

MARKET TRENDS

VACANCY
Industrial Only



3.5%

VACANCY
Industrial & Flex



3.9%

CONSTRUCTION



2.11M SF

RENTAL RATES



VARIABLES
(SEE BELOW)

ABSORPTION (Q1)
Industrial Only



608,559 SF

PORTLAND INDUSTRIAL

Portland's overall Industrial vacancy rate for the First Quarter of 2017 remained relatively unchanged. Warehouse only vacancy was flat at 3.5% and overall vacancy remained at 3.9%. Absorption decreased to 599,721 SF this quarter, down from 858,414 SF in Q42016. A few notable leases that occurred in the first quarter of 2017 were Lam Research (201,300 SF), Rosendin Electric (91,650 SF), and Warehouse Specialists (135,660 SF).

LEASE RATES, like vacancy rates, have remained unchanged from 4Q2016. Asking rates for new Class A space range from \$0.48-\$0.55/SF NNN to as much as \$0.60/SF NNN. Office surcharge rates continue to average \$0.80/SF, but \$0.90/SF for new office is quickly becoming the norm. We have yet to see \$.95/SF in this market. Timing on new office TI permits in the city of Portland is 6-8 weeks – the norm now. Many users cannot wait for the added time of 3-4 months or longer. The Close-in business districts will see a continuation of changing uses from traditional warehouse to mixed-uses which has increased pressure on rents ranging from an average of \$0.80/SF to as much as \$1.20/SF. (Another topic that we'll address in future newsletters, is the City's desire for seismic compliance. More to come.) Rivergate has seen some good activity with every transaction, landing in the low \$0.40s/SF for shell rates.

INVESTMENT SALE ACTIVITY has been slower than usual during the first quarter. Opportunities are increasingly difficult to source. With the completion of several projects and subsequent leasing, the second quarter will have two to three large industrial parks hitting the market. Pricing for

a few of these will surely command in excess of \$103 to \$105 per square foot.

DEVELOPMENT ACTIVITY remains robust as a number of developers continue to push forward on projects citywide. Today, over 2.11MSF of industrial space is under construction and over 7MSF is in various stages of planning/entitlement processes. Assuming a majority of this new product hits the market in 2018, we will see competition for all users over 50,000 SF as a majority of this space cannot accommodate smaller tenants (less than 40,000 SF).

| AVERAGE ASKING "SHELL" RATES | |
|--------------------------------------|-----------------------|
| AREA | NNN SHELL LEASE RATES |
| Rivergate | \$0.40-\$0.43/SF |
| Airport Way & East Columbia Corridor | \$0.43-\$0.50/SF |
| Southeast (Clackamas/Milwaukie) | \$0.42-\$0.45/SF |
| NW / NE / SE Close In | \$0.50-\$0.75/SF |
| Southwest & West Side | \$0.42-\$0.55/SF |
| Tigard / Tualatin / Wilsonville | \$0.43-\$0.60/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®

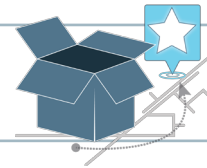
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OVERALL VACANCY

Market wide, industrial (non-flex) vacancy stayed at 3.5%.
Other markets as follows:

- Rivergate: 5.2%
- Airport Way and E. Columbia Corridor: 4.5%
- Southeast (Clackamas/Milwaukie): 1.9%
- Northwest and Close-in markets: 2.5%
- Sunset Corridor / Hillsboro: 1.0%
- Tigard/Tualatin: 4.0%
- I-5 Corridor (Wilsonville): 4.2%
- Clark County (Vancouver, WA): 4.2%



ON THE MOVE - 1ST QUARTER

LEASE ACTIVITY

Lam Research leased 201,300 SF at Koch Corporate Center in Tualatin

Warehouse Specialists leased 135,660 SF at Rivergate Corporate Center III in Rivergate

Rosendin Electric leased 91,650 SF at Majestic Brookwood Business Park in Hillsboro

Integrated Power Source leased 22,400 SF at 12965 SW Herman Road in Tualatin

SALES ACTIVITY

Data Center West Coast purchased a 112,500 SF building in Hillsboro for \$8.1M or \$72/SF

Melvin Mark Companies purchased the former North Pacific Supply building at 16250 SE Evelyn St for \$7.5M or \$78.50/SF on 99,950 SF

Dave's Killer Bread (Flowers) purchased their existing 49,000 SF plant off of SE International Way for \$5.2M or \$106/SF

Events Unlimited purchased 60,000 SF at 10675 SW Manhasset Drive in Tualatin for \$4.45M or \$74/SF

