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2Q23

# Portland Office Market Overview



NEWMARK

# Market Observations

## Economy

- Portland's labor market remained historically strong, with an unemployment rate of 3.0% in the second quarter of 2023, ahead of the United States' average of 3.4%.
- The construction sector experienced significant growth, primarily driven by a strong performance in the residential sector. The leisure and hospitality sector also saw a surge in hiring due to increased consumer demand. On the other hand, the manufacturing and wholesale trades faced challenges as consumers shifted their focus towards increased spending on services and tourism.
- Industries occupying office spaces continue to experience steady growth, despite a downward trend in leasing activity. Implementing permanent remote work and hybrid schedules is becoming the industry norm for some companies in the Portland region.

## Major Transactions

- Miller Nash, LLP has signed a lease to occupy two full floors, approximately 32,000 square feet, in the newly delivered Offices at 11W Downtown. The move signifies a significant reduction in the law firm's total Portland footprint, but it is positive that they stayed committed to Downtown Portland.
- The American Bank Building, located at 621 SW Morrison St in the CBD, has been listed for sale. This 172,817 square-foot building is one of the first major assets in Downtown Portland to hit the market post-pandemic.
- All Classical Media is relocating its headquarters to KOIN Tower in Downtown Portland, demonstrating their support for the city's urban core. The company was previously based in Southeast Portland.

## Leasing Market Fundamentals

- Net absorption for the second quarter of 2023 totaled negative 327,142 square feet as vacancies rise across all asset classes in Portland. The CBD remains the hardest-hit submarket, recording negative 186,217 square feet of absorption despite multiple notable companies signing leases during the quarter.
- The construction pipeline for office properties in Portland has nearly been exhausted following the completion of Block 216 and The Offices at 11W. Currently, only one project is being tracked for delivery for the remainder of the 2023 calendar year.
- Vacancy has grown to 19.6% as demand fails to keep pace with the abundance of available space returning to the market. Rent growth has also accelerated due to the introduction of several best-in-class buildings, resulting in market-wide asking rents reaching \$31.95/SF.

## Outlook

- Portland continues to grapple with issues surrounding the current state of the city. Companies remain on the sidelines as remote work, safety concerns, and economic conditions have dampened leasing velocity.
- Market vacancy is expected to increase as right-sizing continues and demand remains well below pre-pandemic levels. Certain suburban submarkets, such as the Sunset Corridor and Kruse Way, are experiencing more activity compared to urban areas.
- Rent growth has maintained a steady rate of increase. Asking rents vary significantly based on submarket and asset class. Continued growth within high-quality assets is anticipated, as landlords feel confident that the trend of prioritizing flight to quality will persist.

