

2Q23

# Portland Industrial Market Overview



NEWMARK



# Market Observations

## Economy

- The region’s labor market plateaued among industrial sectors as fluctuating macroeconomic conditions put a damper on growth. Construction remained the sole outlier, registering 5.7% growth year-over-year.
- Manufacturing job growth slowed significantly as the shortage of desirable space for tenants in the market has quelled growth in the industry. Labor participation rate continues to exceed pre-pandemic levels.
- The unemployment rate for the Portland market currently sits at 3.0%, below the national average of 3.4%. Strong gains in service industry and tourism occupations have bolstered growth in the labor market in 2023.

## Major Transactions

- Retailer giant Walmart announced this quarter that it will be permanently closing their Portland locations and exiting the market.
- Prologis finished construction on a 281,345 square foot building in their Prologis Meadows development in the NE/Columbia Corridor submarket. This building has been fully leased to distributor Sonepar.
- Grahams Ferry Industrial Center delivered this quarter bringing 148,279 square feet of available space to the I-5 South Corridor.

## Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled 240,236 square feet, bringing total year to date absorption for the Portland market to 468,482 square feet. Absorption numbers are far behind 2022 totals, but vacancy has remained steady at 2.8% despite a deceleration in activity.
- The construction pipeline remains healthy at 5.7 million square feet currently being tracked. Of this number, 87.3% of projects are in the warehouse/distribution category, and no R&D/Flex developments are currently being constructed in Portland as inventory still outweighs demand in that sector.
- Rents have edged slightly lower market-wide in the second quarter of 2023. The average asking rate dropped to \$10.89/SF which represents a \$0.25/SF drop from the 2022 high of \$11.14/SF.

## Outlook

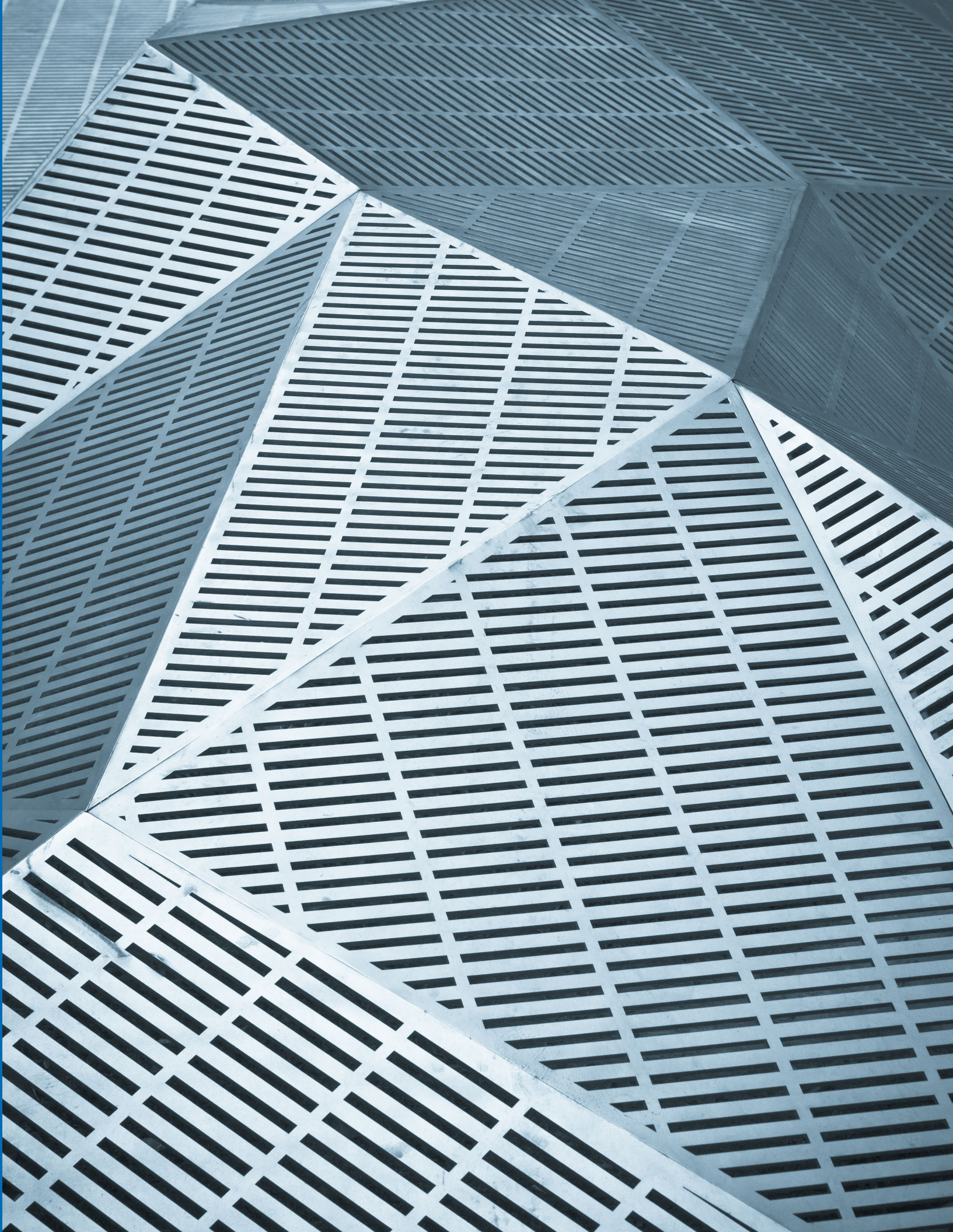
- The industrial market has begun showing signs of fatigue as both leasing velocity and sale volume are down substantially from 2022 levels and the slow down is expected to continue as companies and developers track volatile market conditions.
- New construction starts are poised to shrink significantly moving forward in 2023. Rising debt costs and uncertain macroeconomic headwinds have put pause to many development projects that were looking to break ground in the coming months.
- Industrial availability rates are expected to rise as sublease opportunities have rapidly increased as compared to the first quarter of 2023. This trend looks likely to continue as companies shed underutilized or unnecessary space.

1. Economy
2. Leasing Market Fundamentals



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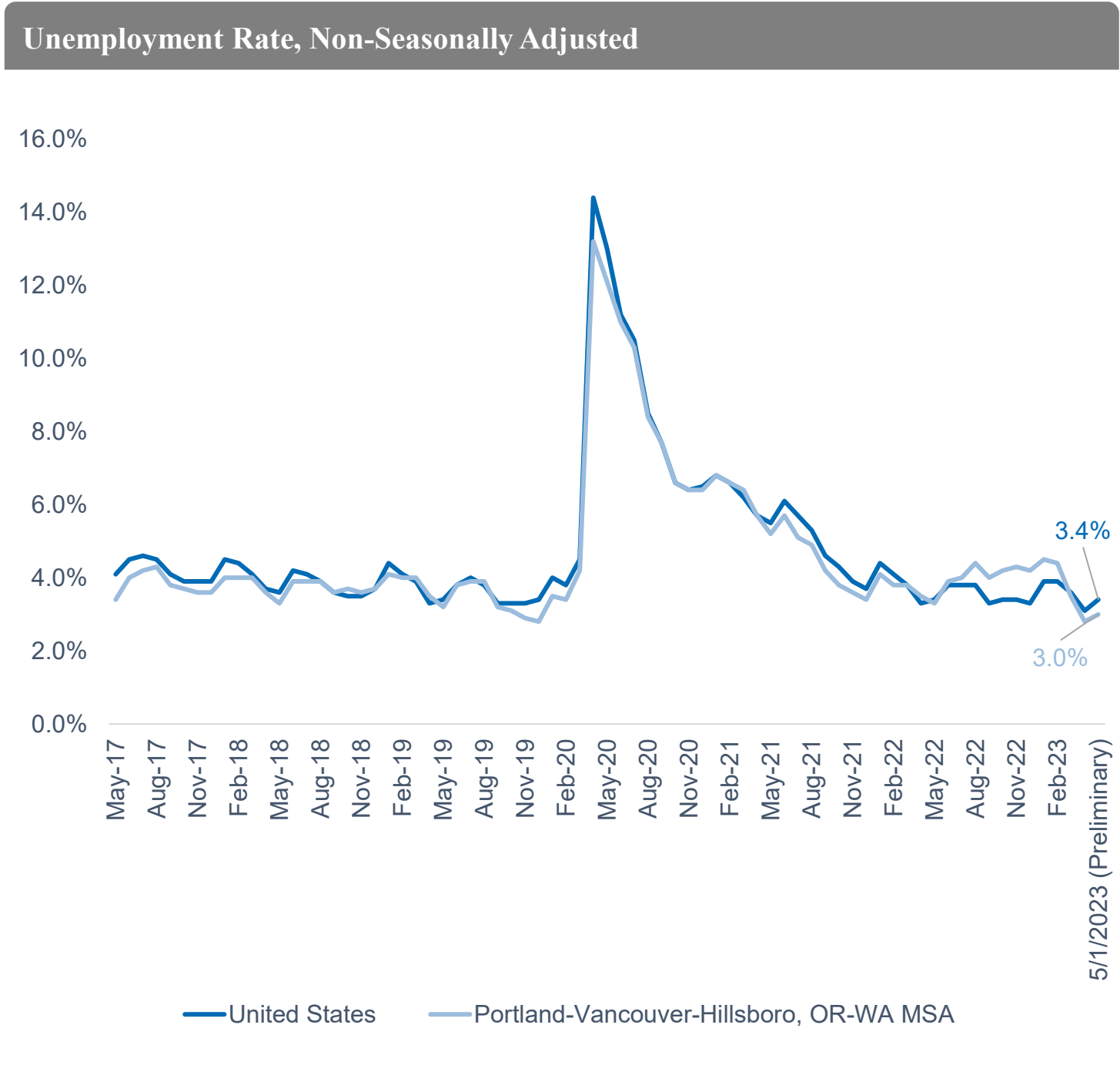
# Economy