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 | 642 | 18,382,949 SF | 780,943 SF | 4.2% | 192,812 SF | 392,026 SF | 167,414 SF |
| 1-5 Corridor | 669 | 26,323,501 SF | 1,116,002 SF | 4.2% | 69,133 SF | 0 | 38,812 SF |
| Northeast | 1,837 | 71,416,161 SF | 2,992,291 SF | 4.2% | (124,631) SF | 0 | 1,769,175 SF |
| Northwest | 356 | 13,395,079 SF | 277,013 SF | 2.1% | 60,812 SF | 0 | 0 |
| Southeast | 1,143 | 30,449,719 SF | 620,279 SF | 2.0% | 275,417 SF | 0 | 0 |
| Southwest & Westside | 479 | 20,735,579 SF | 536,537 SF | 0 | 127,486 SF | 104,541 SF | 137,920 SF |
| TOTALS* | 5,269 | 183,631,024 SF | 6,403,247 SF | 3.5% | 608,559 SF | 496,567 SF | 2,113,321 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 | |
| Q1 2017 | 6,098 | 204,984,417 SF | 7,467,498 SF | 8,092,789 SF | 3.9% | 599,721 SF | 4 | 496,567 SF | 18 | 2,113,321 SF | \$8.02 |
| Q4 2016 | 6,095 | 204,492,850 SF | 7,706,426 SF | 8,200,943 SF | 4.0% | 789,105 SF | 6 | 726,835 SF | 19 | 2,445,974 SF | \$7.63 |
| Q3 2016 | 6,089 | 203,766,015 SF | 8,005,061 SF | 8,263,213 SF | 4.1% | 1,140,053 SF | 12 | 1,359,141 SF | 16 | 1,791,321 SF | \$7.76 |
| Q2 2016 | 6,079 | 202,419,274 SF | 7,861,827 SF | 8,056,525 SF | 4.0% | 1,101,653 SF | 2 | 62,988 SF | 23 | 2,800,538 SF | \$7.49 |
| Q1 2016 | 6,078 | 202,362,869 SF | 8,849,025 SF | 9,101,773 SF | 4.5% | 453,924 SF | 6 | 307,532 SF | 22 | 2,511,114 SF | \$7.22 |
| 2015 | 6,075 | 202,121,513 SF | 8,992,756 SF | 9,314,341 SF | 4.6% | 6,251,037 SF | 32 | 5,594,915 SF | 23 | 1,949,502 SF | \$7.03 |

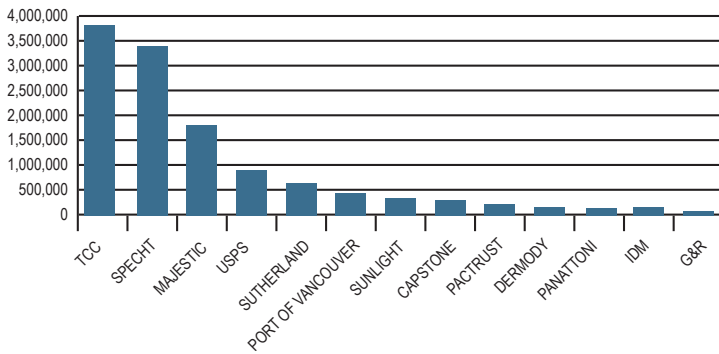
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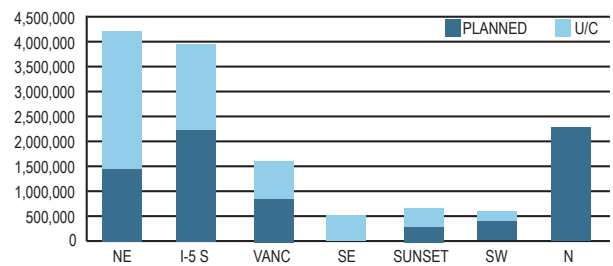
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MARKET ABSORPTION & DELIVERIES

TOTAL SQUARE FOOTAGE BY DEVELOPER



TOTAL SQUARE FOOTAGE BY SUBMARKET



SUMMARY & FORECAST

The First Quarter of 2017 started the year off slower than expected but the Portland and SW Washington markets continued to perform as they had in the previous quarter. Vacancy remained steady, demand was consistent, but not at the levels we anticipated, and development activity was full steam ahead. As the close-in areas “build and fill,” the outlying areas of Portland will continue to feel closer than they ever have before.

Developers are continuing their efforts to keep up with demand but have noticed a slight softening with larger requirements. Over the past two years the Portland market has experienced a higher than normal demand for 200,000+ SF spaces. However, getting back to our roots, the Portland market has always been strong for the 20,000 Sf to 50,000 SF users while the Seattle markets are able to secure the larger requirements. Spec developments saw a slight lull in interest this quarter but regardless, there are ±2 million SF coming out of the ground and double that on the books.

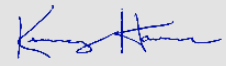
Something to highlight, however, is the quarter over quarter increase in sublease vacancy. The Portland sublease market increased from 494,517 SF in Q4 2016 to 625,291 SF by the end of the Q1 2017. Prior to that, Q2 2016 recorded a sublease vacancy of 194,648 SF while Q3 2016 recorded a vacancy of 258,152 SF.

This year has started off different than expected but the migration and growth to Portland hasn't missed a beat.

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