
1Q24

Portland Office Market Overview



NEWMARK

Market Observations

Economy

- In the first quarter of 2024, Portland's labor market exhibited signs of deceleration, with the annual job growth rate remaining negative at the onset of the year.
- Office-occupying industries experienced another consecutive quarter of negative job growth, largely due to a downturn in the information sector.
- From February 2023 to February 2024, the education and health industry outpaced all sectors, adding 4.8% to the labor force on a year-over-year basis.
- Negative office-using employment numbers are reflected in the muted leasing activity and office utilization that we have been seeing over the previous quarters. As companies continue to right size we may continue to see regression in these sectors.

Major Transactions

- Directors Mortgage has acquired Kruse Way Plaza I & II, two buildings totaling 105,431 SF, that were previously owned by Shorenstein Properties. The buildings were purchased for \$23.0 million, or \$218.15/SF.
- The Tree Farm Building, a 40,026-SF office asset located at 850 SE 3rd Avenue in the Close-In Southeast, has been sold at auction to Ohana Group, LLC. The Class B office building sold for \$5.07 million, or approximately \$126.76/SF.
- The Williams-Sonoma Building, a 22,982-SF Class B office building located at 328-338 NW 23rd Avenue, was sold for \$7.0 million, or approximately \$304.59/SF. Newmark represented both the buyer and the seller in the transaction.

Leasing Market Fundamentals

- Net absorption in the first quarter of 2024 was negative 659,116 SF. The CBD bore the brunt of this decline, accounting for much of the negative absorption with a total of negative 477,051 SF. The Sunset Corridor was the second hardest hit submarket with negative 94,794 SF of absorption for the quarter.
- There are no new projects in the development pipeline for office assets in the Portland market. With the market becoming increasingly saturated with inventory, the demand for new construction starts in the region is minimal.
- Vacancy rates across the Portland market surged to 22.1%, marking a 170-basis-point increase over the fourth quarter of 2023. Despite this, asking rates have remained relatively steady. This suggests that landlords are reluctant to adjust pricing despite the prevailing soft market conditions.

Outlook

- The Portland office market encounters substantial challenges in 2024. Distressed assets are projected to continue in changing ownership, often at discounted rates, as seen in the latter half of 2023, through sales, foreclosures, and returns to lenders.
- Overall vacancy and availability rates are anticipated to keep climbing, driven by a surplus of returned space surpassing tenant demand.
- Rents have started displaying indications of a downward trend after maintaining stability despite exceedingly soft leasing fundamentals in the Portland office market. Projections suggest this decline will persist as new ownership enters the market at lower bases than previous operators.

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1. Economy
 2. Leasing Market Fundamentals

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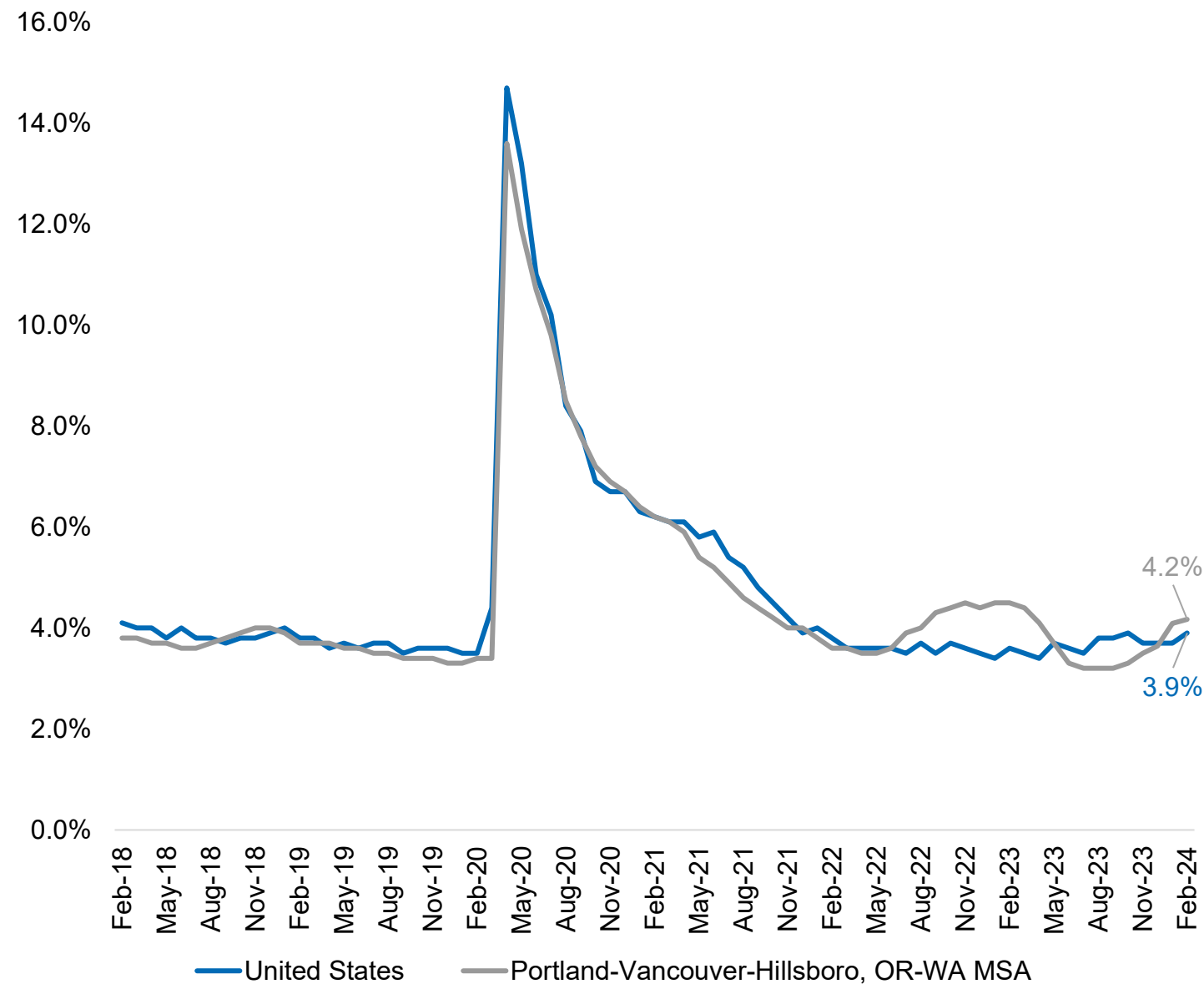
Economy