1. Economy
2. Leasing Market Fundamentals



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2Q23

# Economy

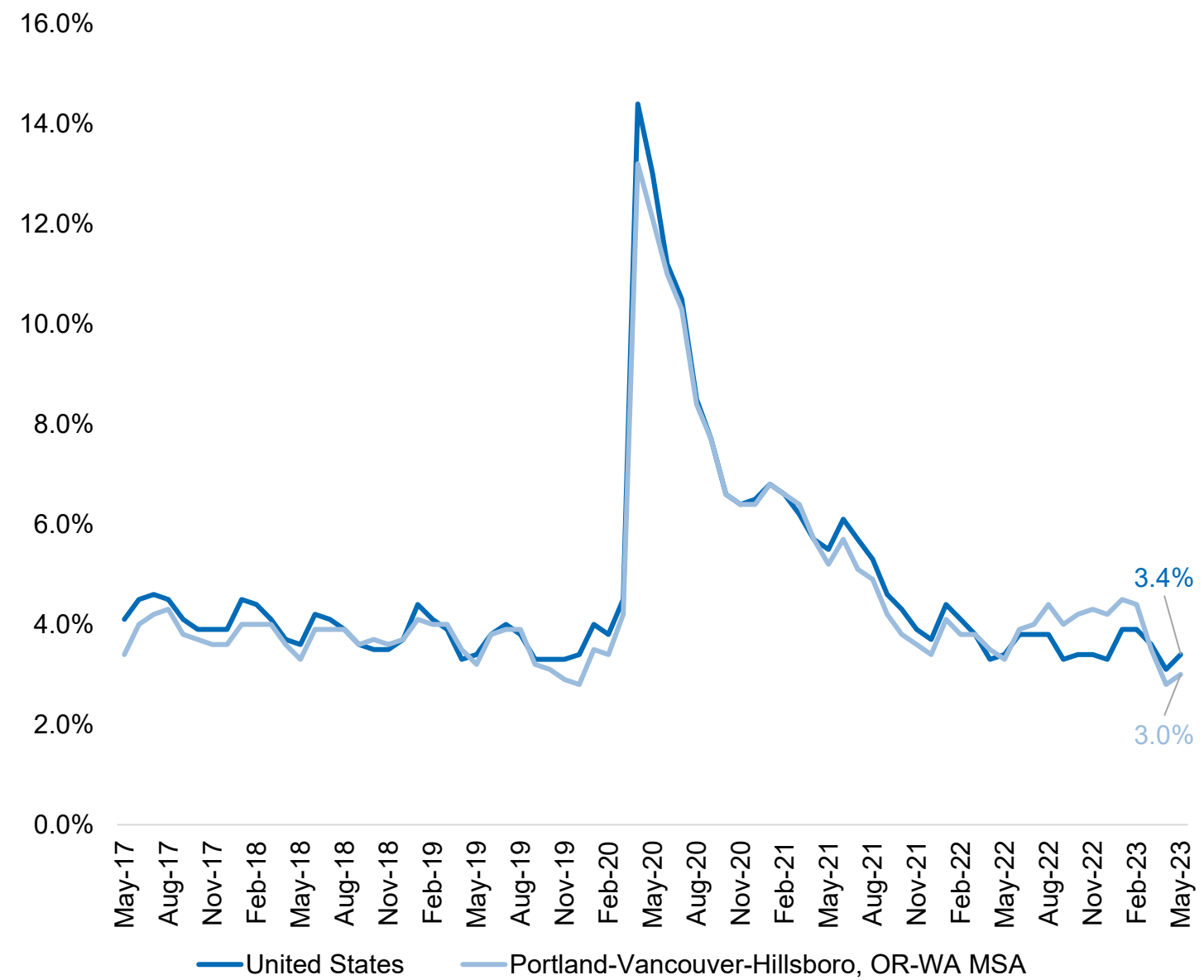




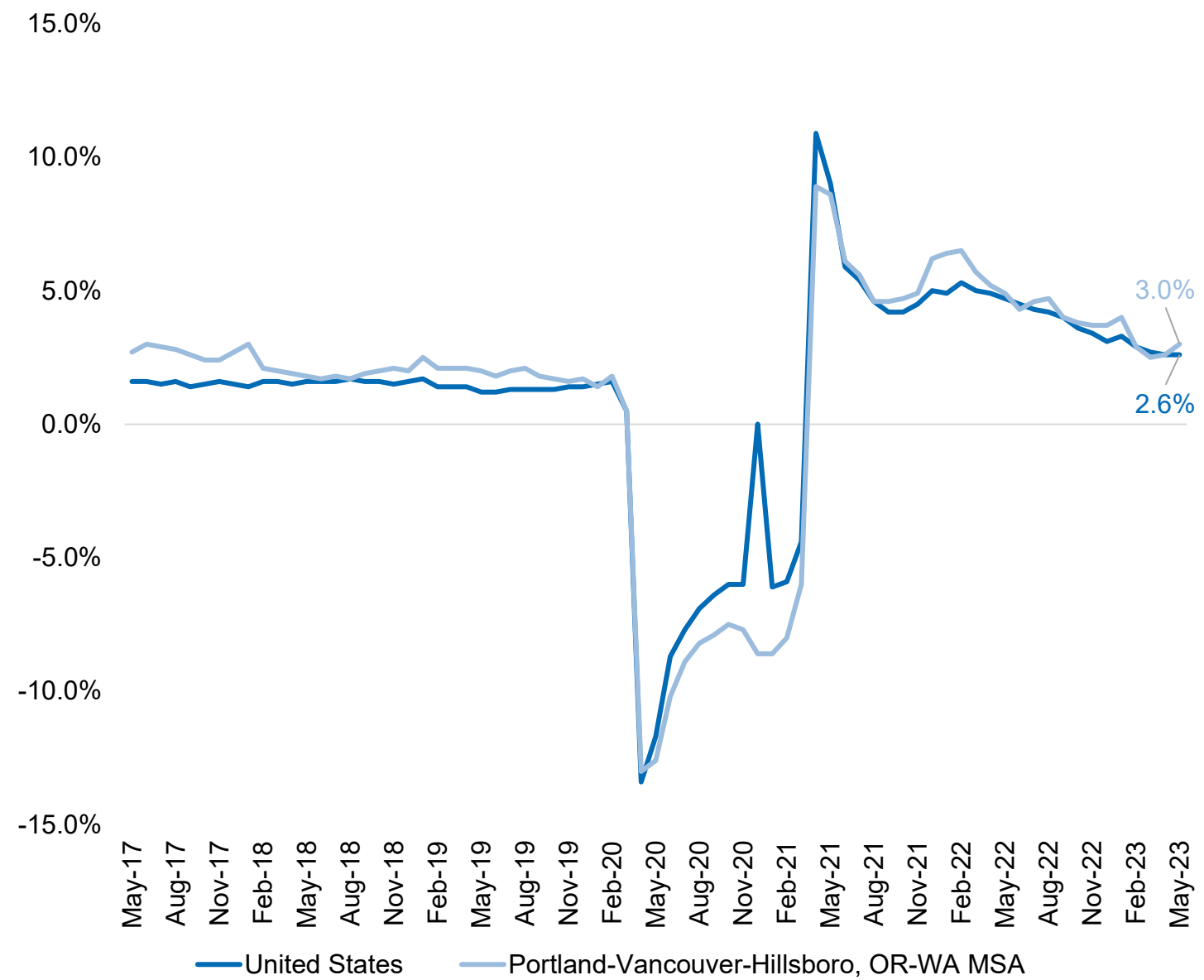
# Metro Employment Remains Strong Despite Layoffs

The region's labor market remains below the national average for the unemployment rate, despite significant layoffs from some major apparel and technology companies. Employment in Portland's urban core continues to lag behind as many jobs have been relocated to suburban markets due to a strong trend towards remote work and hybrid schedules.

