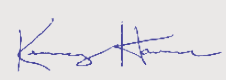
Strong fundamentals and lack of ground-up opportunities will continue to fuel investment sales of existing properties and demand for Class A space should outpace supply in 2017.

It will be a very interesting year...

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