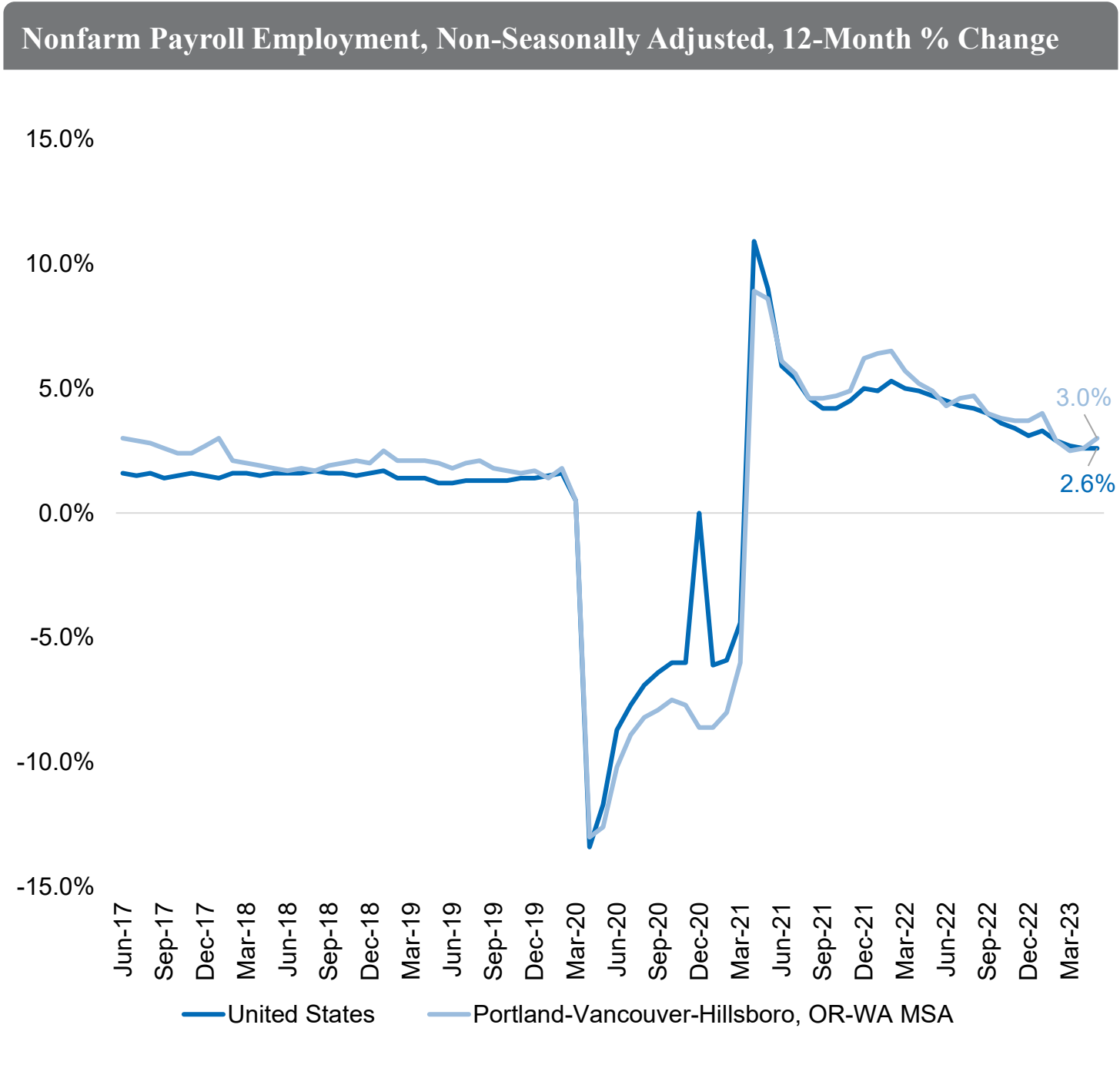


# Industrial Employment Remains Strong Despite Slowdown

The region's labor market remains below the national average for unemployment rate, despite significant slowdown in multiple sectors. Industrial employment numbers show significant variance based upon the industry, with sectors such as manufacturing that performed strongly during the pandemic start to show signs of cooling as consumer demands shift.