Unemployment Rate, Non-Seasonally Adjusted



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

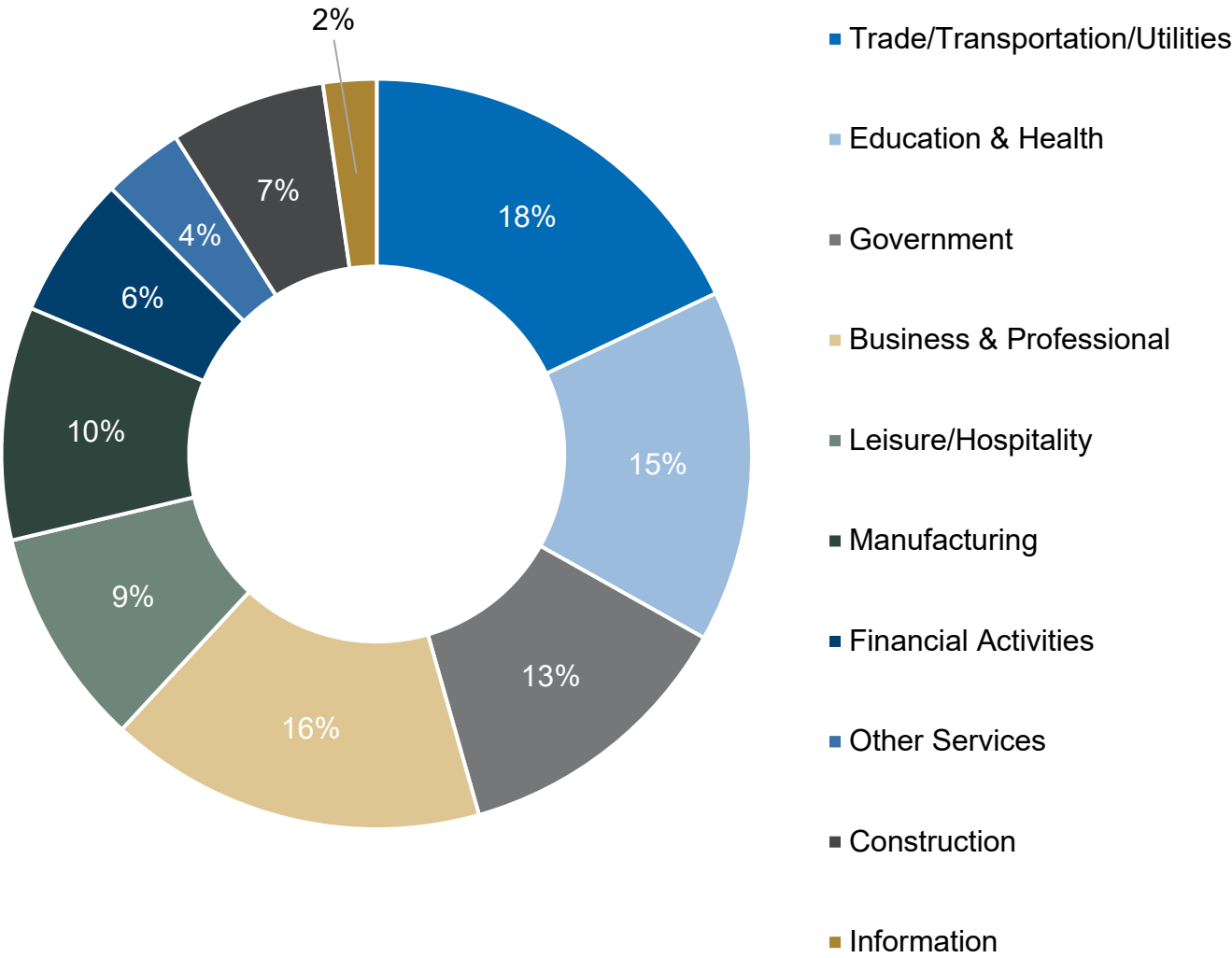


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA.  
Note: May 2023 data is preliminary.

