
1Q24

Portland Industrial Market Overview

NEWMARK

Market Observations

Economy

- Portland's labor market exhibited signs of slowing as unemployment reached 4.2% in February. In year-over-year growth from February 2023 to February 2024, total nonfarm employment has decreased by 1.0% across the Portland labor market.
- Although employment numbers still exceed pre-pandemic levels, job growth lagged the national average in Portland to begin the year. Historically, Portland has trended above the national average in terms of job growth and unemployment rate.
- The manufacturing and construction sectors witnessed negative job growth in the first quarter of 2024, suggesting that industrial employment conditions are beginning to exhibit signs of softening.

Major Transactions

- BKM Capital Partners acquired the 132,294-SF Airport Way Corporate Park in the NE/Columbia Corridor from Stockbridge Capital Group, LLC. The three-property portfolio traded for \$24.5 million, or \$185.00 per square foot.
- Landmark Dividend purchased the Oracle Data Center at 3380 NE 79th Ave in the Sunset Corridor. The 90,792-SF industrial asset was purchased for \$31.75 million, or \$350 per square foot.
- Columbia Business Center, comprising approximately 113 usable acres of industrial land, traded for a record \$96 million, marking the largest single transaction for industrial land in the Portland/Vancouver market. Newmark and Colliers represented the seller in the transaction.

Leasing Market Fundamentals

- Vacancy rose for industrial assets to 4.5% in the first quarter of 2024. The increase in availability was seen across urban and suburban assets, resisting the trend of suburban areas outperforming close-in markets.
- Activity has continued to ease as compared to the levels seen in 2022. Total leasing activity to begin the year showed a 6.2% decrease in deal volume as compared to the fourth quarter of 2023.
- Available sublease space reached 2.8 million SF, trending at more than double of the Portland's historical average of 1.1 million SF. This number is expected to rise as tenants continue to market excess space.

Outlook

- In the forecast for 2024, current market conditions suggest a downward trend in absorption due to a notable cooling of demand throughout the year. With this weakening demand, vacancy rates are anticipated to climb.
- Amidst the broader landscape of the commercial market, industrial and flex sales activity are a bright spot in the market. Despite the prevailing economic climate, there's a demand for industrial goods at competitive price ranges, showcasing the resilience of this sector. This trend is anticipated to persist in the foreseeable future.
- Rent growth has displayed volatility over the year, and this pattern seems set to persist. Submarkets like the I-5 South Corridor and Sunset Corridor maintain strong fundamentals, driven by quality and demand within their specific geographic areas.

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2. Leasing Market Fundamentals
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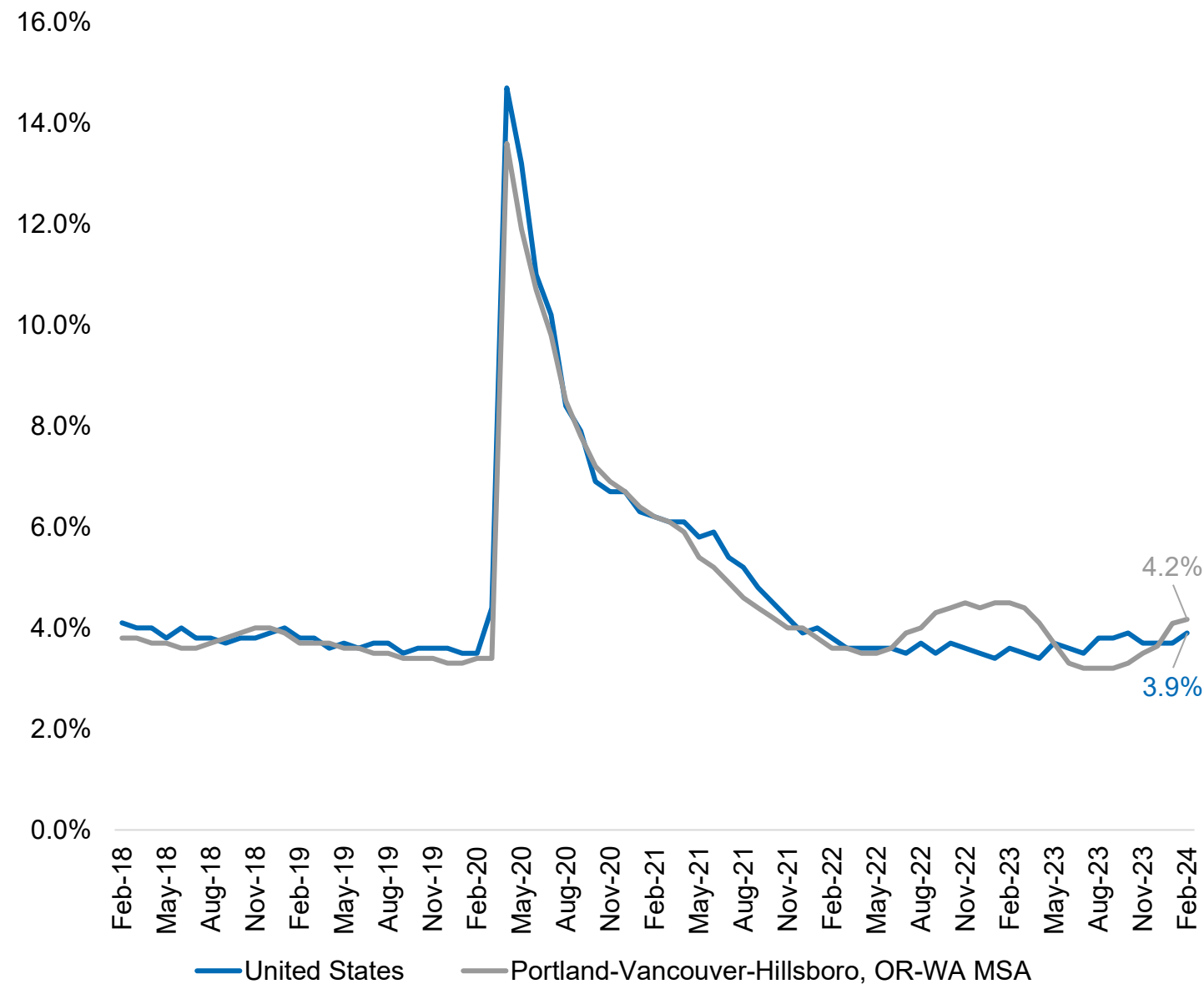
Leasing Market Fundamentals