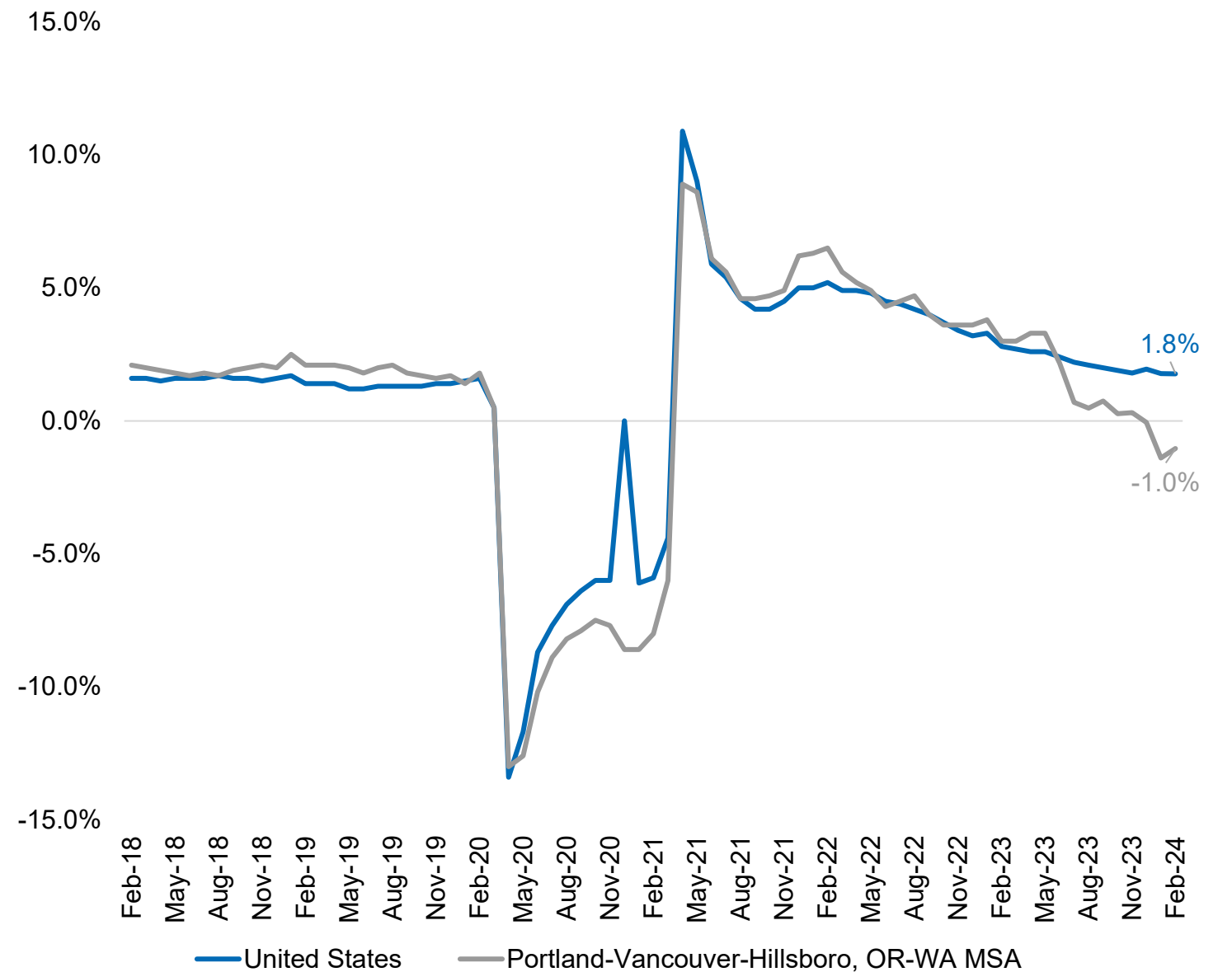
Portland Employment Shows Signs of Slowing