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

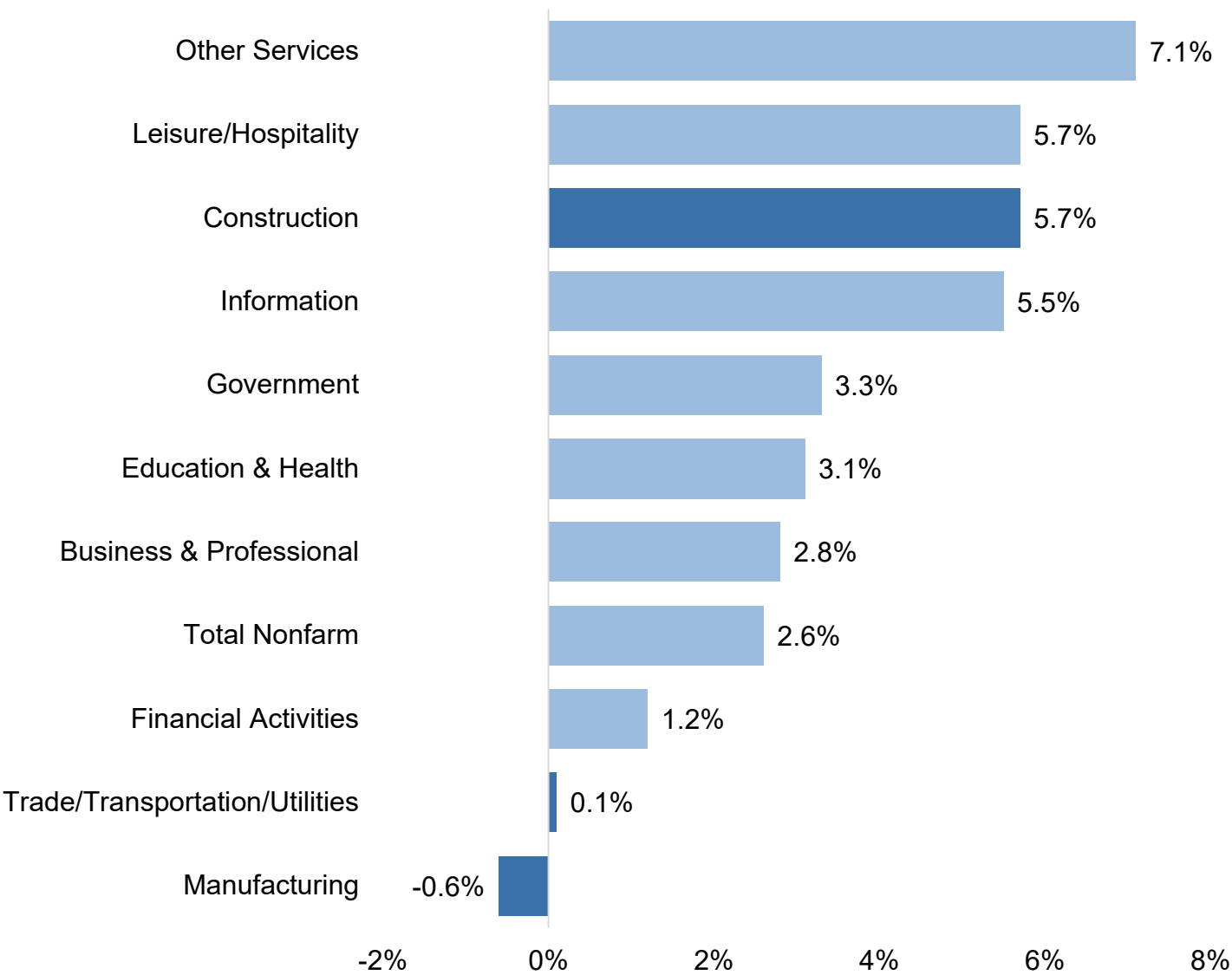
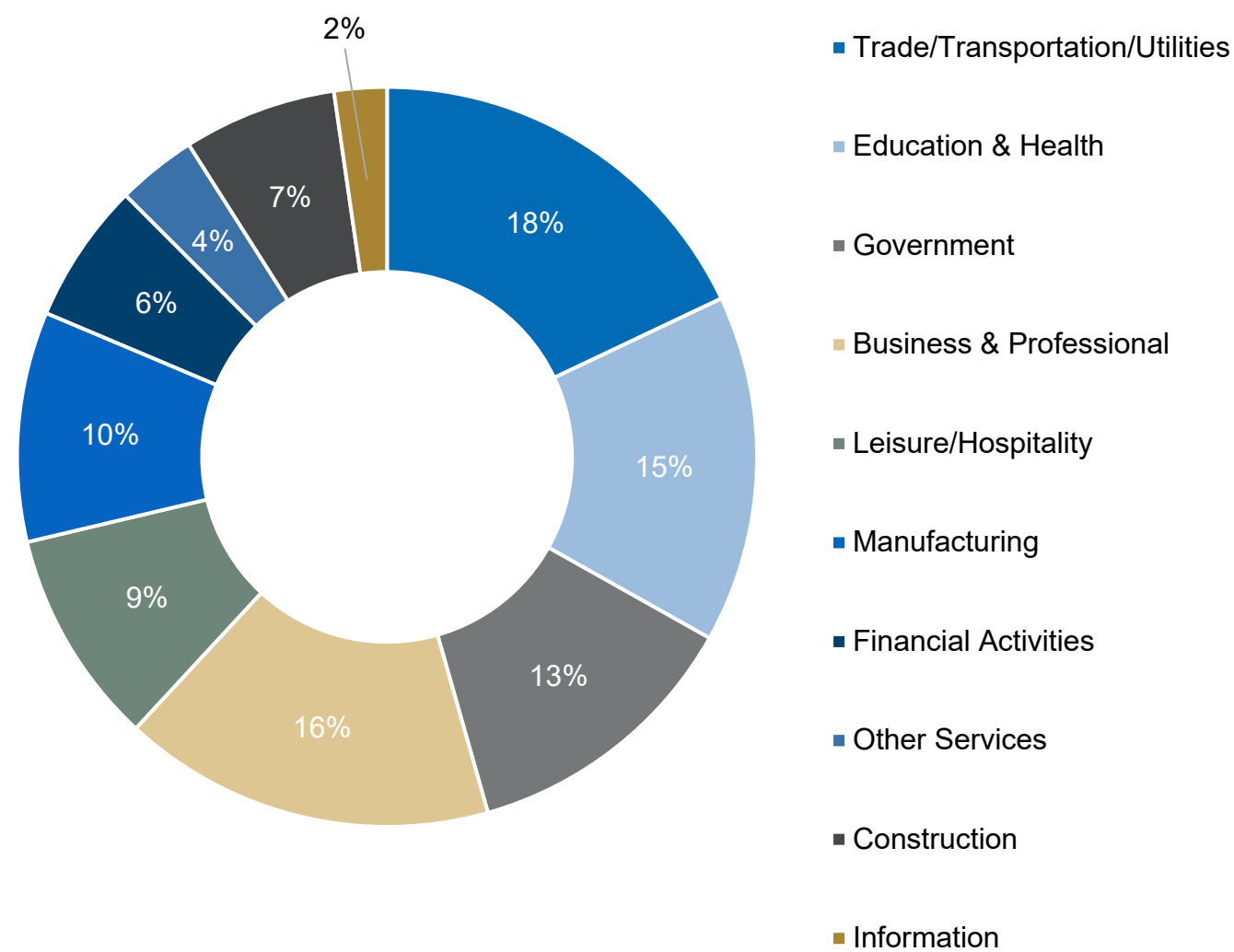


# Job Growth Shows Signs of Softening

The other services sector led all industries in regional annual job growth, while construction led the industrial industries in growth in large part due to steady demand for labor in the residential market. Overall, industrial industries showed signs of stagnation as manufacturing recorded a slight job loss amid a very tight market for industrial real estate.