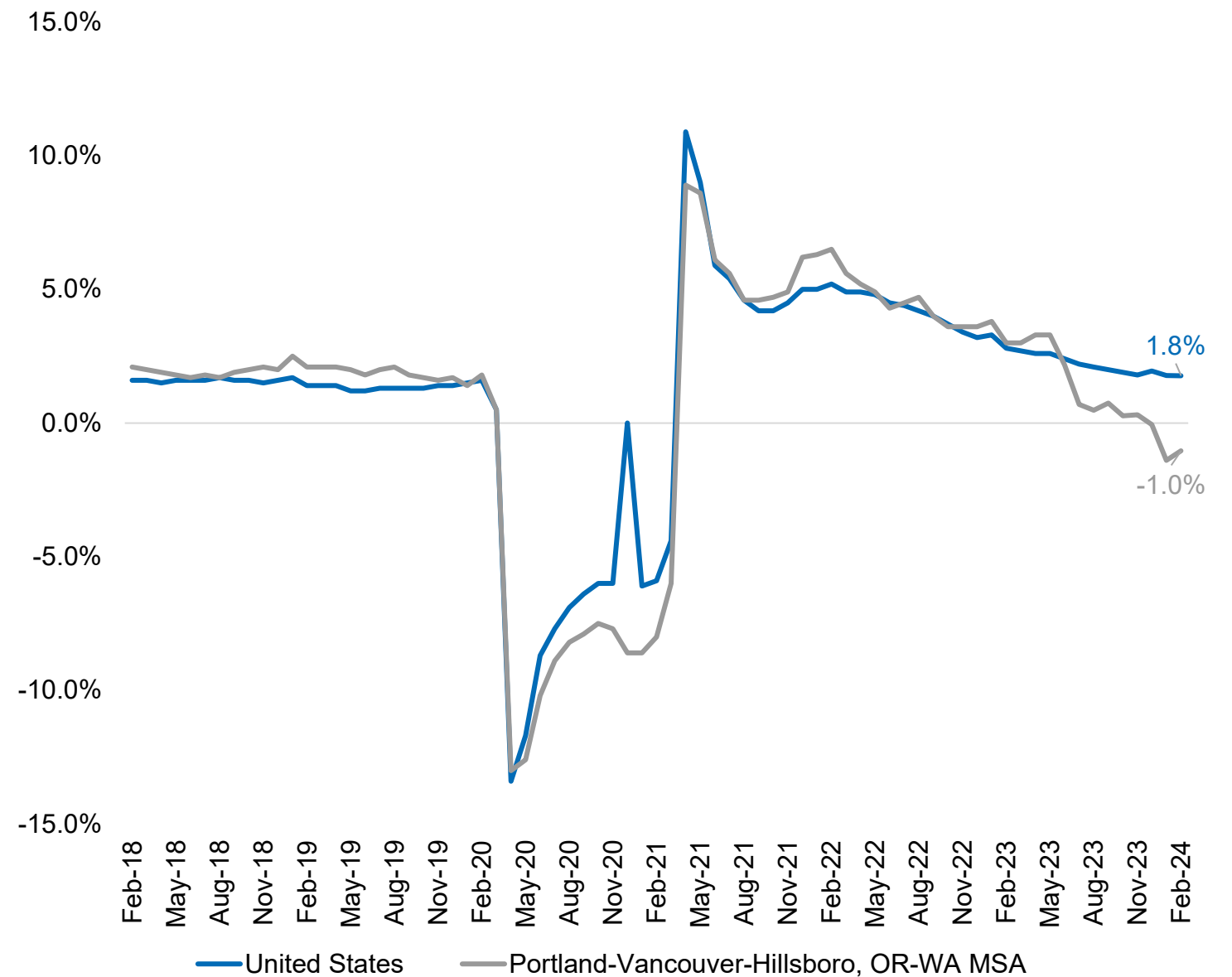
Portland Employment Exhibits Signs of Slowing

The overall unemployment rate for the Portland area jumped to 4.2% in the first quarter of 2024, 30 basis points above the national average. Year-over-year employment growth remains negative as the labor market gradually cools following a historically strong performance in 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