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

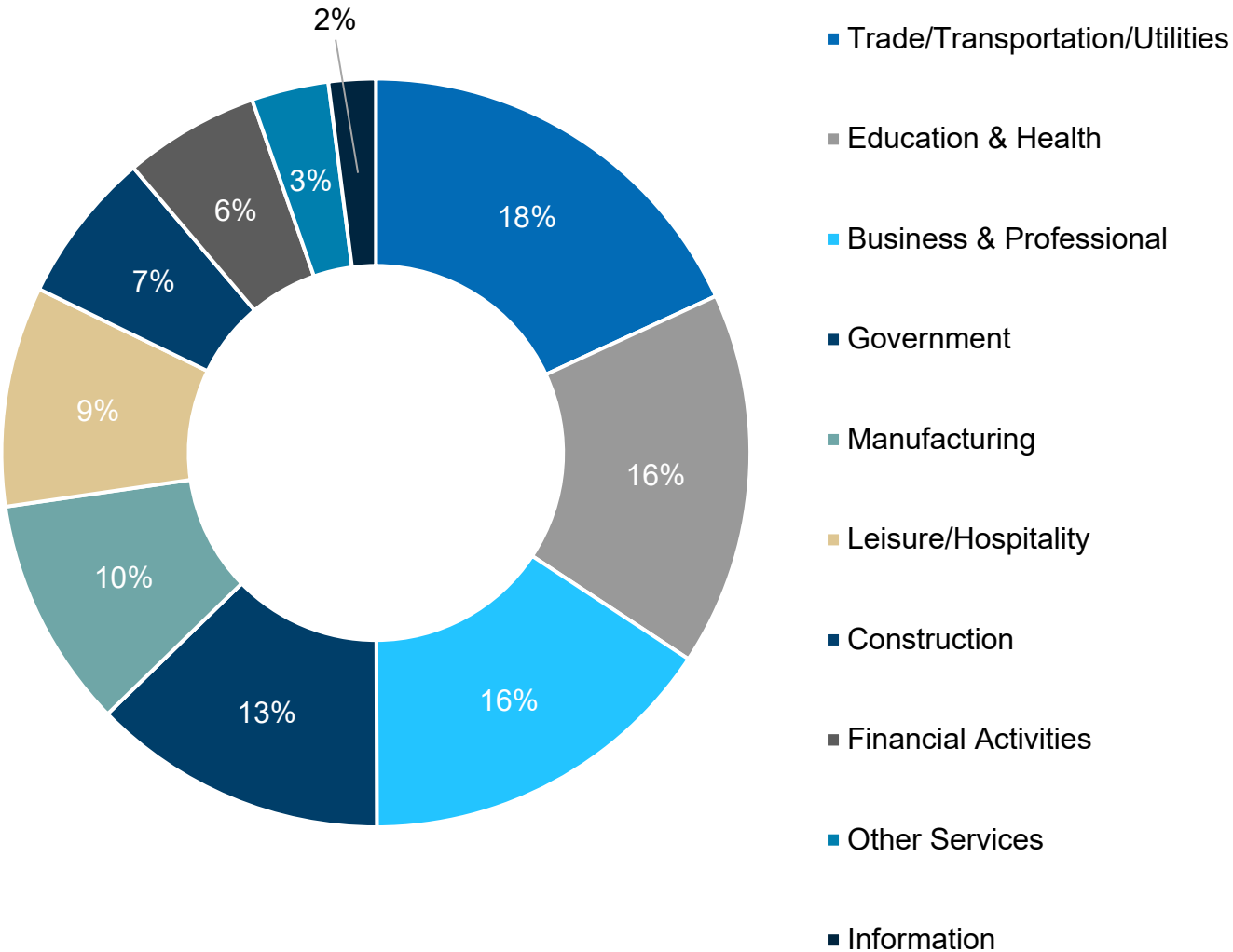


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

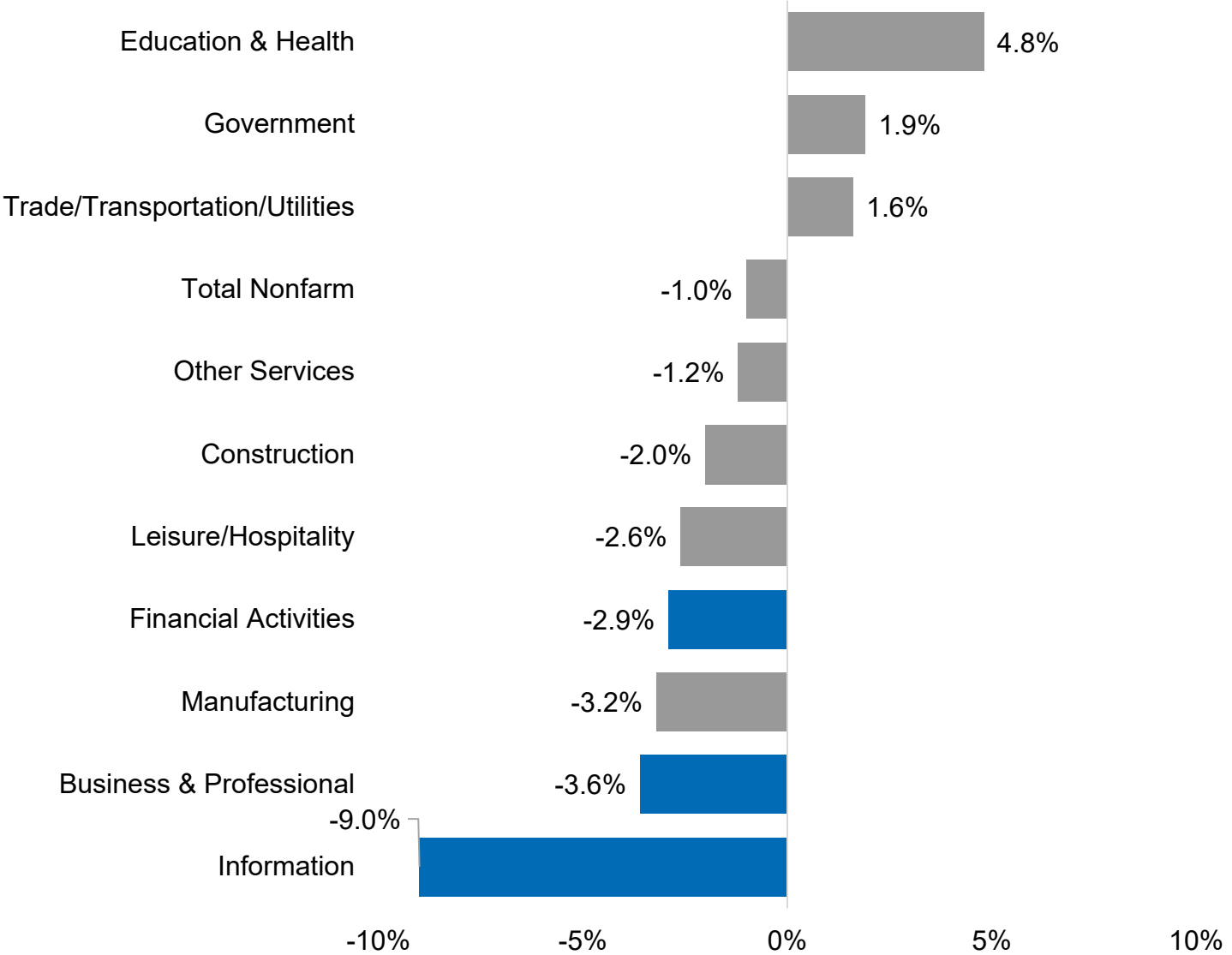
Office-Using Industries Lead Negative Job Growth

All three major office-occupying industries witnessed negative year-over-year growth in the first quarter, with the information sector exhibiting a significant decline of 9.0% compared to figures from a year ago.

Employment by Industry, February 2024



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

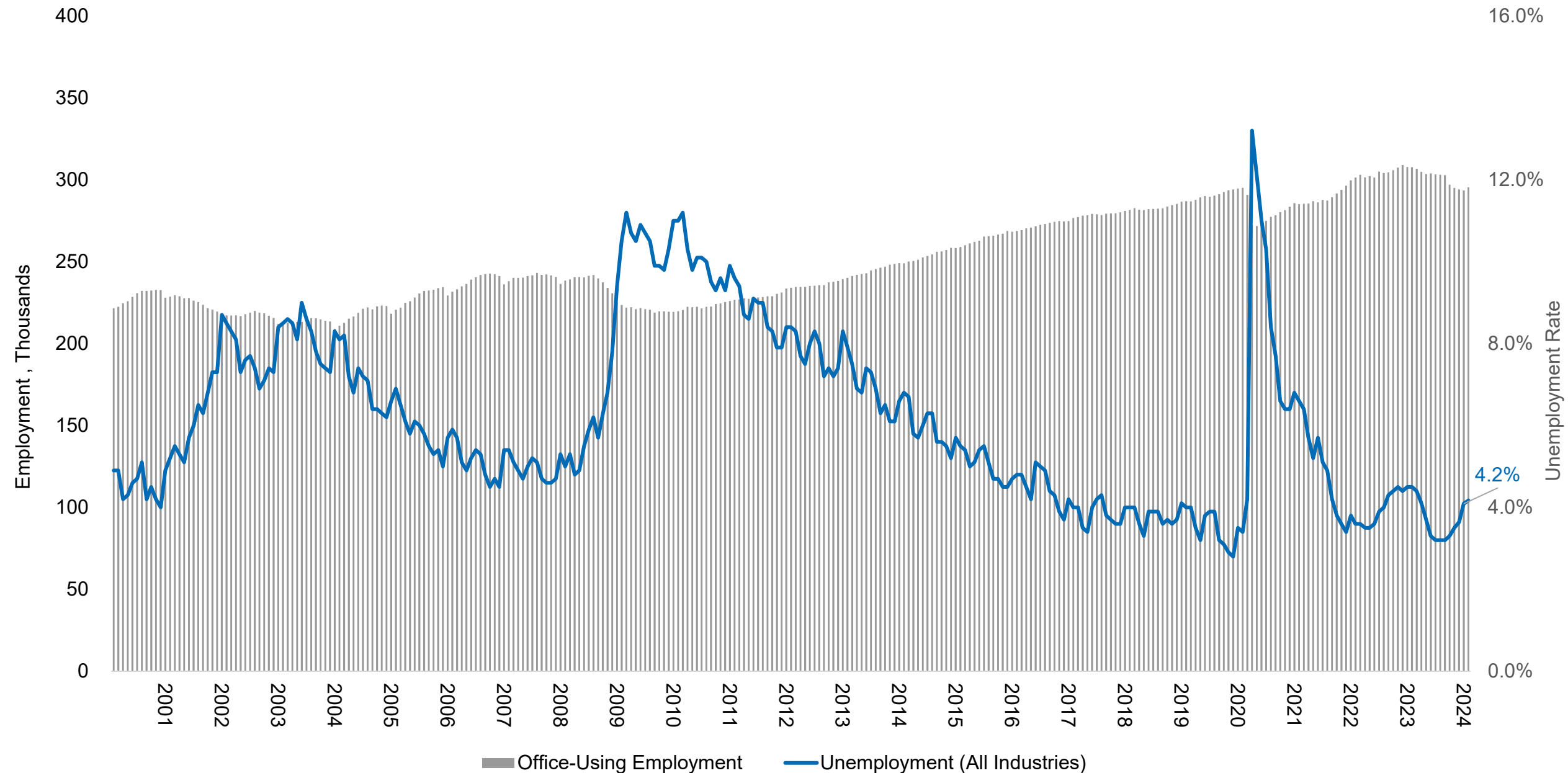


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

Employment Remains Above 2019 Levels

Despite negative job growth this quarter, office-using employment still stands 4.8% higher than pre-pandemic levels in 2019. However, total non-farm employment shows a decline of 100 basis points compared to the first quarter of 2023, a period when Portland was experiencing its lowest level of unemployment in the past 5 years.