Employment by Industry, April 2023

Employment Growth by Industry, 12-Month % Change, April 2023

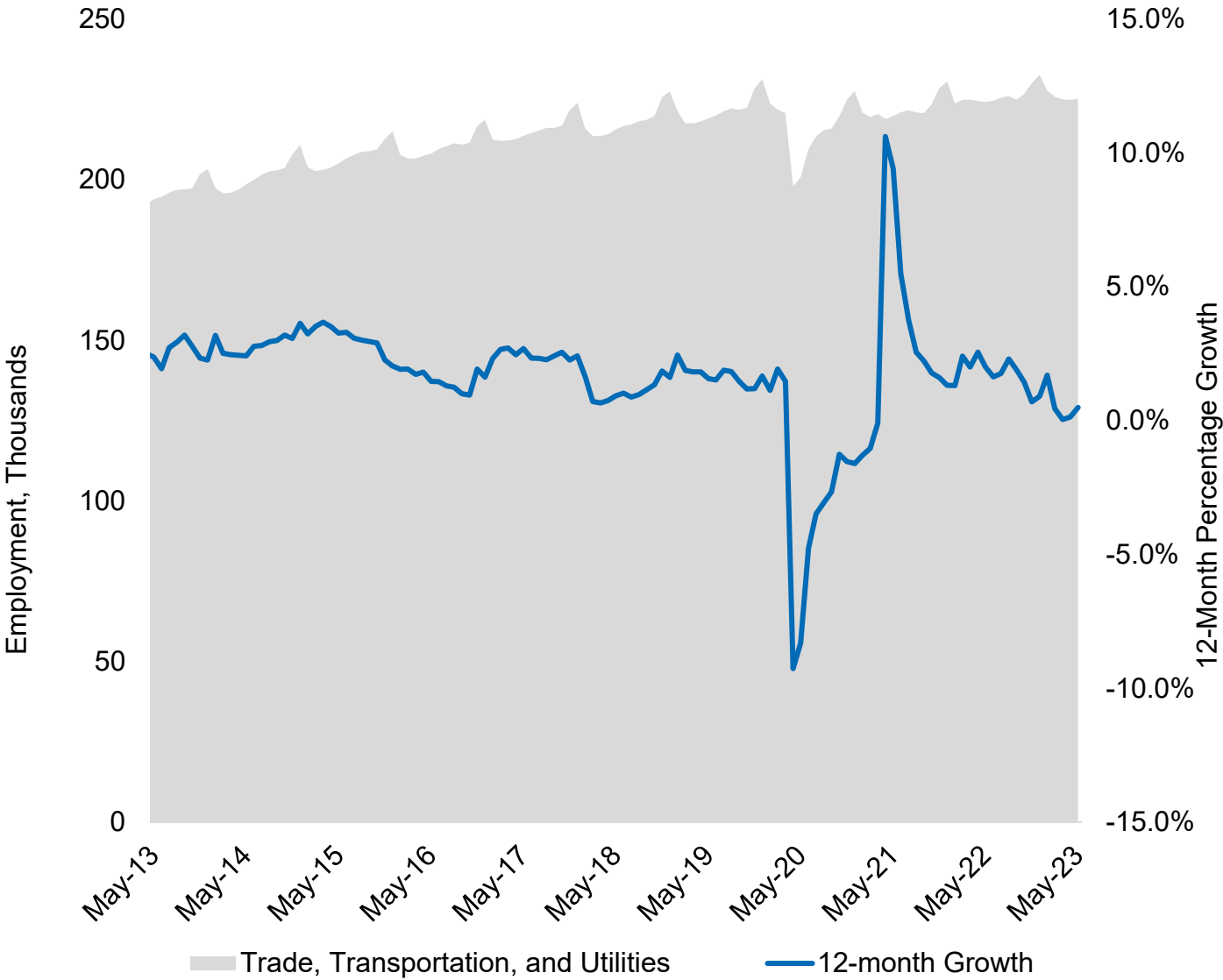


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

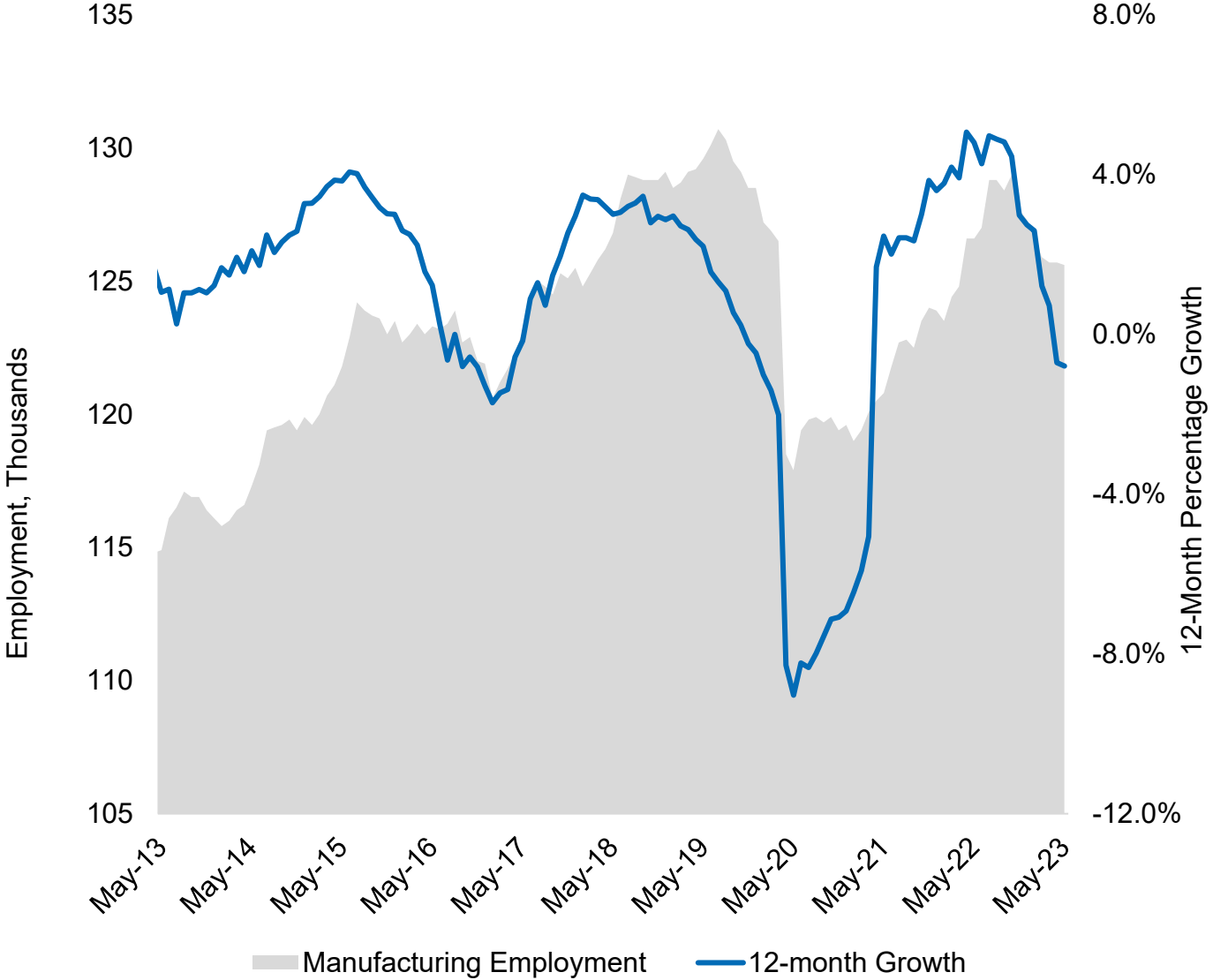
# Industrial Employment Growth Stalls

In response to uncertain economic conditions and changing consumer demand, companies in industrial sectors are modifying their workforce requirements. However, ongoing demand for qualified labor remains a significant obstacle for numerous business types in the market. Construction labor demands recorded strong growth in the second quarter of 2023 as the manufacturing and trade, transportation, and utilities sectors saw employment numbers stagnate.

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



Total Employment and 12-Month Growth Rate, Manufacturing



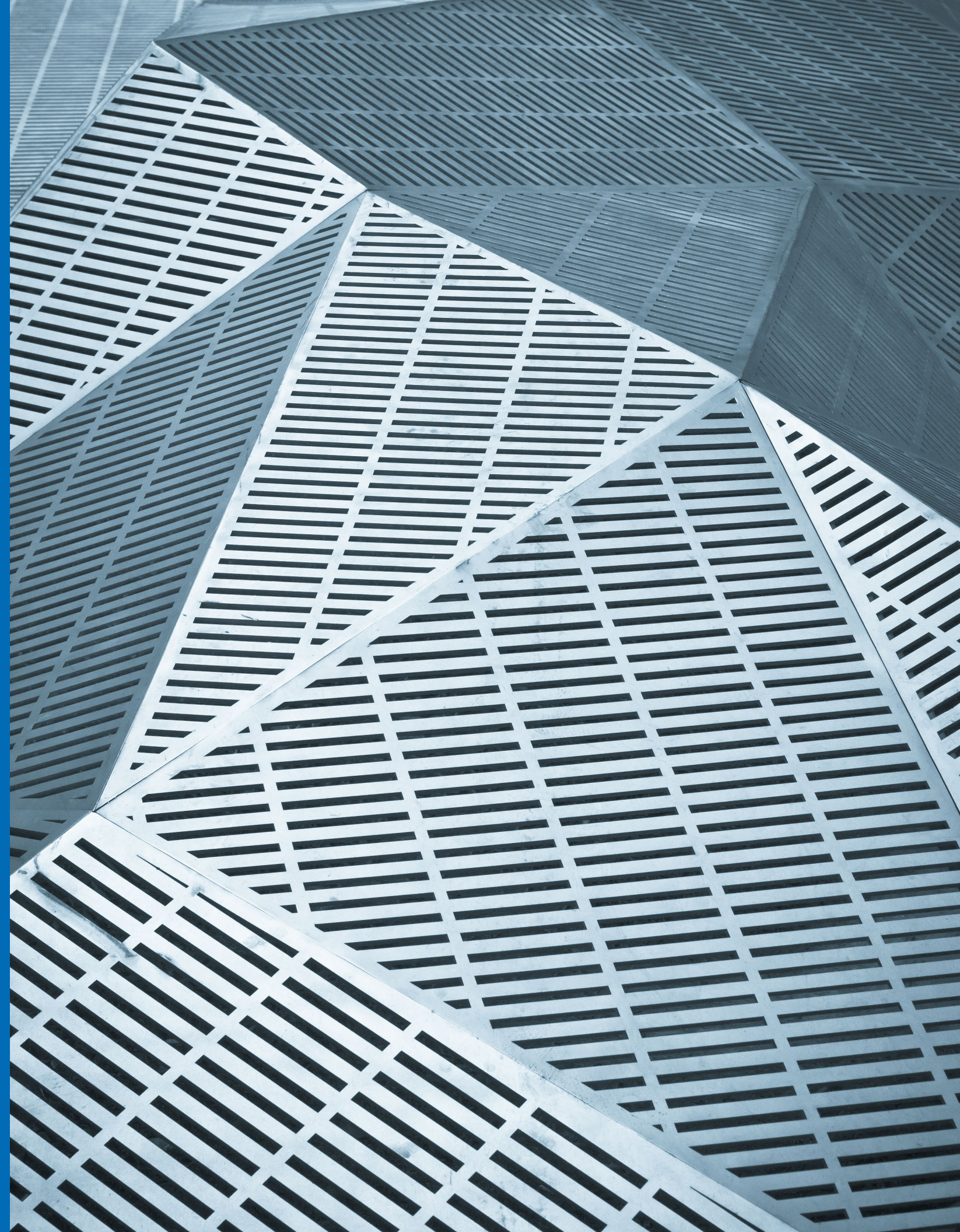
Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA



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# Leasing Market Fundamentals

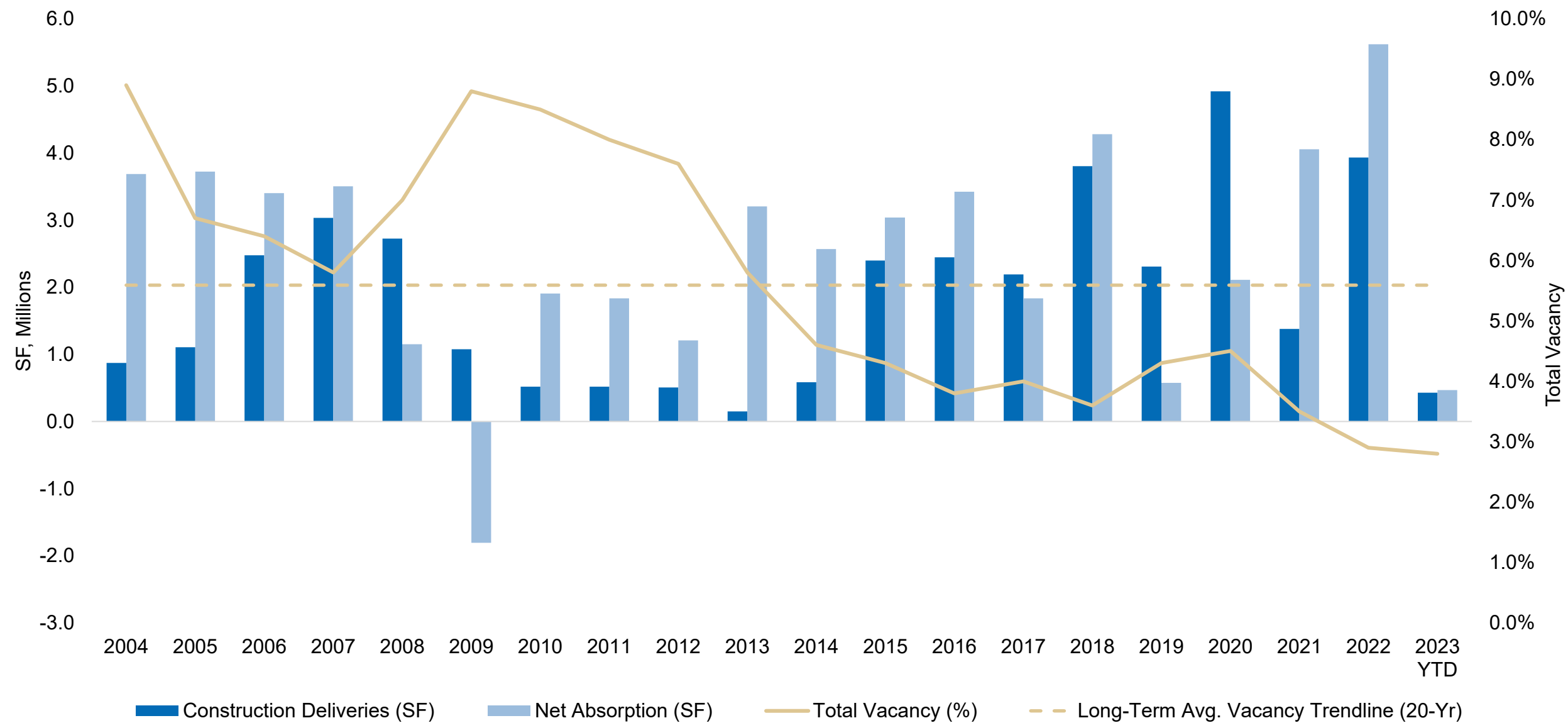




# Market Vacancy Remains at Historic Low

Total vacancy rate for industrial assets increased slightly to 2.8% in the second quarter of 2023 from 2.7% in the first quarter of 2023. General industrial vacancy remains the primary asset class that is driving vacancy rates down, registering 2.1% vacancy despite 115,485 square feet of negative absorption this quarter. R&D/Flex space, which represents only 13.8% of the Portland industrial market, continues to have much weaker demand registering 4.9% vacancy for the second quarter of 2023.

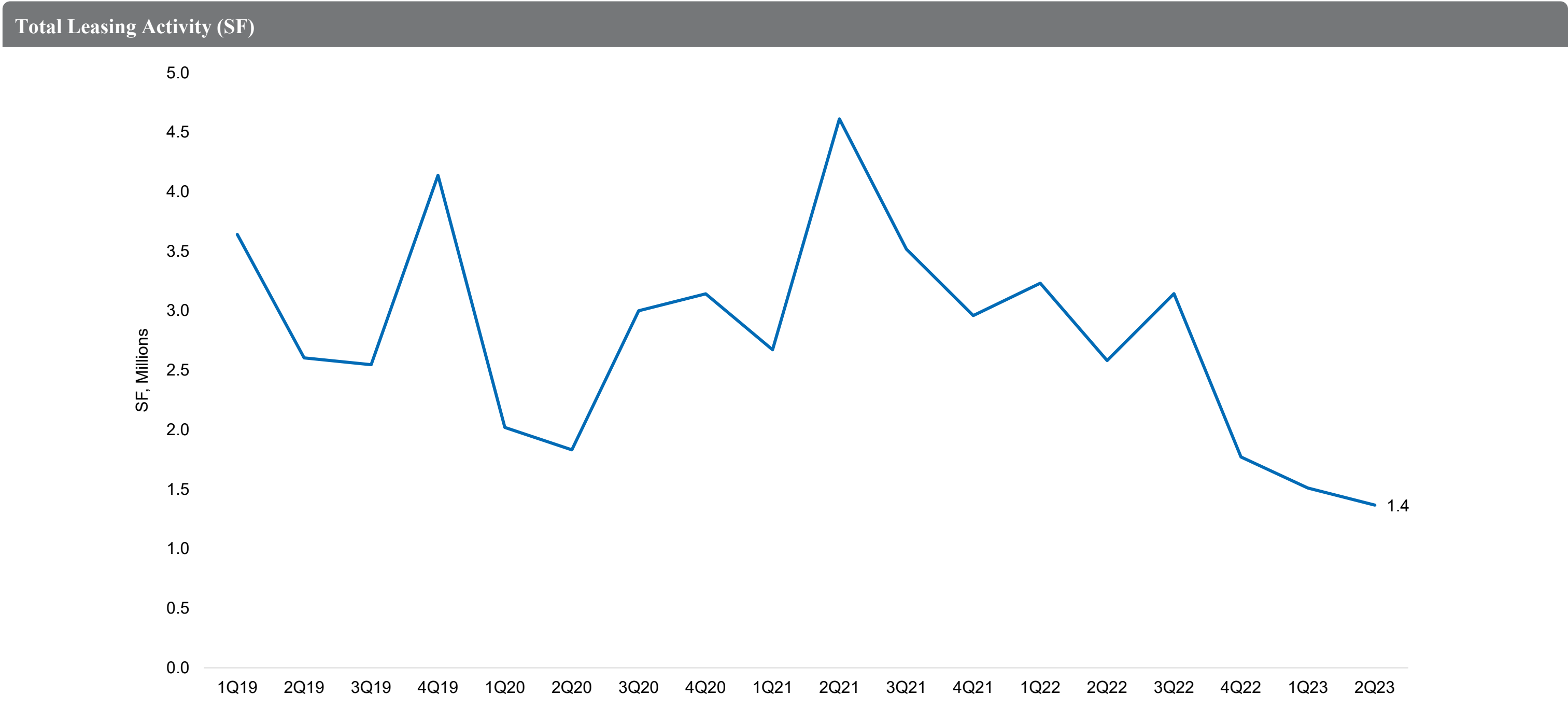
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Slows For Third Straight Quarter