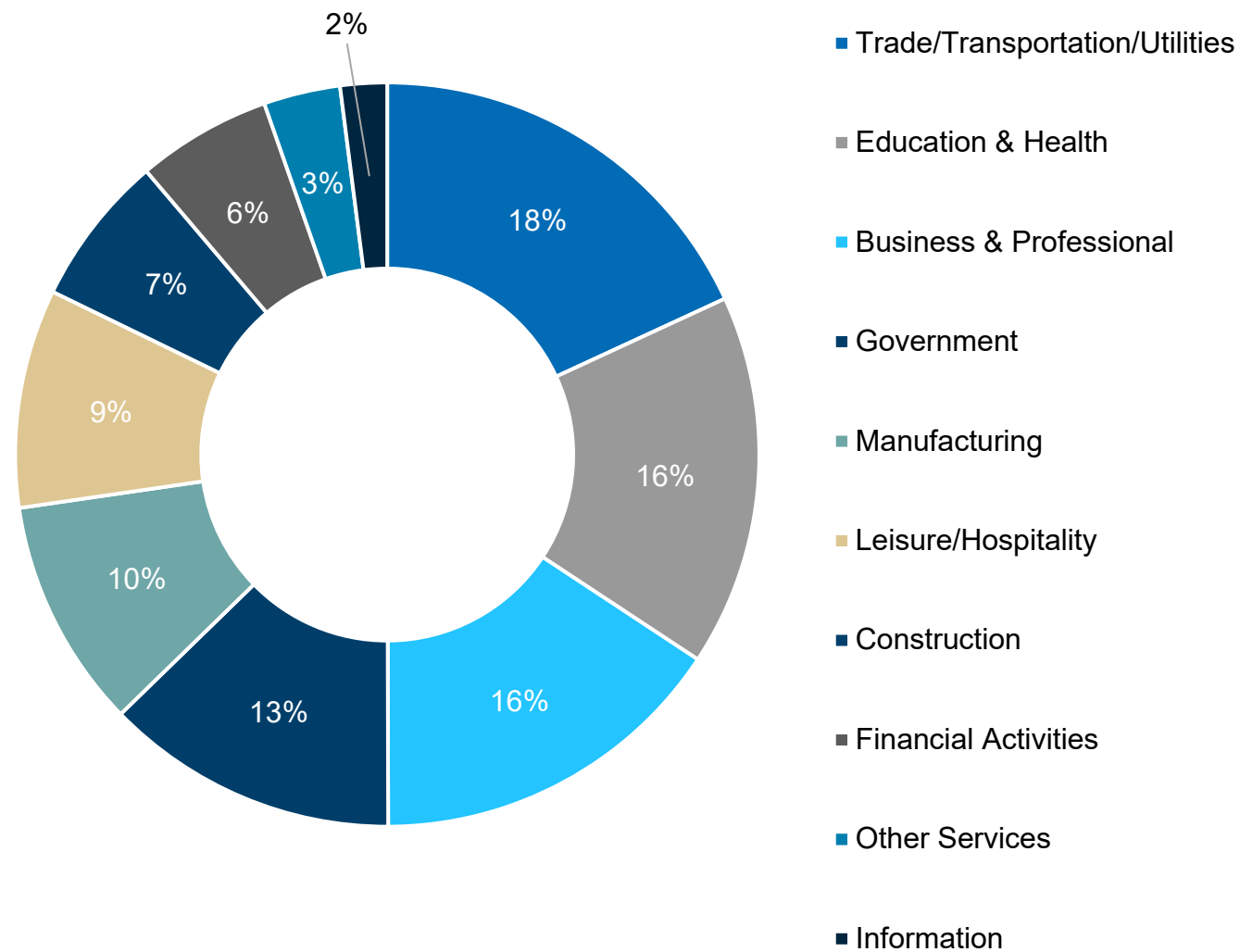


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

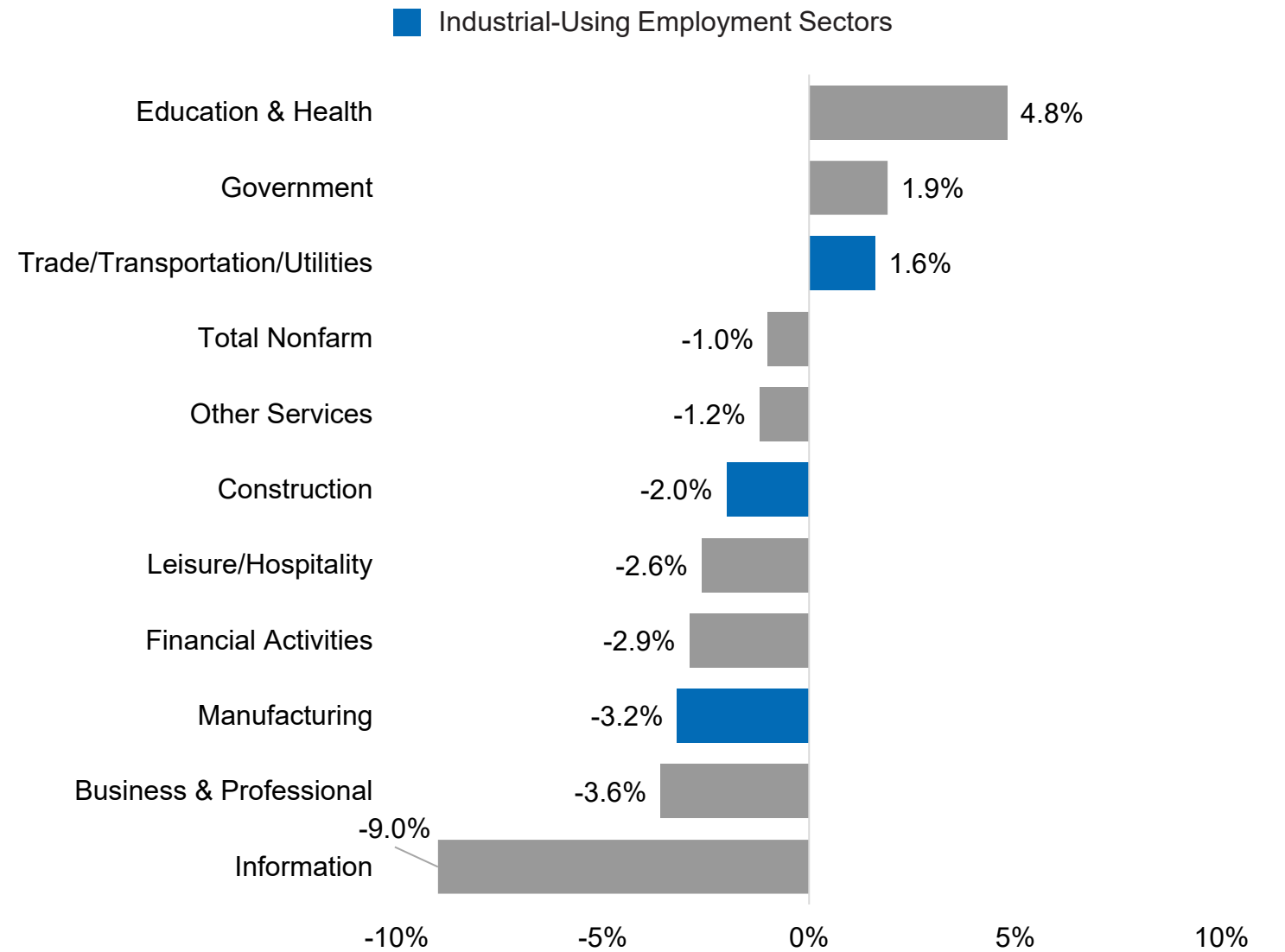
Industrial Job Growth Contracts in 1Q24

The Trade/Transportation/Utilities sector spearheaded industrial occupancy growth in the first quarter of 2024. Conversely, both the Construction and Manufacturing sectors experienced a decline in job opportunities, mirroring the softening market conditions.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