Office-Using Employment* and Unemployment Across All Industries



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

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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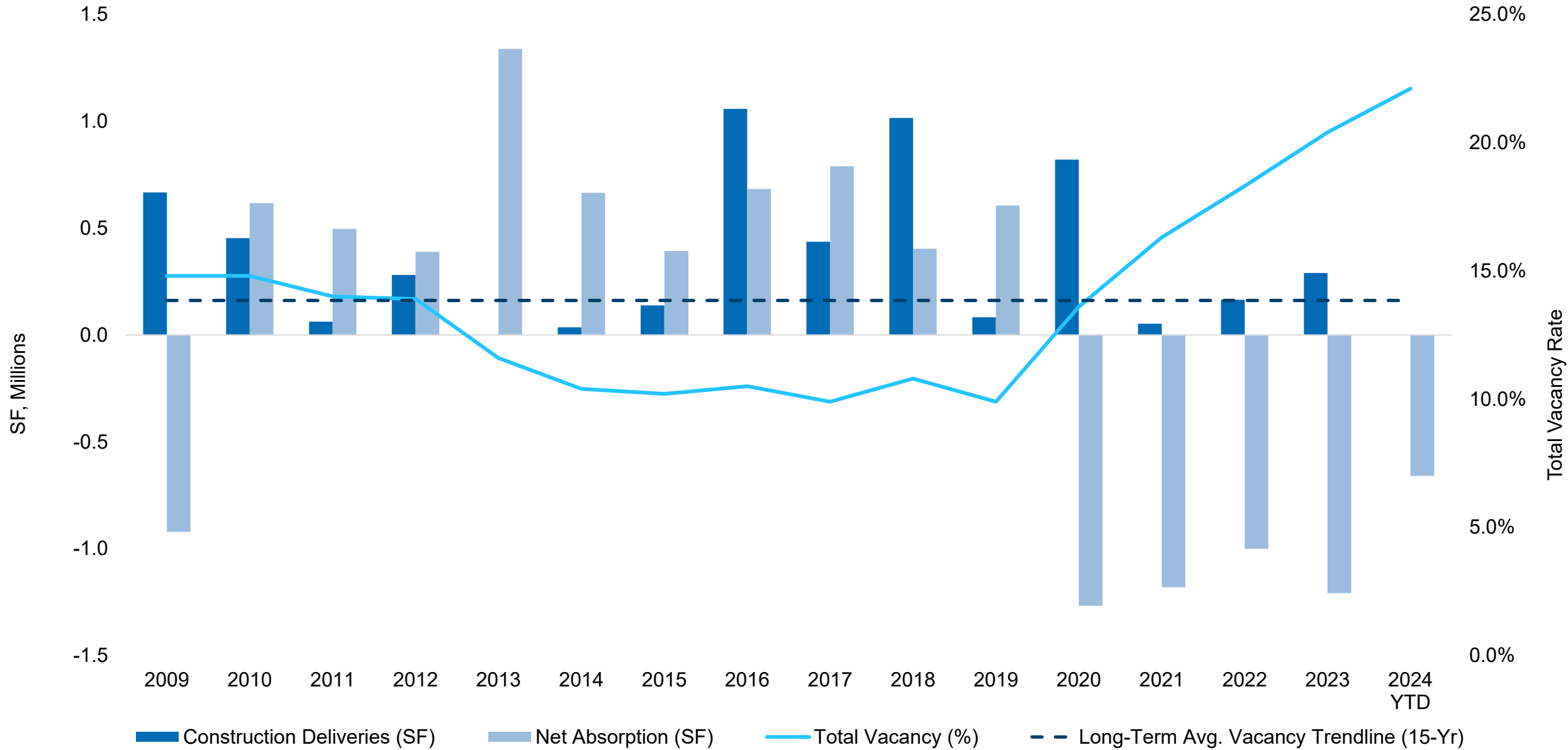
Leasing Market Fundamentals



Vacancy Continues to Climb to Start 2024

The market-wide vacancy rate rose to 22.1% in the first quarter of 2024, reflecting a 170-basis-point increase quarter-over-quarter. Net absorption across the entire market totaled a negative 659,116 SF. The CBD remains the hardest-hit submarket, with vacancy rates surpassing the 30% mark for the first time since the onset of the pandemic.

Historical Construction Deliveries, Net Absorption, and Vacancy

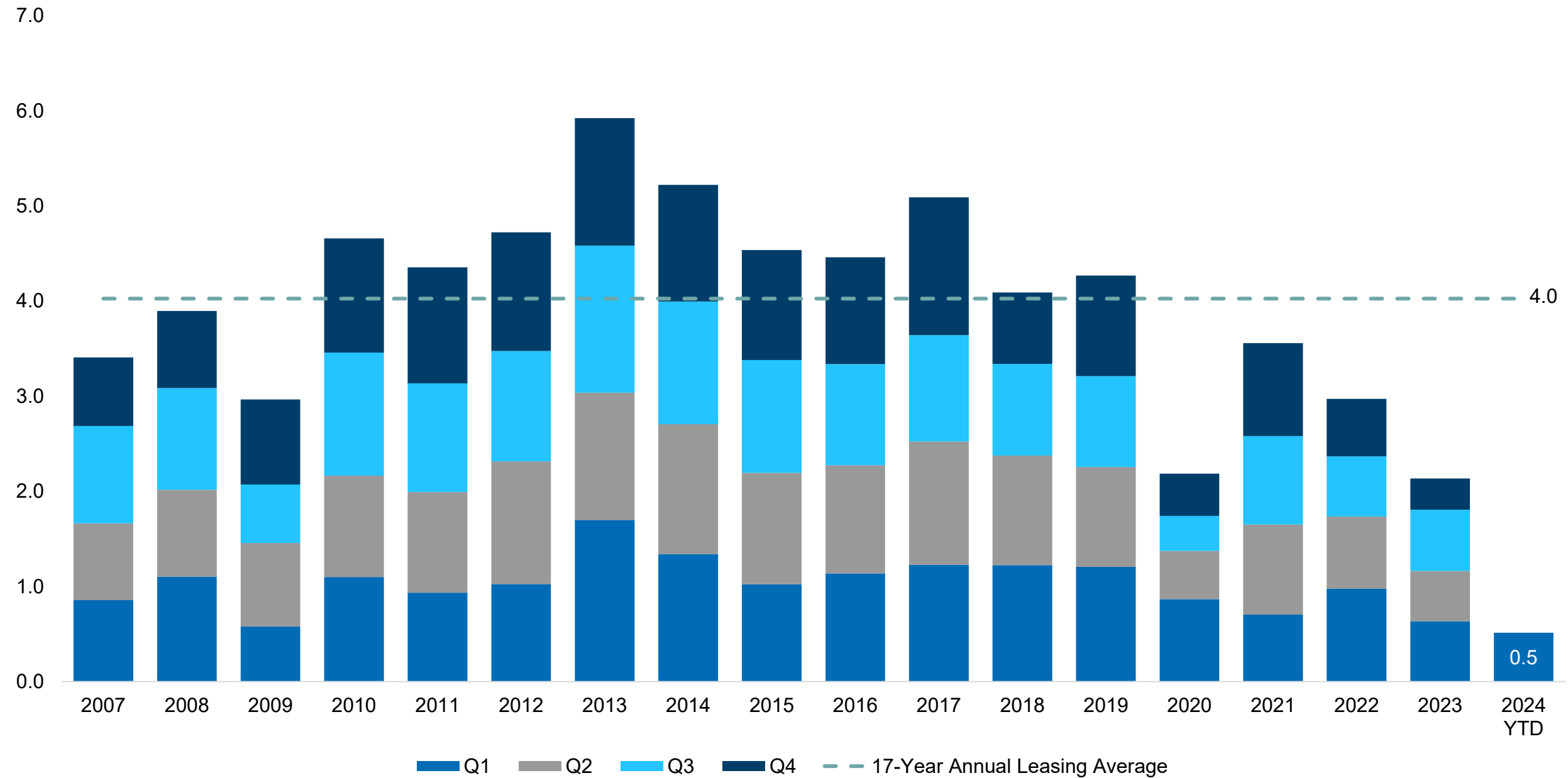


Source: Newmark Research

Leasing Activity Remains Muted in 1Q24

The Greater Portland market continues to experience a significant downturn in activity. One bright spot for the urban submarkets was that the bulk of the activity that took place in the first quarter was centered around the CBD and surrounding areas.