Signs of deceleration in the market continued as total leasing activity dipped to 1.4 million square feet this quarter. Velocity has been trending downward since a peak in the second quarter of 2021. It is difficult to pinpoint whether the dip in activity is directly correlated to a sharp decrease in demand, or if the ongoing lack of desirable space for tenants in the market is playing a role in the decline. This is an important trend to watch as economic conditions continue to show signs of volatility.



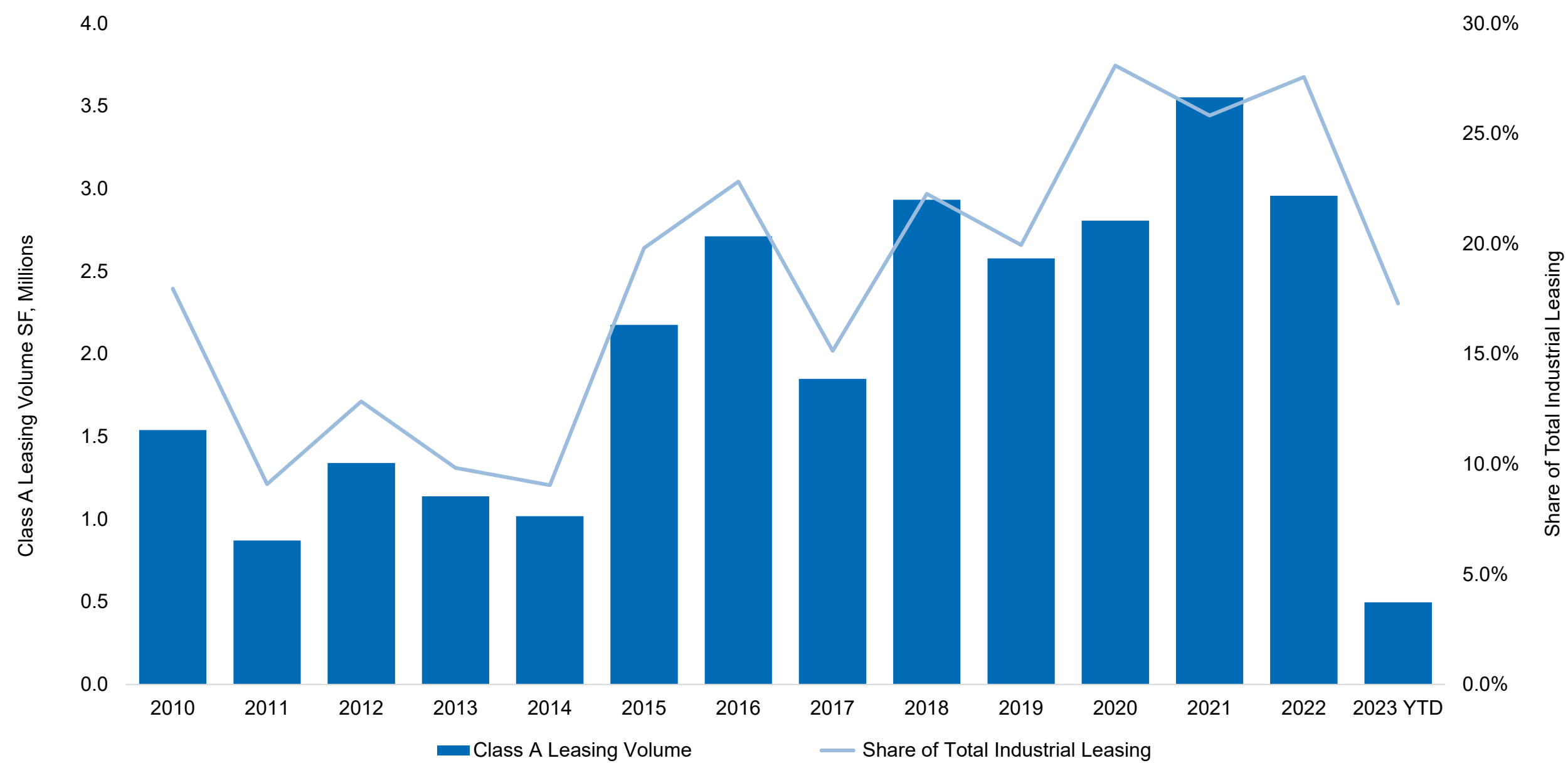
Source: Newmark Research, CoStar



# Inventory Shortage Cools Class A Leasing Volume

Class A leasing volume has seen a very slow first two quarters in the 2023 calendar year. Velocity for this asset class has totaled just 497,520 square feet year to date and is tracking to finish far behind 2022 totals in both Class A volume and share of the total industrial market leasing volume. One bright area that may turn this trend around is the Class A sublease market, as the second quarter of 2023 saw a large jump in availability.