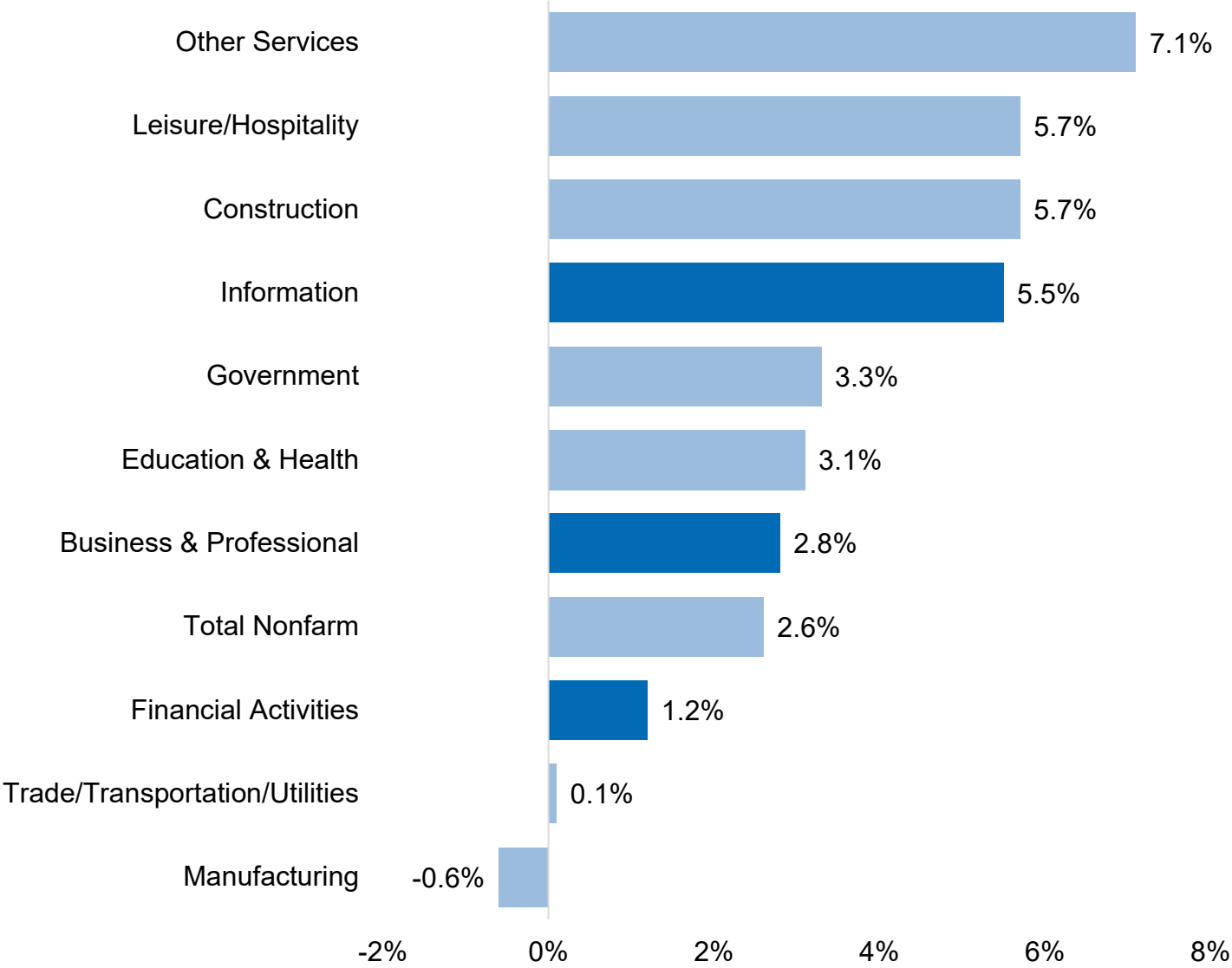
# Job Growth Driven by Shift in Consumer Spending

The other services sector led all industries in regional annual job growth, followed by leisure/hospitality as consumer spending trends towards services and tourism continues to recover post-pandemic. Industrial industries showed signs of stagnation as manufacturing recorded a slight job loss amid a very tight market for industrial real estate. Office-occupying industries saw moderate growth, bolstered by a strong quarter for the information sector.