Total Leasing Activity (msf)

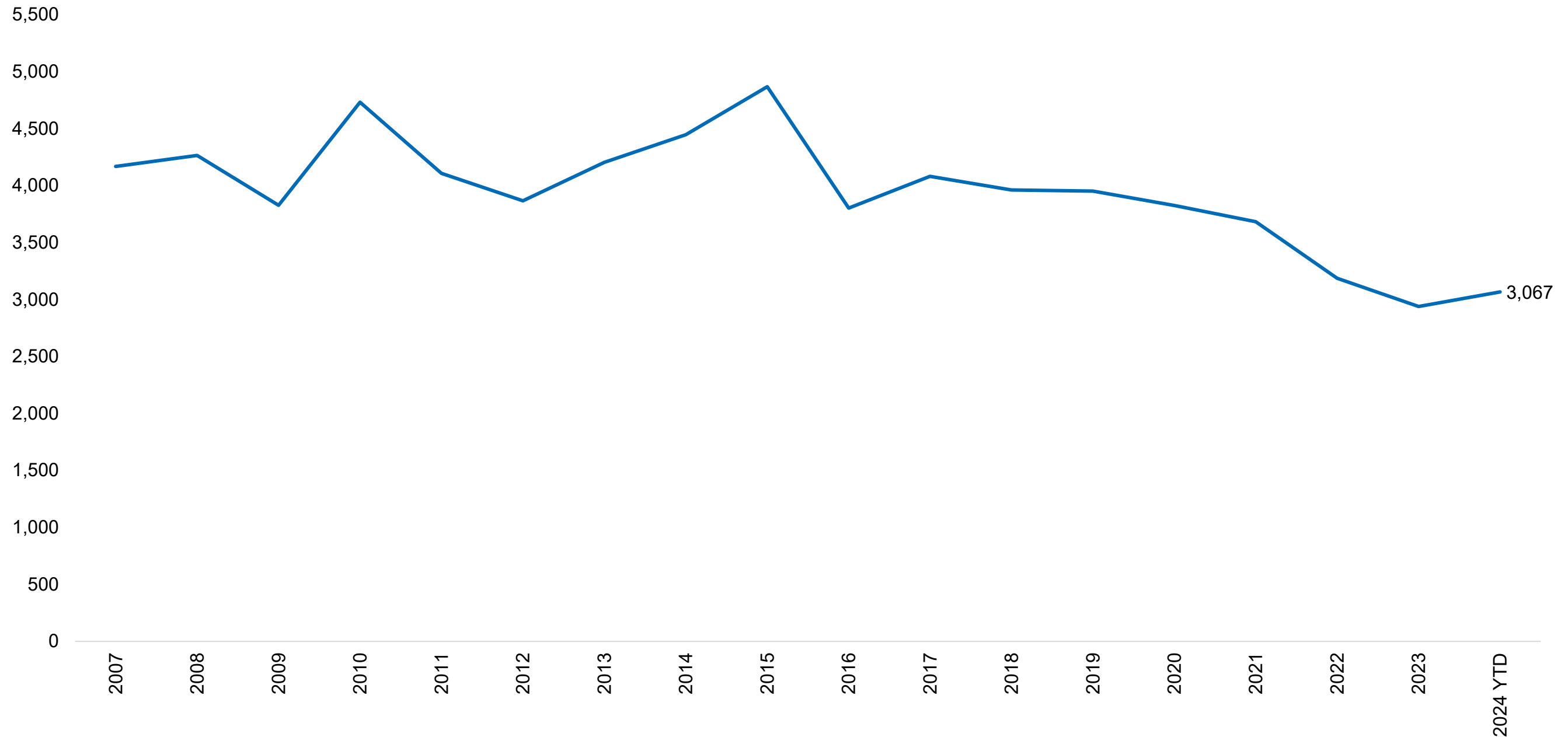


Source: Newmark Research, CoStar

Average Deal Size Sees Slight Uptick

The first quarter of 2024 witnessed a slight rebound in average deal size compared to the closing months of 2023. The average deal size signed during this period was 3,067 square feet, reflecting a 4.1% increase from the previous quarter. As tenants navigate their footprint requirements in the era of remote and hybrid work, this figure is expected to remain volatile in the near term.

Average Lease Size (sf)