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

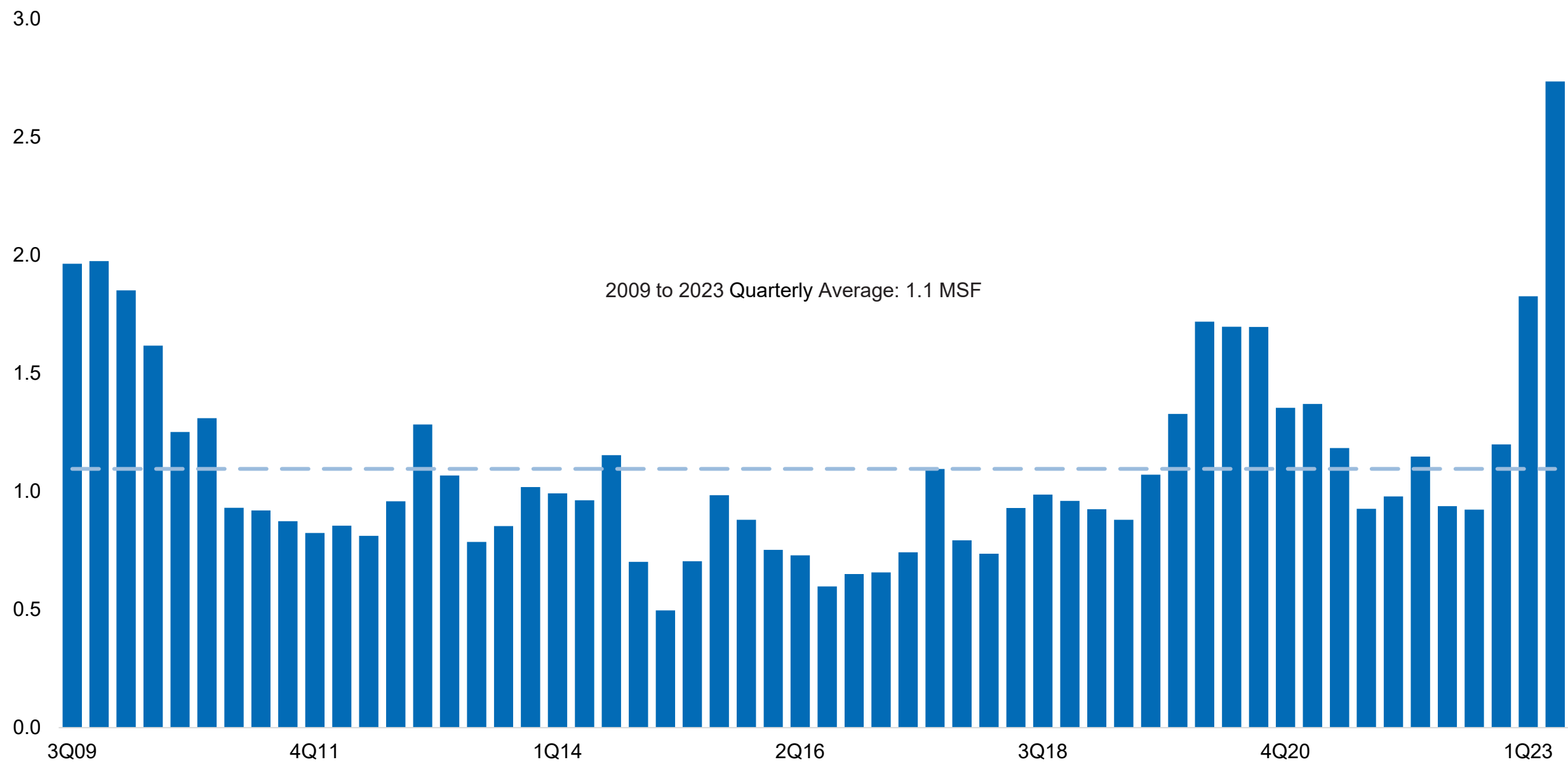


Source: Newmark Research, CoStar

# Sublease Availability Spikes As Large Blocks Reach Market

Sublease volume in the second quarter of 2023 experienced an abnormally large spike in space as multiple large tenants returned space to the market. A slow in leasing velocity also contributed to the rise in available space as sublease transaction volume decreased considerably as compared to a quarter prior. Tenants looking to control costs by consolidation or right-sizing also contributed to available inventory as they look to take advantage of an inventory starved market to offload excess space.

Available Industrial Sublease Volume (msf)



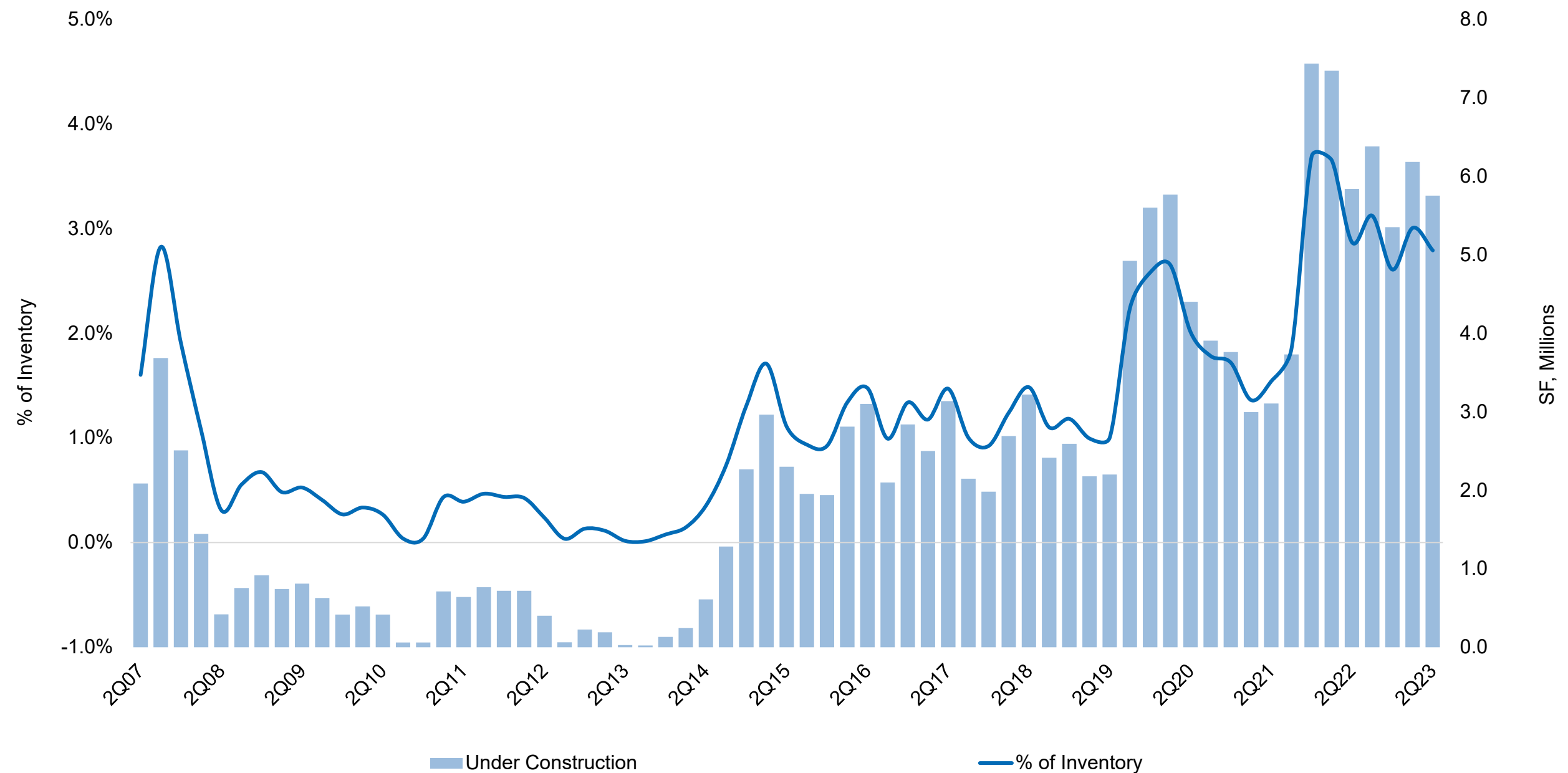
Source: Newmark Research, CoStar



# Industrial Construction Pipeline Shows Signs of Decelerating

Construction starts have slowed amidst a downturn in market conditions for lending and rising cost of debt. The current project pipeline remains healthy on paper but is bolstered by Amazon’s 3.8 MSF project wrapping up construction in the I-5 South Corridor. Nearly all projects currently being tracked for industrial inventory will deliver by the first quarter of 2024, which will lead to a sharp decrease in total development footprint with no new projects on the horizon.