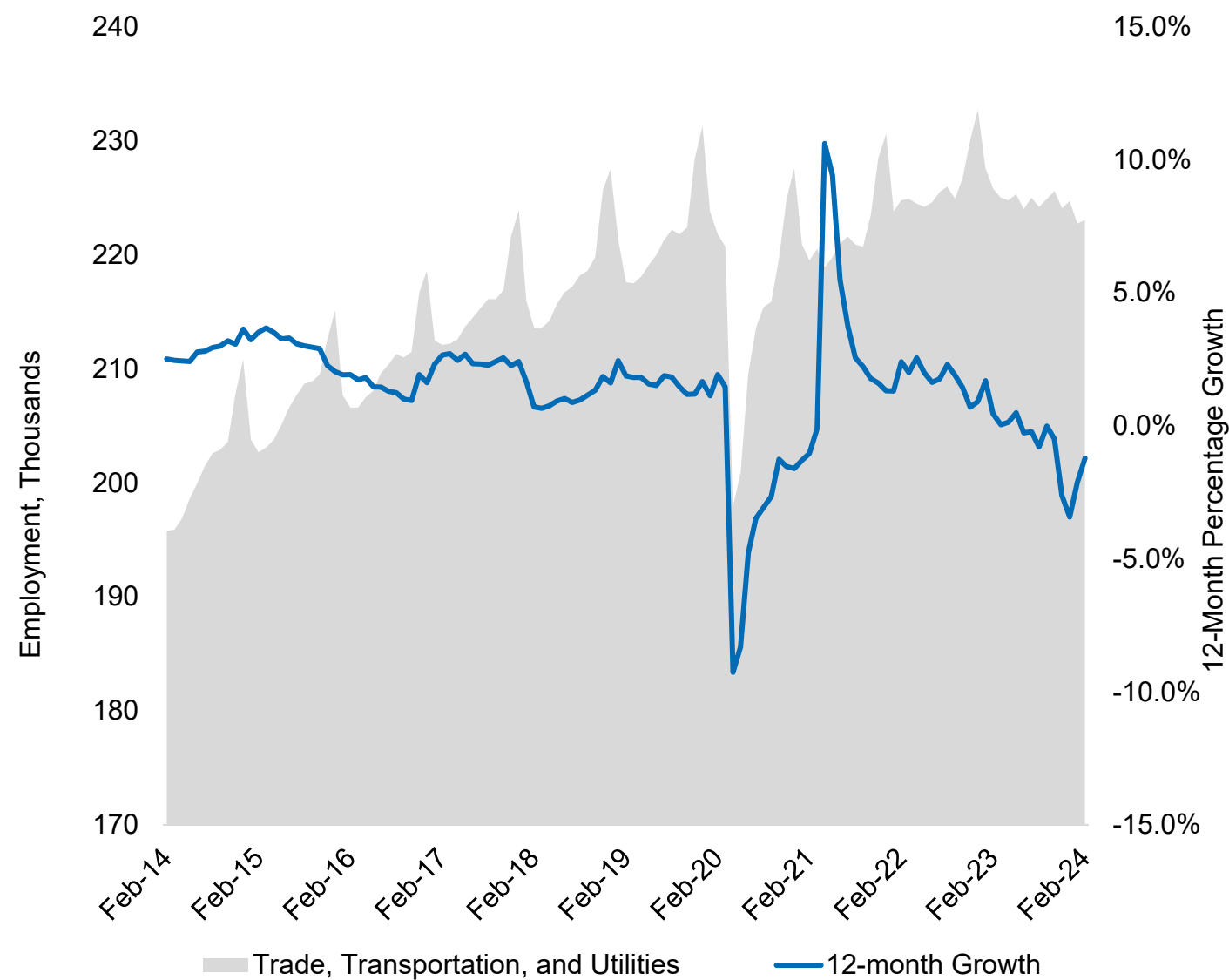


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

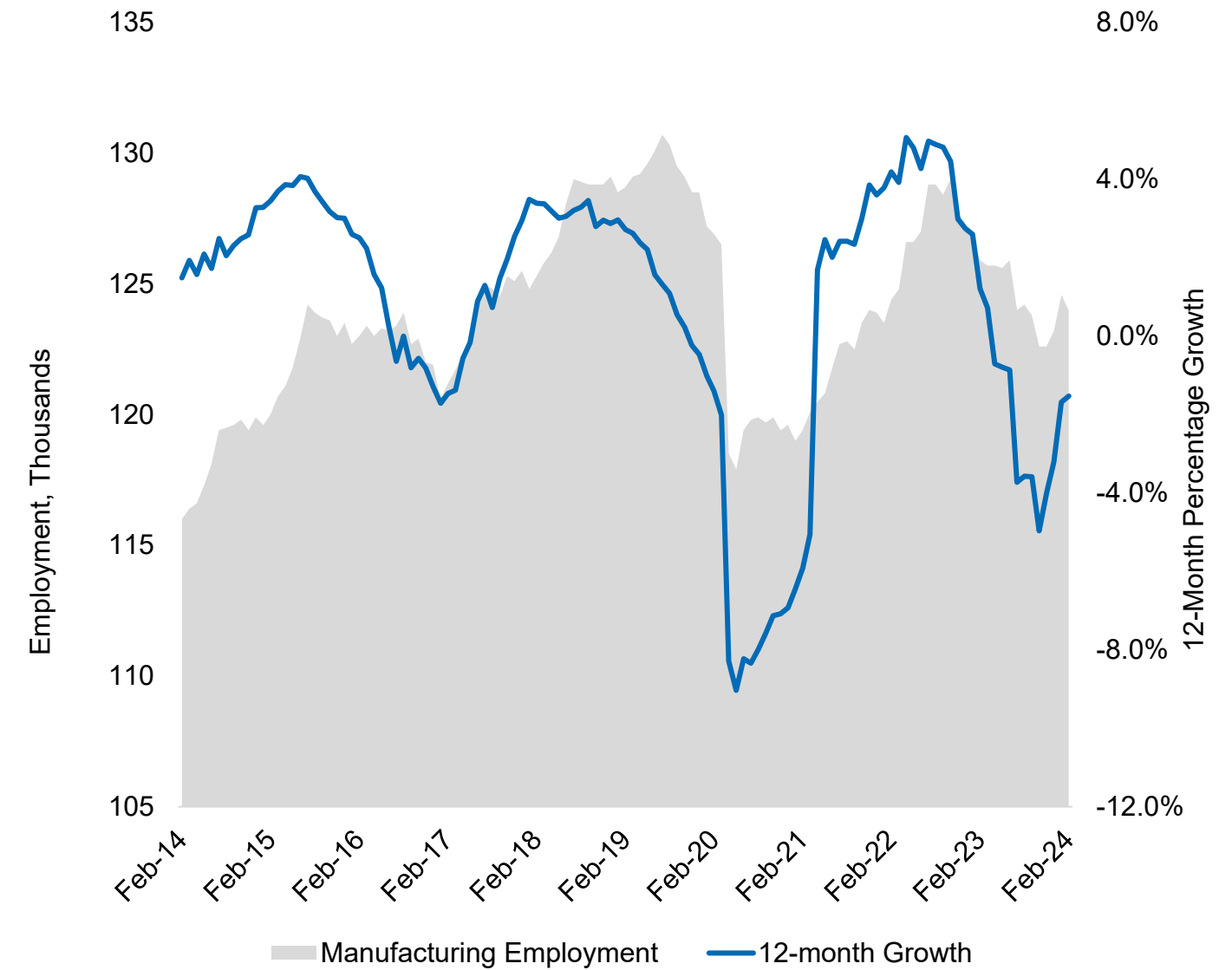
Employment Numbers Record Minimal Change

Total employment figures in the Portland area exhibited stability, showing minimal fluctuations following a lackluster fourth quarter conclusion in 2023. Despite job additions in the current quarter, year-over-year growth remains negative for the Trade/Transportation/Utilities sector. Manufacturing employment figures continue to lag significantly behind 2019 levels.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

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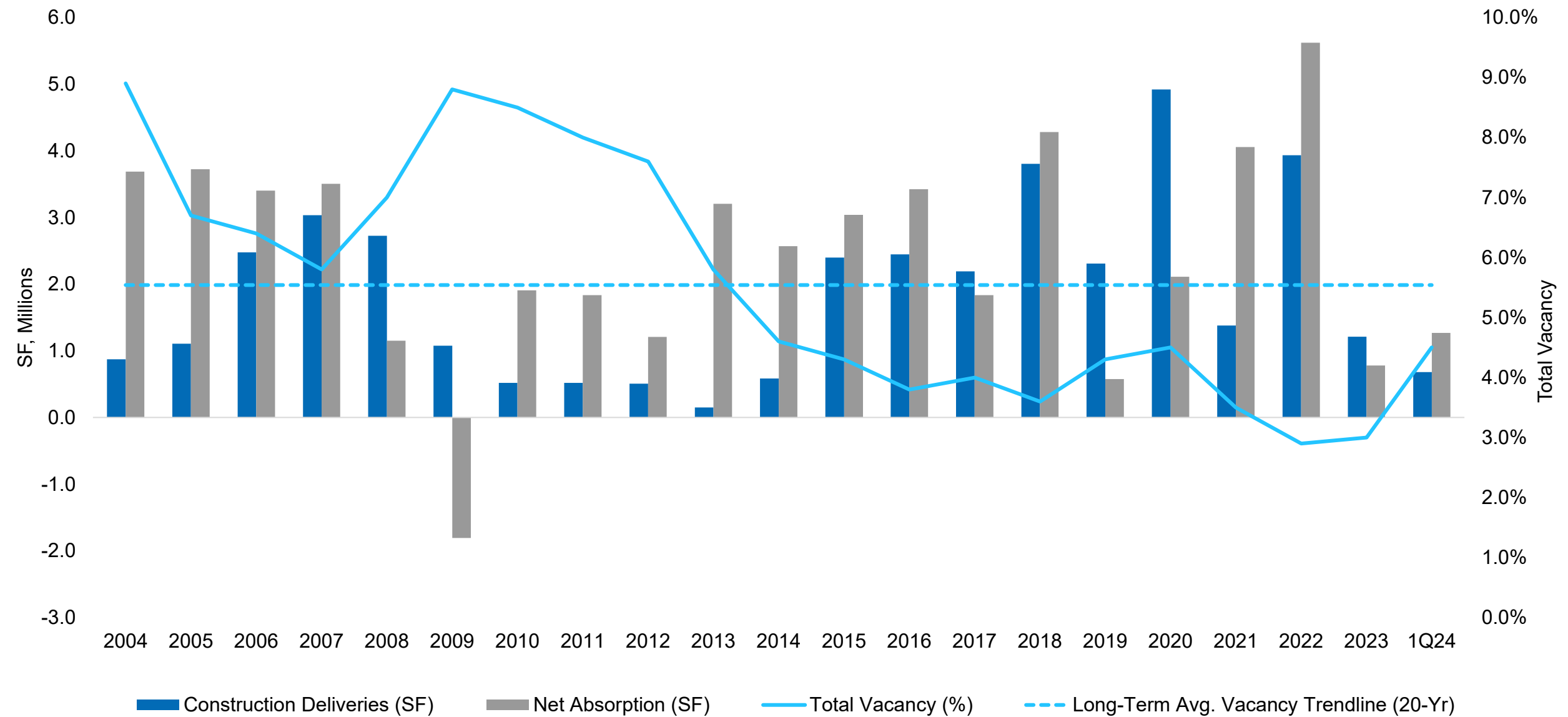
Leasing Market Fundamentals