Source: Newmark Research, CoStar

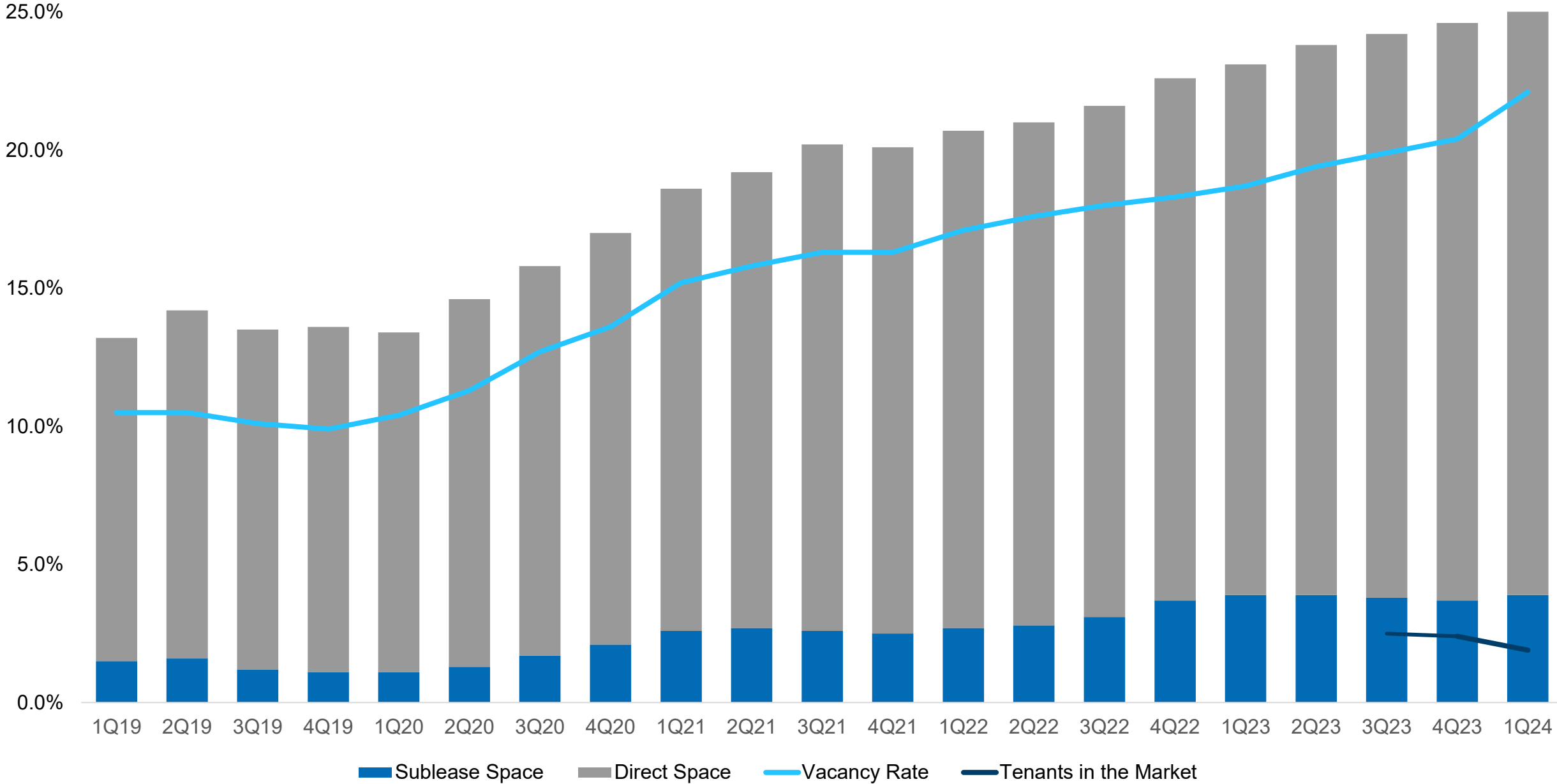


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Tenant Demand Down as Space Continues to Flood Market

Total tracked office requirements experienced a slight regression at the beginning of 2024. Demand still represents only a fraction of the total available space, and the market remains saturated with new direct and sublease spaces becoming available.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

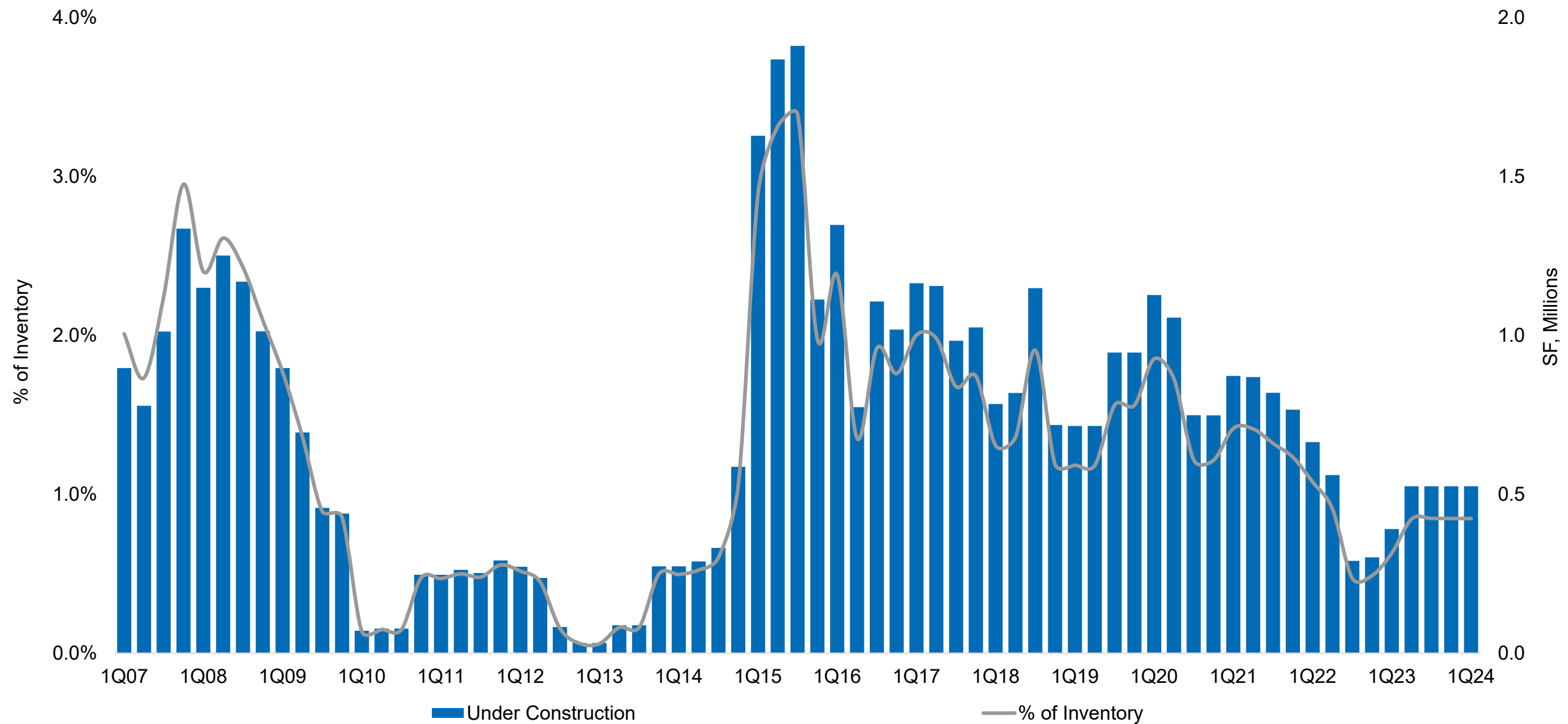


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No New Constructions Starts to Begin 2024

Clark County remains the sole submarket where construction is underway for office assets. Two projects, Terminal 1 and Block 1 of the Waterfront, totaling 525,000 SF of office space, are set to be completed on the Vancouver waterfront in 2025.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