Employment by Industry, April 2023



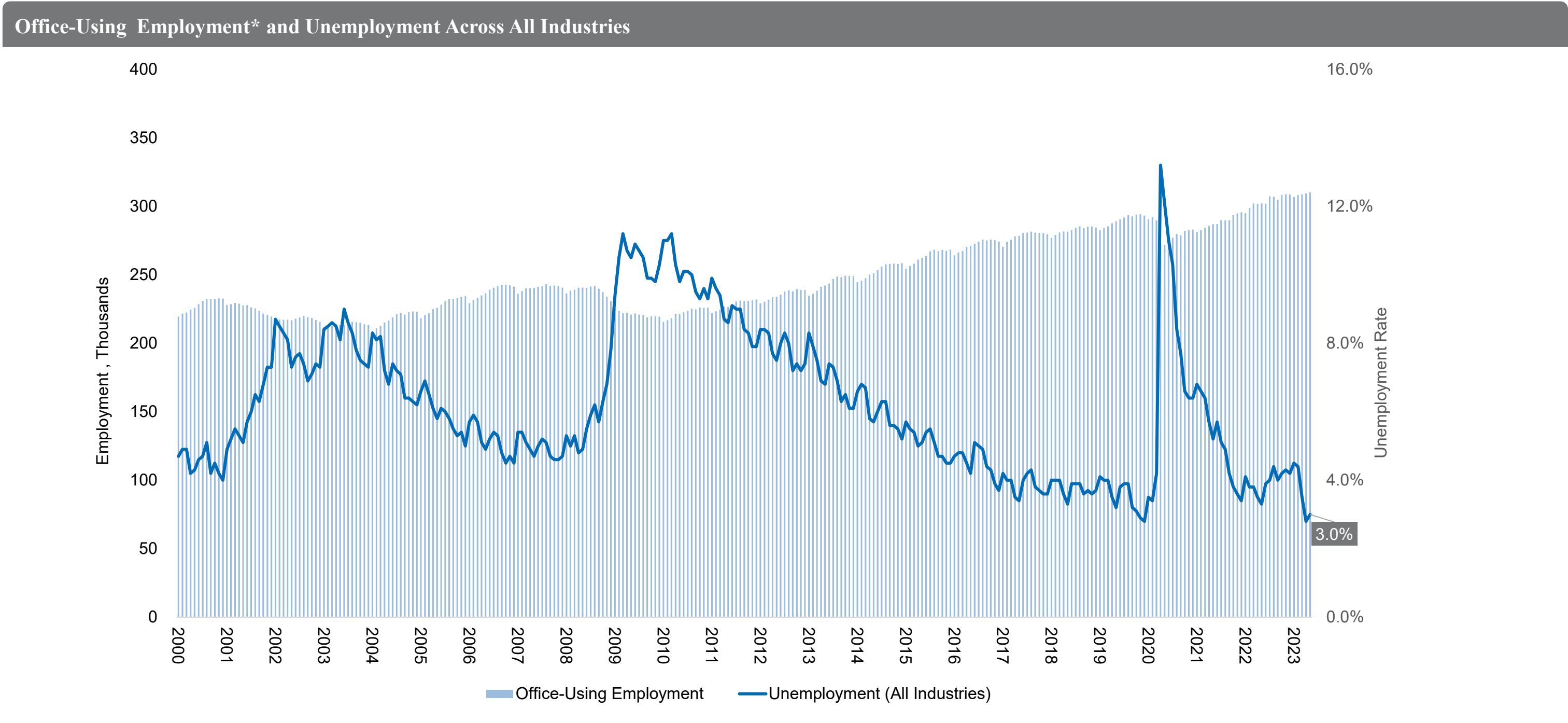
Employment Growth by Industry, 12-Month % Change, April 2023



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

# Office-Using Employment Recovery Continues

The number of office jobs in the region has not only recovered from the impact of the pandemic but has surpassed pre-pandemic levels. This positive trend indicates a resiliency moving forward in the office job market. Despite the challenges posed by uncertain economic conditions, the region's job market remains historically tight, with unemployment recorded at 3% for the second quarter of 2023.



Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA  
Note: May 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

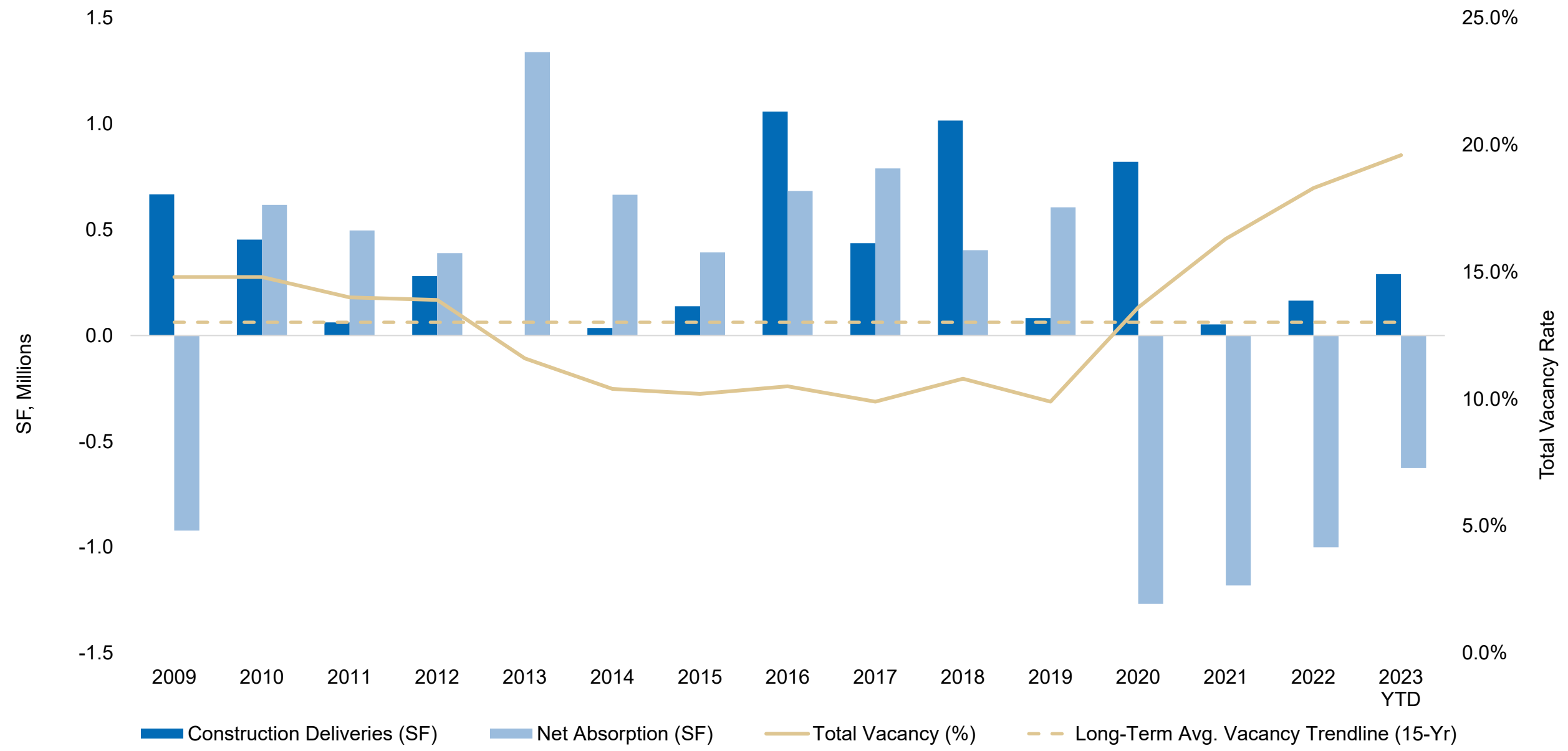




# Vacancy Rises as Absorption Remains Negative

The vacancy rate increased to 19.6% in the second quarter of 2023. This marks a 130-basis-point increase year-over-year as compared with the second quarter of 2022. Vacancy numbers are projected to continue to rise amidst a decrease in demand and as companies continue to shrink their office footprints. Deliveries trended higher in the second quarter of 2023 due to two office projects completing construction in the urban core.