Vacancy Rises Amidst Market-wide Regression

The vacancy rate surged to 4.5% during the initial quarter of 2024, marking a notable increase from 3.0% recorded in the fourth quarter of 2023. The market witnessed widespread negative absorption, particularly evident in the Rivergate, NE/Columbia Corridor, and Sunset Corridor submarkets. However, despite these trends, overall absorption remained positive for the quarter, primarily attributed to Amazon's occupancy of their 3.8 million square foot distribution project in Woodburn.

Historical Construction Deliveries, Net Absorption, and Vacancy

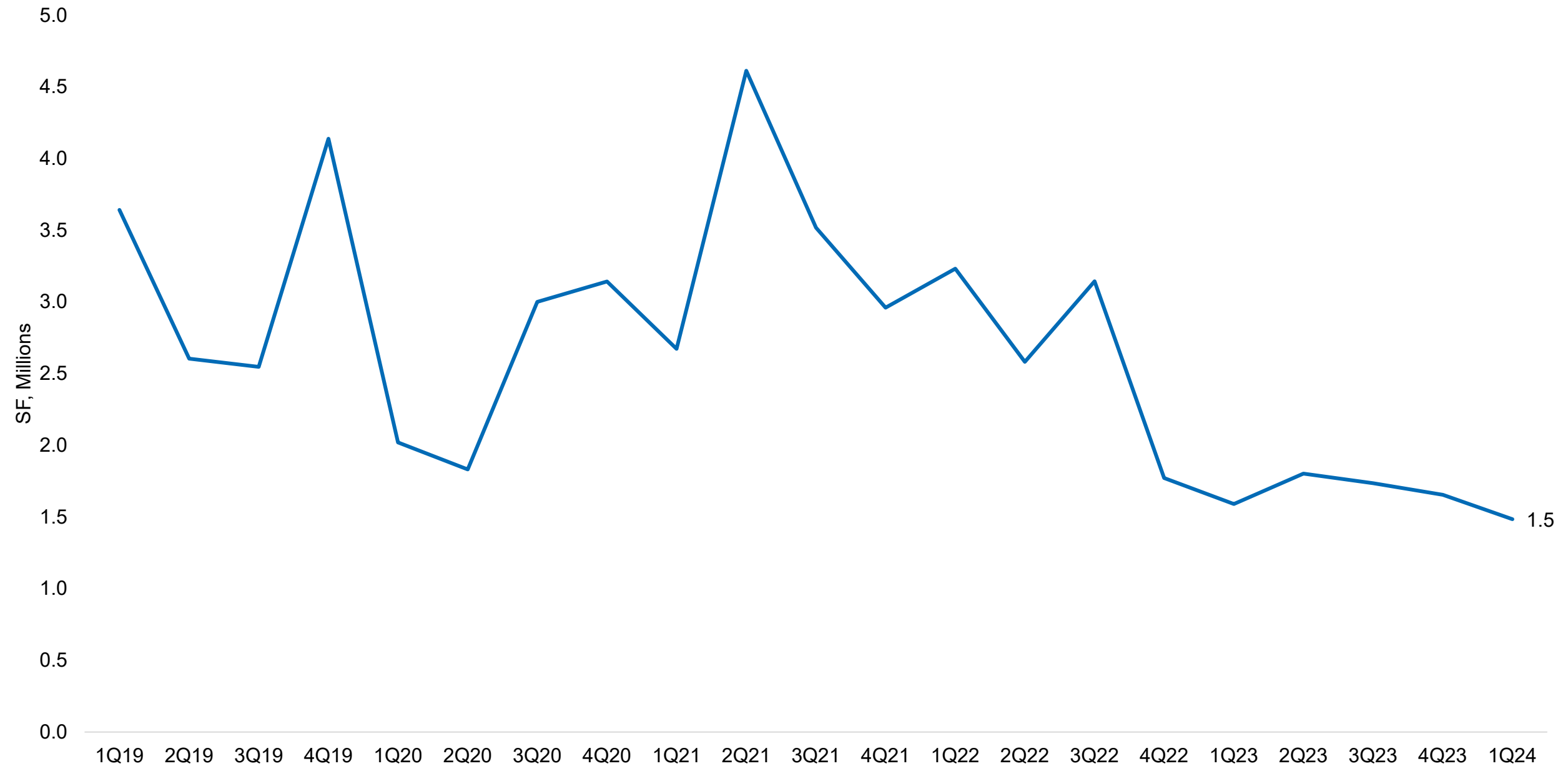


Source: Newmark Research

Leasing Activity Down to Begin 2024

Leasing activity in the first quarter of 2024 amounted to 1.5 million SF, reflecting a 6.2% decline year-over-year. The downturn in economic conditions, coupled with a shortage of high-quality industrial properties across several of Portland's most coveted submarkets like the I-5 South Corridor and Milwaukie/Clackamas, may be contributing to the subdued activity observed over the past year.