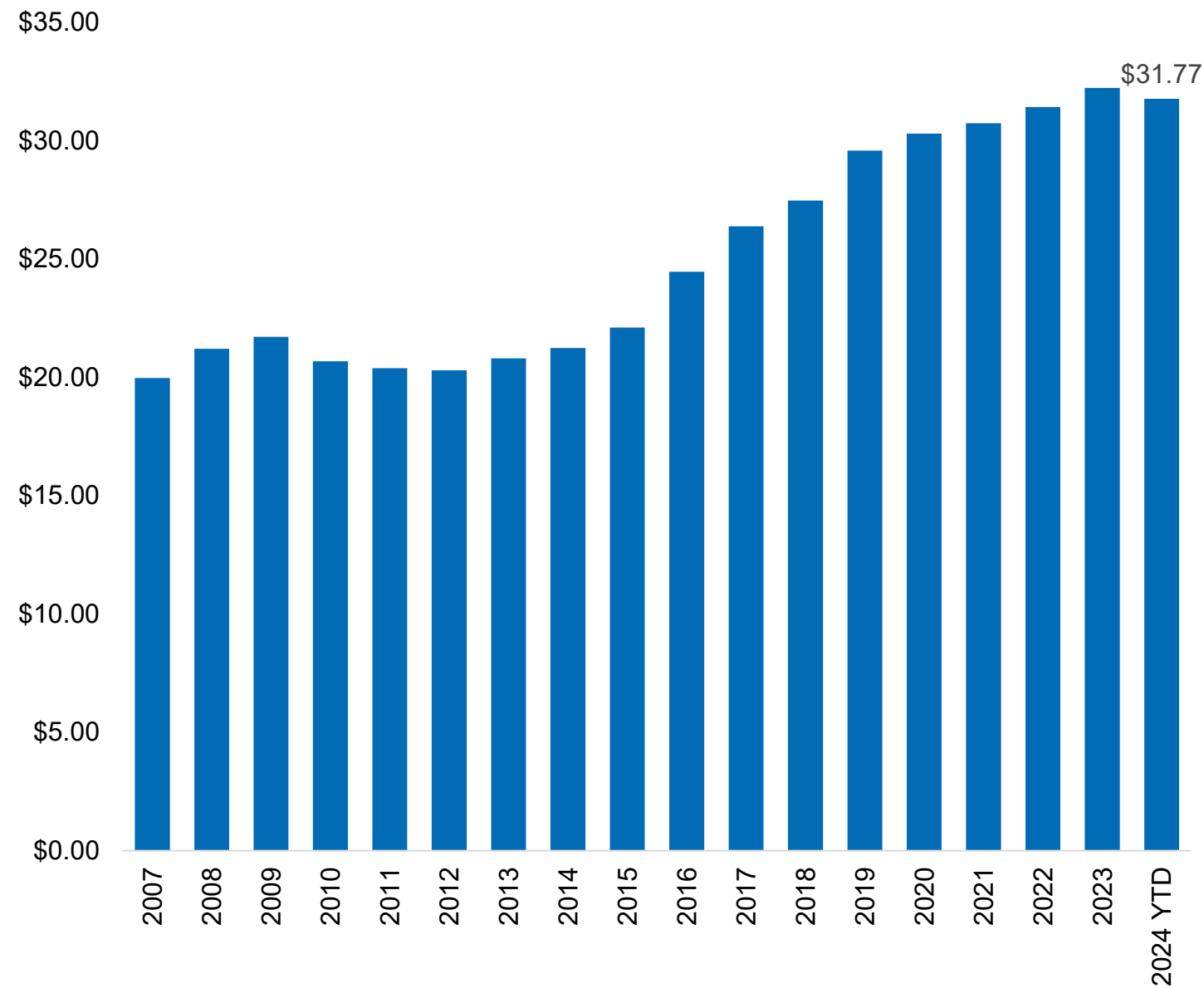


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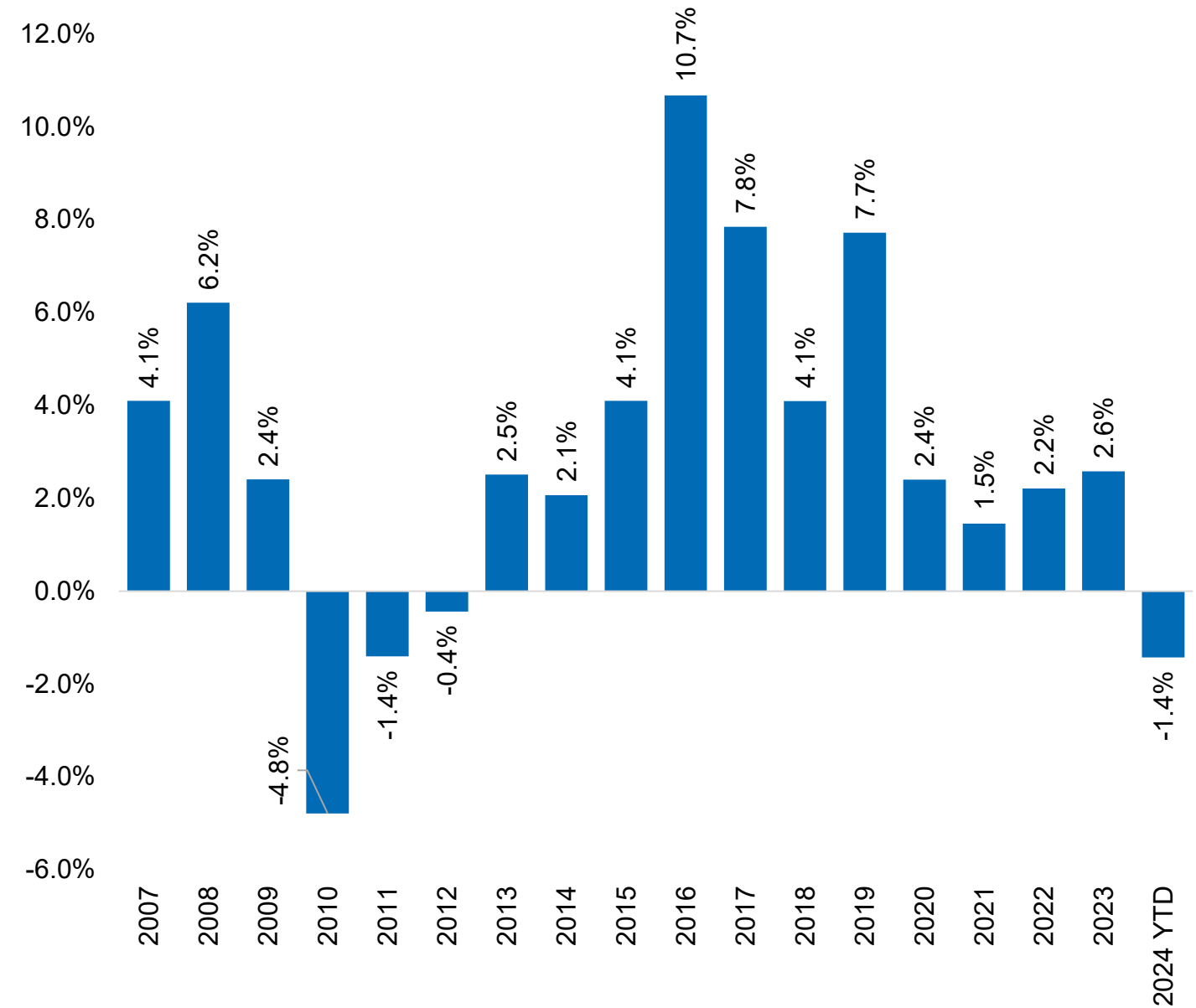
Overall Asking Rate Declines

Average asking rates experienced a slight decline to \$31.77/SF across all asset classes in the fourth quarter of 2023. The year-over-year decrease of 1.4% across the market can be attributed to the influx of new inventory entering the market at lower rental rates. This trend is anticipated to persist in 2024 as market saturation intensifies.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