Industrial Under Construction and % of Inventory

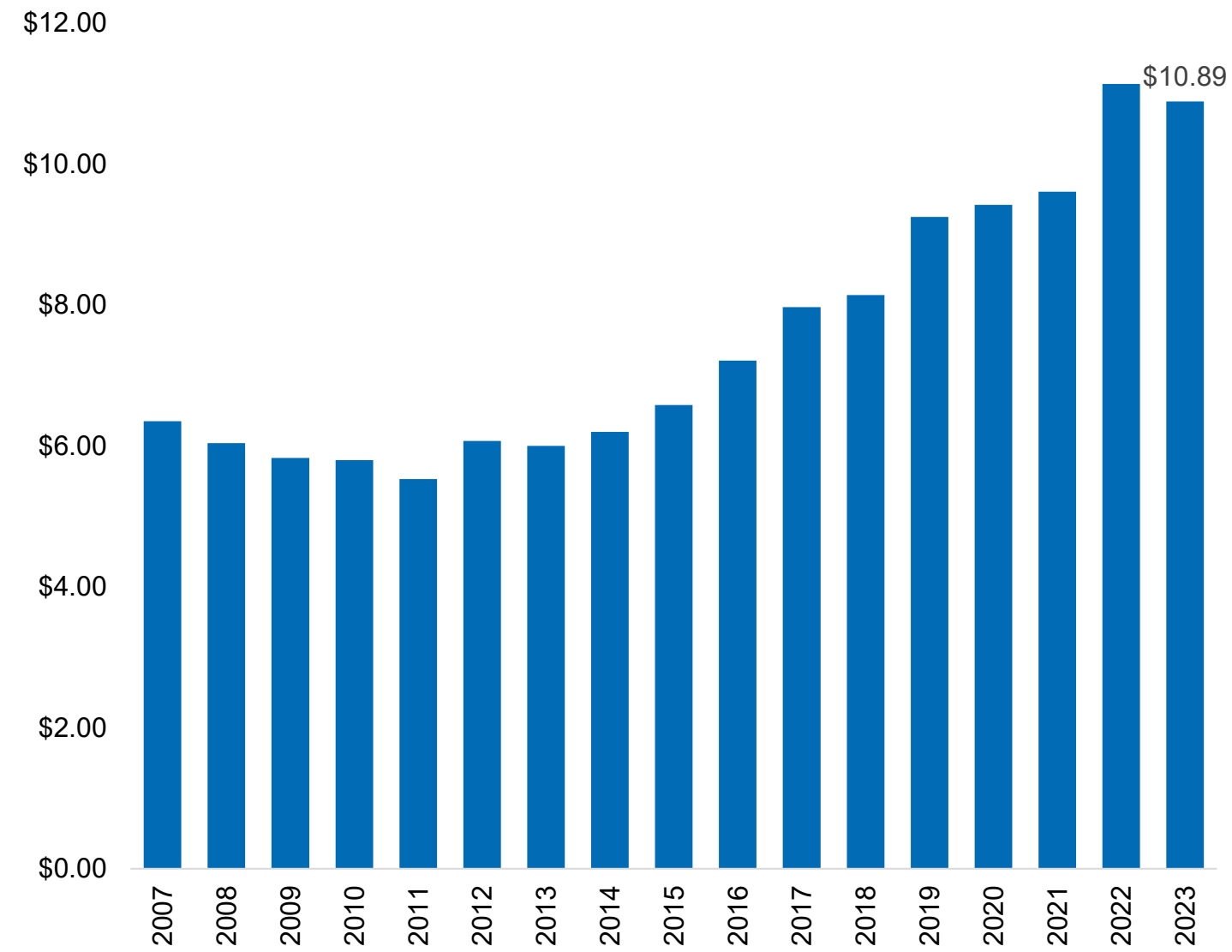


Source: Newmark Research, CoStar

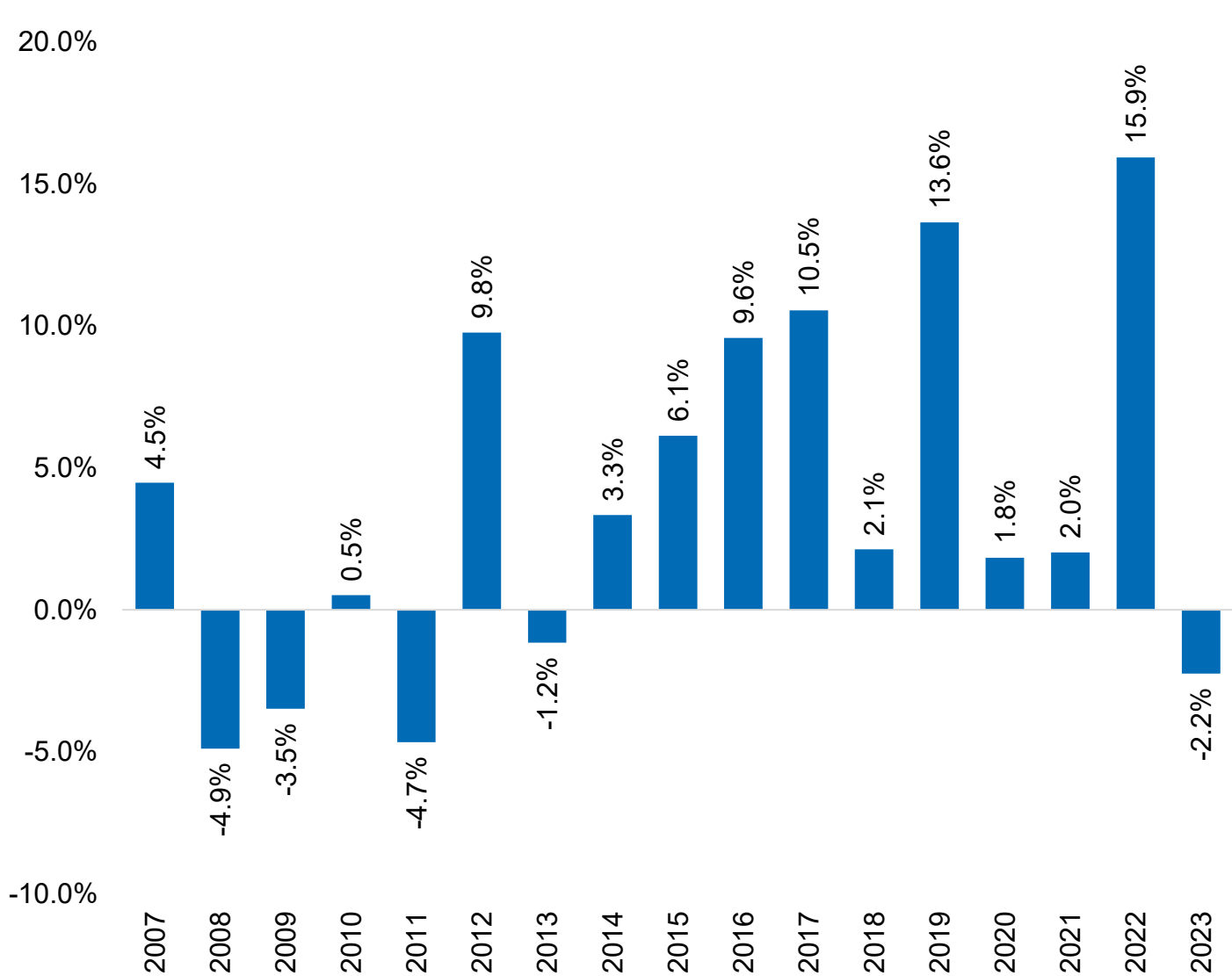
# Asking Rents Record Slight Regression Amidst Market Uncertainty

Industrial average asking rents continue a streak of volatility as activity has regressed during the second quarter of 2023. Rents have recorded a slight downturn as compared to the highs reached amidst a torrid market in 2022. Rent growth is expected to resume a moderate growth trend throughout the remainder of 2023 as construction delivers and the market experiences a shortage of high-quality space.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



# Notable 2Q23 Lease Transactions

Leasing activity trended lower this quarter as inventory remains historically tight. The initial signs of a cooling market may be attributed to the lack of suitable space for current tenant demands. Multiple notable deliveries are slated for the second half of 2023 but will provide little inventory to the market as most projects under construction are fully leased or build-to-suit development projects.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Sonepar <i>Sonepar signed a long-term lease to occupy the full building at Prologis Meadows.</i>	1501 N Schmeer Rd	Swan Island/Close-in NE	Direct New	293,480
Brighton-Best International, Inc. <i>The manufacturing company will be taking over the entirety of Building B at the 138 Logistics Center development that is scheduled for delivery in October 2023.</i>	4600 NE 138 <sup>th</sup> Ave	NE/Columbia Corridor	Direct New	216,188
Cubework <i>This is the second location in the Portland area for the industrial coworking provider.</i>	6433 SE Lake Rd	Milwaukie/Clackamas	Direct New	173,144
Johnstone Supply LLC <i>Johnstone Supply extended the lease for their long-time corporate headquarters in Northeast Portland.</i>	11632 NE Ainsworth Cir	NE/Columbia Corridor	Extension	126,303
Rahi Systems <i>The new location in Tualatin is the first Oregon location for Rahi Systems, a global IT solutions provider.</i>	21150 SW Cipole Pl	I-5 South Corridor	Direct New	64,164

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