Total Leasing Activity (SF)

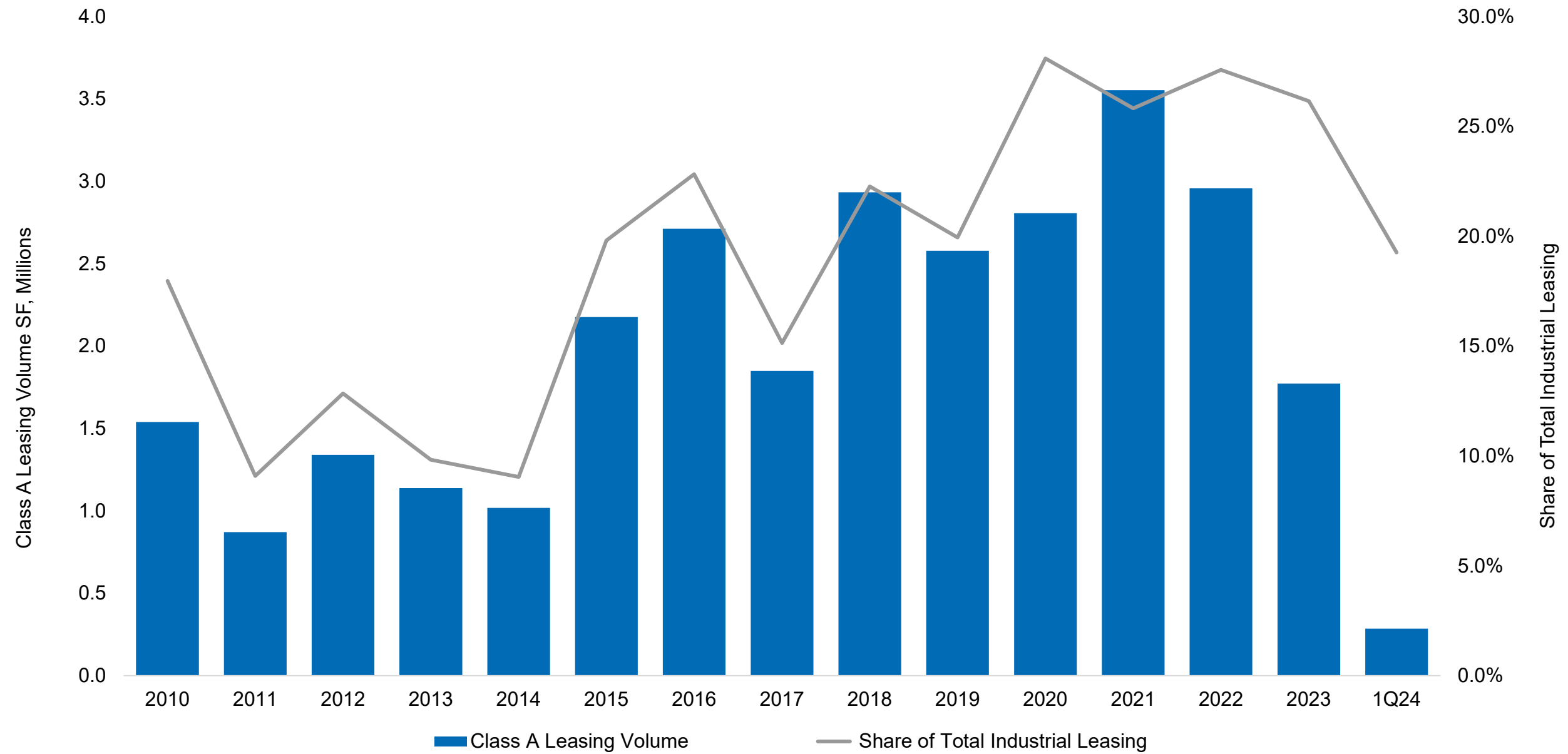


Source: Newmark Research, CoStar

Class A Leasing Volume Below 2023 Levels

In the first quarter of 2024, Class A leasing volume comprised 19.26% of all leasing activity for industrial assets, marking a 6.9% decrease from the fourth quarter of 2023. Despite ongoing healthy demand for Class A space, Portland is grappling with a shortage of inventory due to a significant slowdown in the development pipeline.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

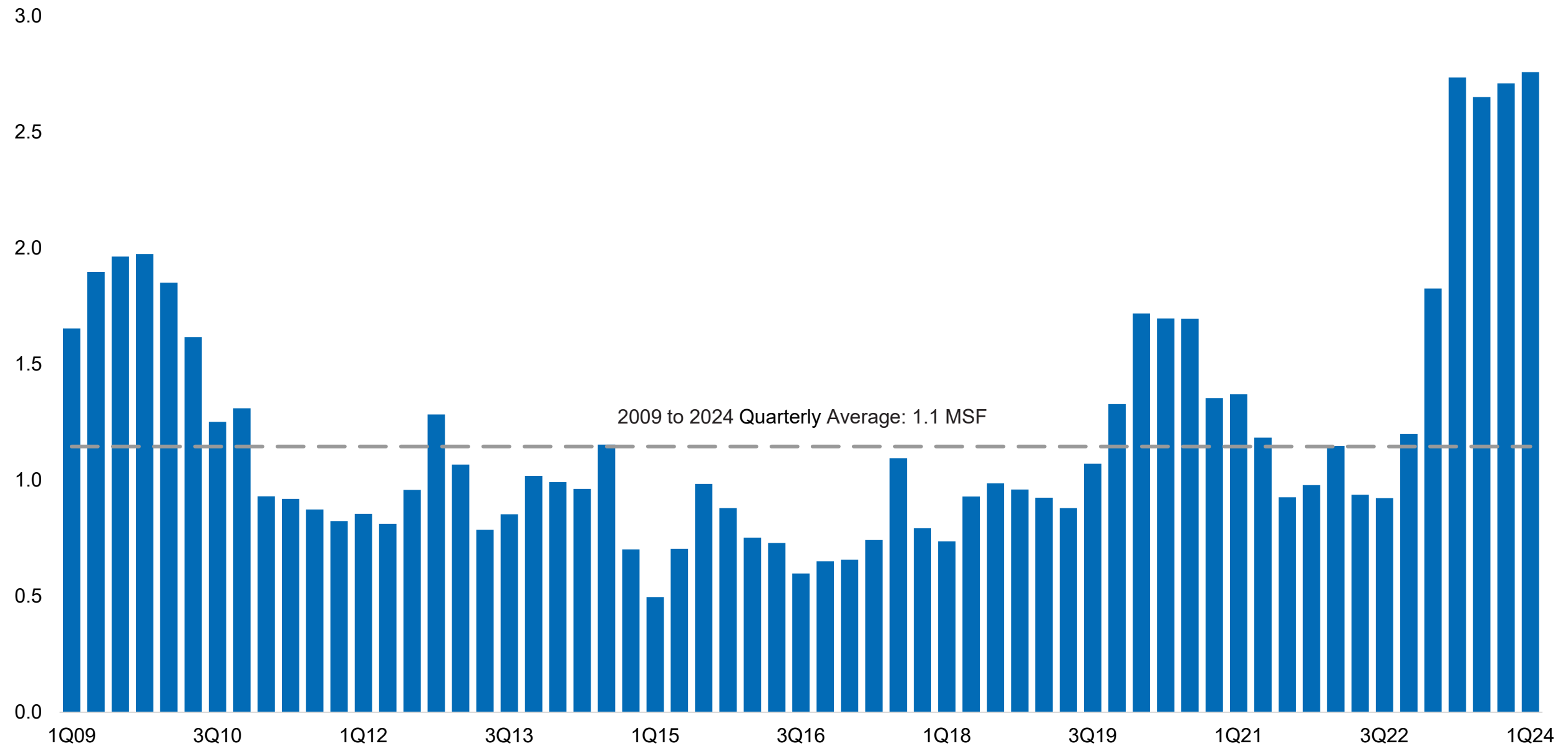


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Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

The availability of industrial subleases in the first quarter of 2024 continues to exceed long-term pre-pandemic averages by a significant margin. Despite this, total availability in the market has shown signs of stabilization over the past four quarters, indicating subdued demand and stagnant inventory. It's projected that direct vacancy will increase because of existing subleases on the market expiring.