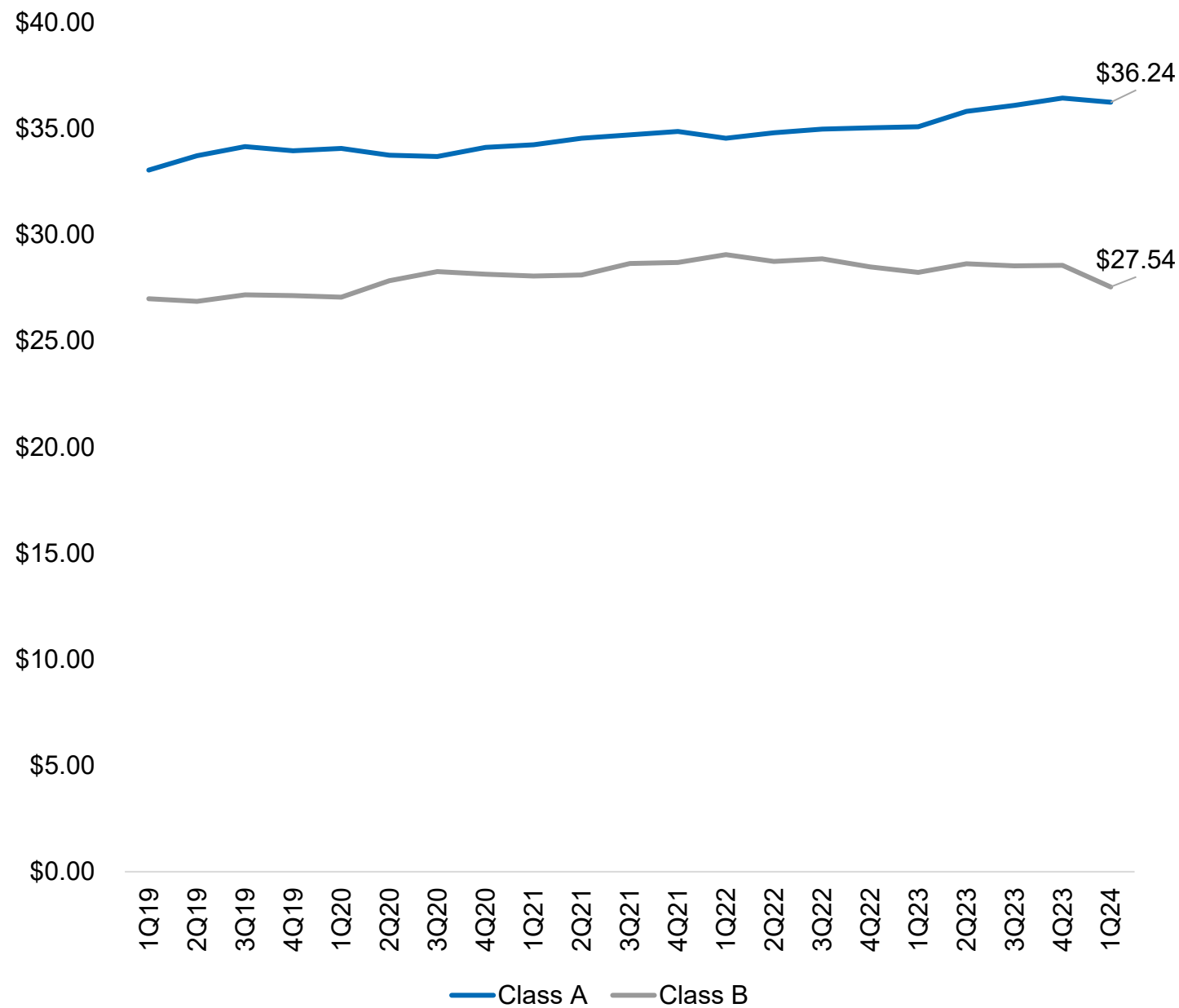


Source: Newmark Research, CoStar

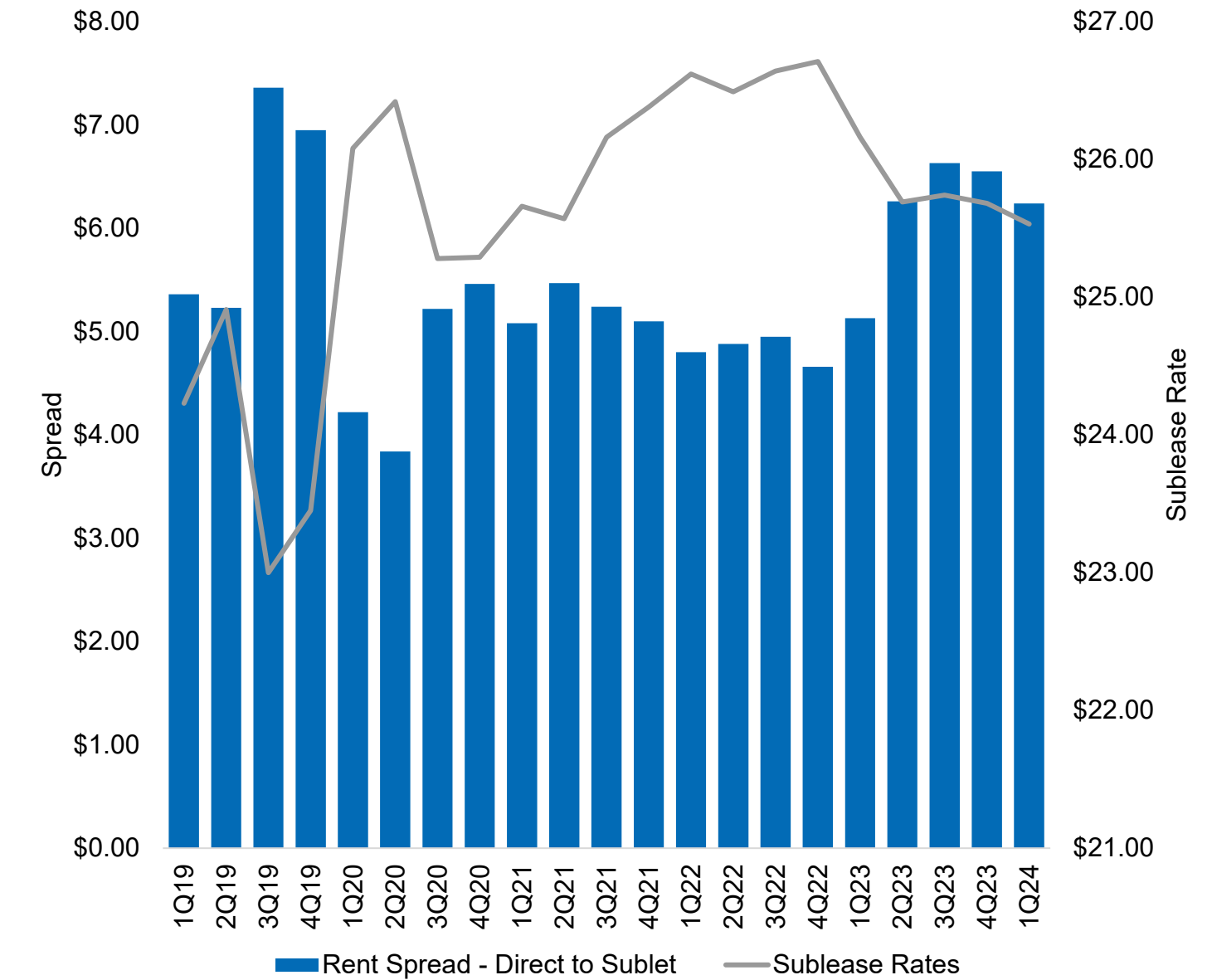
Class A Rates Remain Elevated

Class A asking rents saw a slight decrease at the beginning of the year. Across the entire market, Class A rates were measured at \$36.24/SF, indicating a 70 basis-point decline compared to the fourth quarter of 2023. Sublease rates in the Portland area also decreased for the third consecutive quarter, reflecting a growing inventory of available secondhand space currently on the market for lease.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Notable Companies Sign Leases in 1Q24

Market activity received a boost from the automotive industry in the first quarter of 2024. Jaguar Land Rover made a long-term commitment in the Close-In NW, marking a significant win for urban submarkets, while Tesla secured a large footprint in Johns Landing. The market is witnessing many tenants opting for shorter-term deals, likely aiming to maintain flexibility and capitalize on favorable leasing market conditions.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Jaguar Land Rover	2034 NW 27 th Ave	Close-In NW	Direct Lease	52,309
<i>Jaguar Land Rover committed to a long-term deal at Redfox Commons.</i>				
Tesla	690-720 SW Bancroft St	Johns Landing	Direct Lease	43,216
<i>Tesla's new lease in Johns Landing marks one of the largest leases in the submarket since the onset of the pandemic.</i>				
Holtz Homes	1301 SE Tech Center Dr	Clark County	Sublease	32,228
<i>The Vancouver based home building company now occupies the entire flex building at Columbia Tech Center.</i>				
PacifiCorp	2201 Lloyd Ctr	Lloyd District	Extension	19,500
<i>PacifiCorp inked a renewal at the Lloyd Center where they have been long-term tenants for multiple decades.</i>				
Forest City Trading Group	10200 SW Greenburg Rd	217 Corridor/Beaverton	Extension	19,101
<i>The company renewed in Five Lincoln Center, notable as rents have increased dramatically but retention remains high at the Shorenstein development.</i>				

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