Available Industrial Sublease Volume (msf)



Source: Newmark Research, CoStar

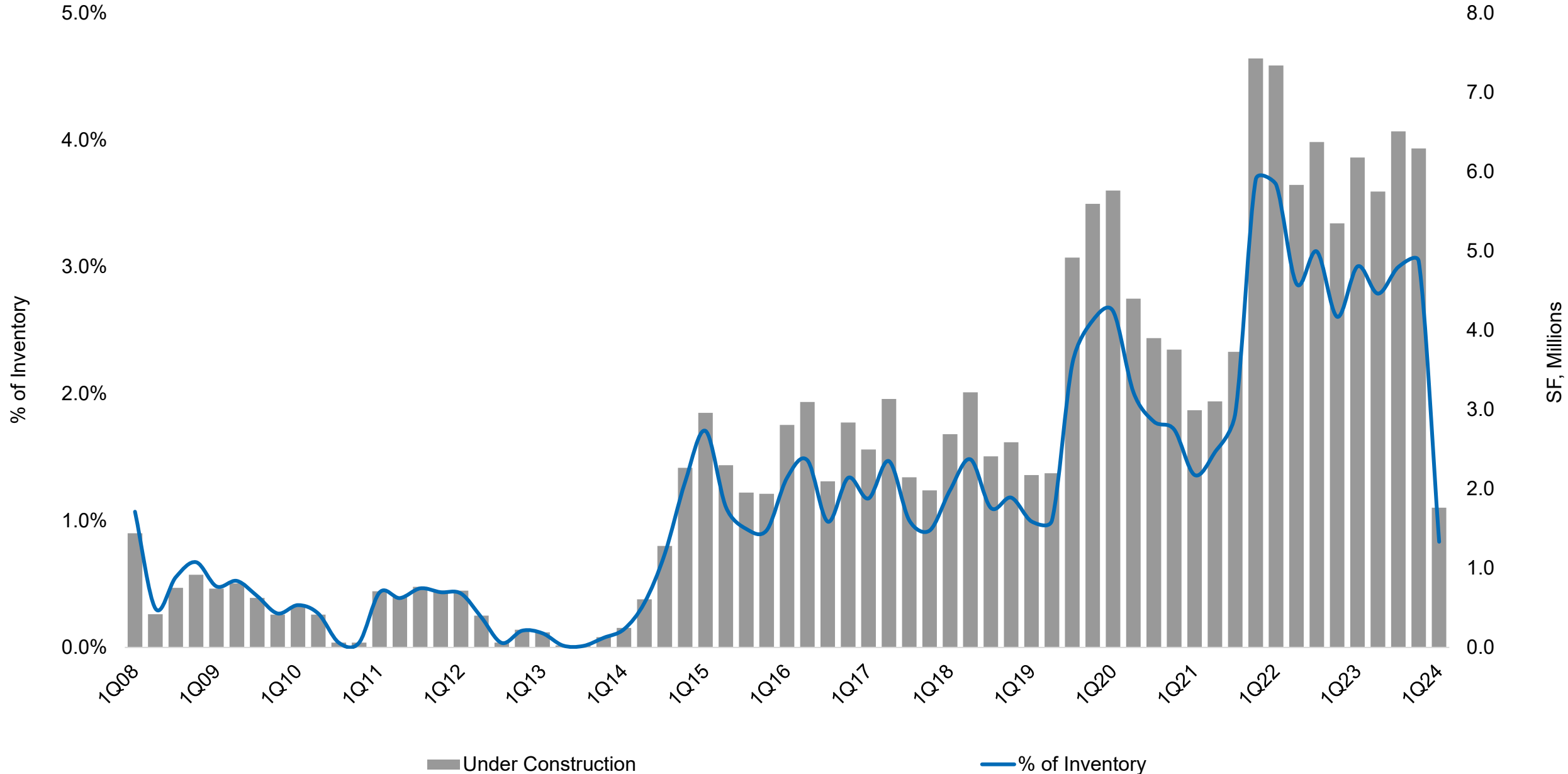


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Supply Pipeline Decelerates as Deliveries Mount

The construction pipeline trended downward in the first quarter of 2024 as 681,000 SF of Warehouse/Distribution space was delivered. Developers are encountering significant challenges, including decreased leasing activity, high capital costs, and elevated construction expenses. Consequently, the development pipeline is anticipated to further diminish as existing projects reach completion in the second half of 2024.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

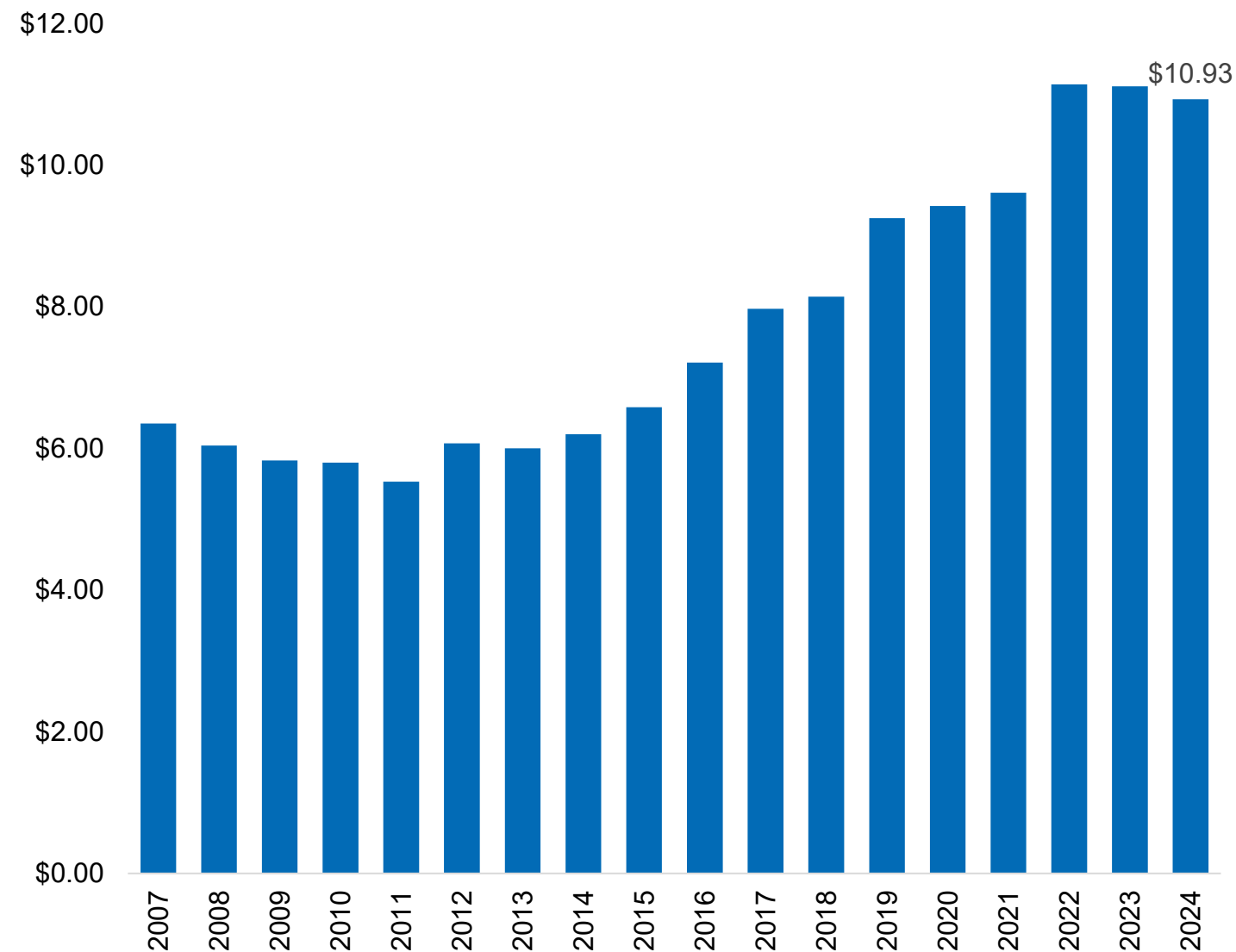


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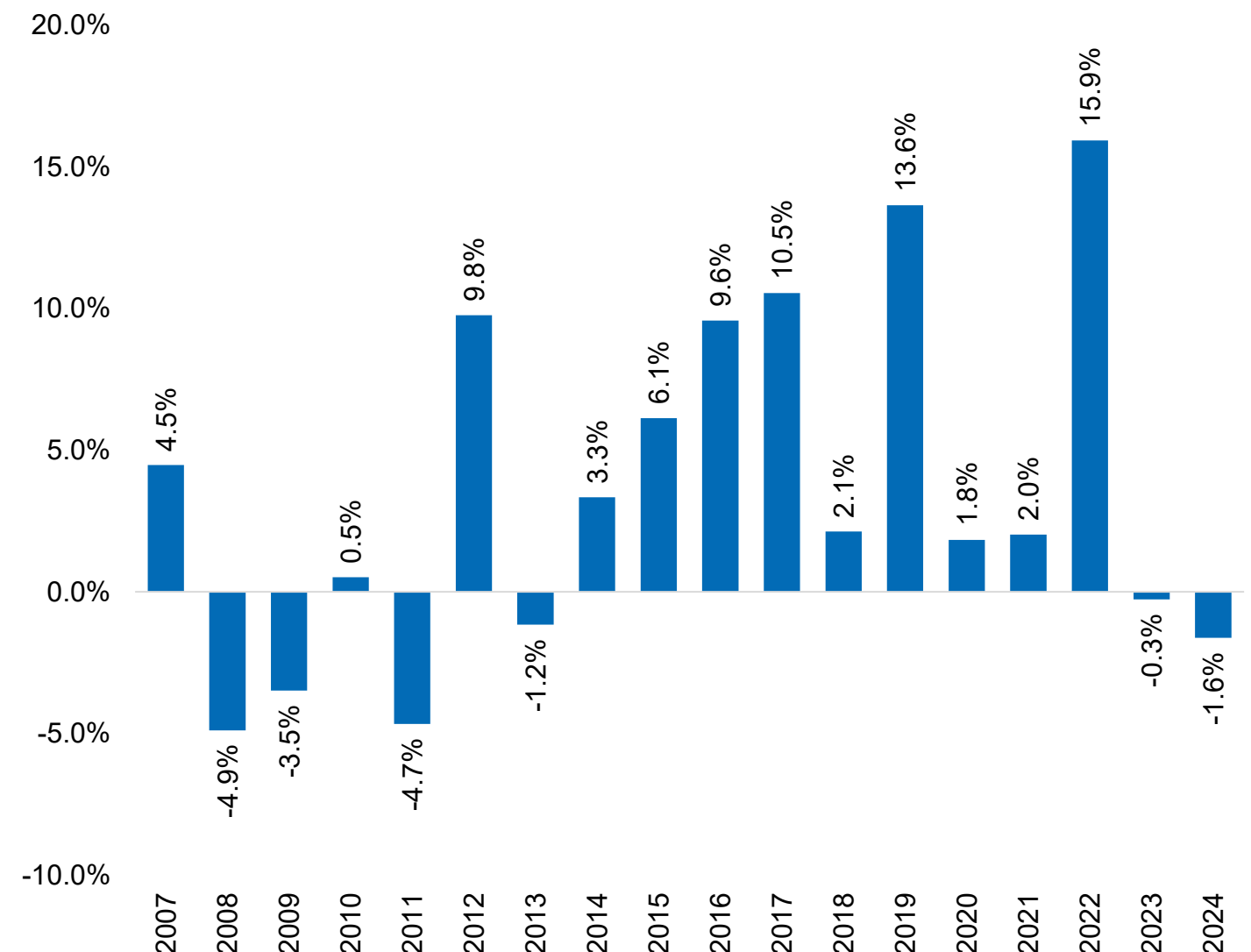
Industrial Asking Rent Sees Negative Growth in 1Q24

Average asking rents saw a 1.7% decline in the first quarter of 2024. Overall rent values have fluctuated slightly since exploding in 2022 during a historically strong leasing market as the industry recovered from pandemic levels. As more space continues to reach the market rates are projected to decrease as operators adjust their asking rates to reflect the current market conditions.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Notable 1Q24 Lease Transactions

Warehouse/Distribution assets represented all 5 of the largest transactions that took place in the first quarter of 2024. Urban markets demonstrated notable activity in leasing, signaling a shift in deal velocity away from the I-5 South Corridor at the beginning of the year

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
GTS Interior Supply <i>The construction supply company renewed in their current footprint.</i>	4033 NW Yeon Ave	Northwest	Renewal	151,363
Ball Corporation <i>Ball Corporation leased 50% of the total building footprint from Javelin Logistics.</i>	5545 NE 148 th Ave	NE/Columbia Corridor	Sublease	122,810
Performance Contracting <i>Performance Contracting signed a one-year lease term at the Prologis owned property.</i>	3571-3599 NW Yeon Ave	Northwest	Direct New	86,250
WEG <i>WEG is a leading manufacturer and supplier of industrial electrical technology.</i>	22657 NE Townsend Way	NE/Columbia Corridor	Direct New	70,153
FedEx <i>In the largest lease registered in Cincinnati to-date, the third-party logistics company, Commonwealth, expanded their area footprint.</i>	4344 N Port Center Way	Swan Island/Close-In NE	Renewal	69,000

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Appendix / Tables





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