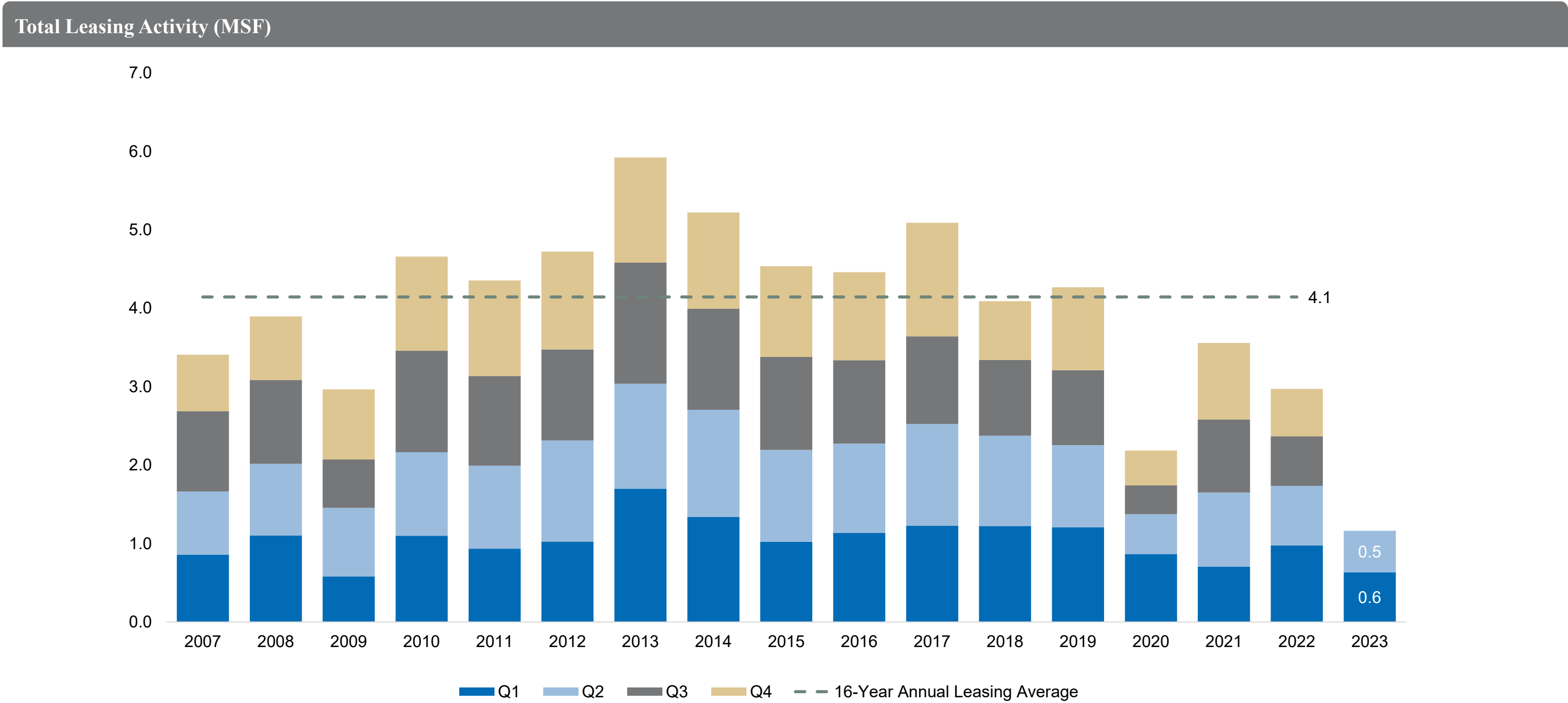
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Tracks Well Below Annual Average

Companies have continued to put a pause on decision making despite advantageous conditions for tenants in the market. Uncertainty surrounding the current state of the city, as well as economic conditions remain factors that have contributed to the decrease in leasing velocity. Total size requirements for many industries have shrunk considerably due to ongoing right-sizing and remote work, lowering the average deal size of transactions so far in 2023.



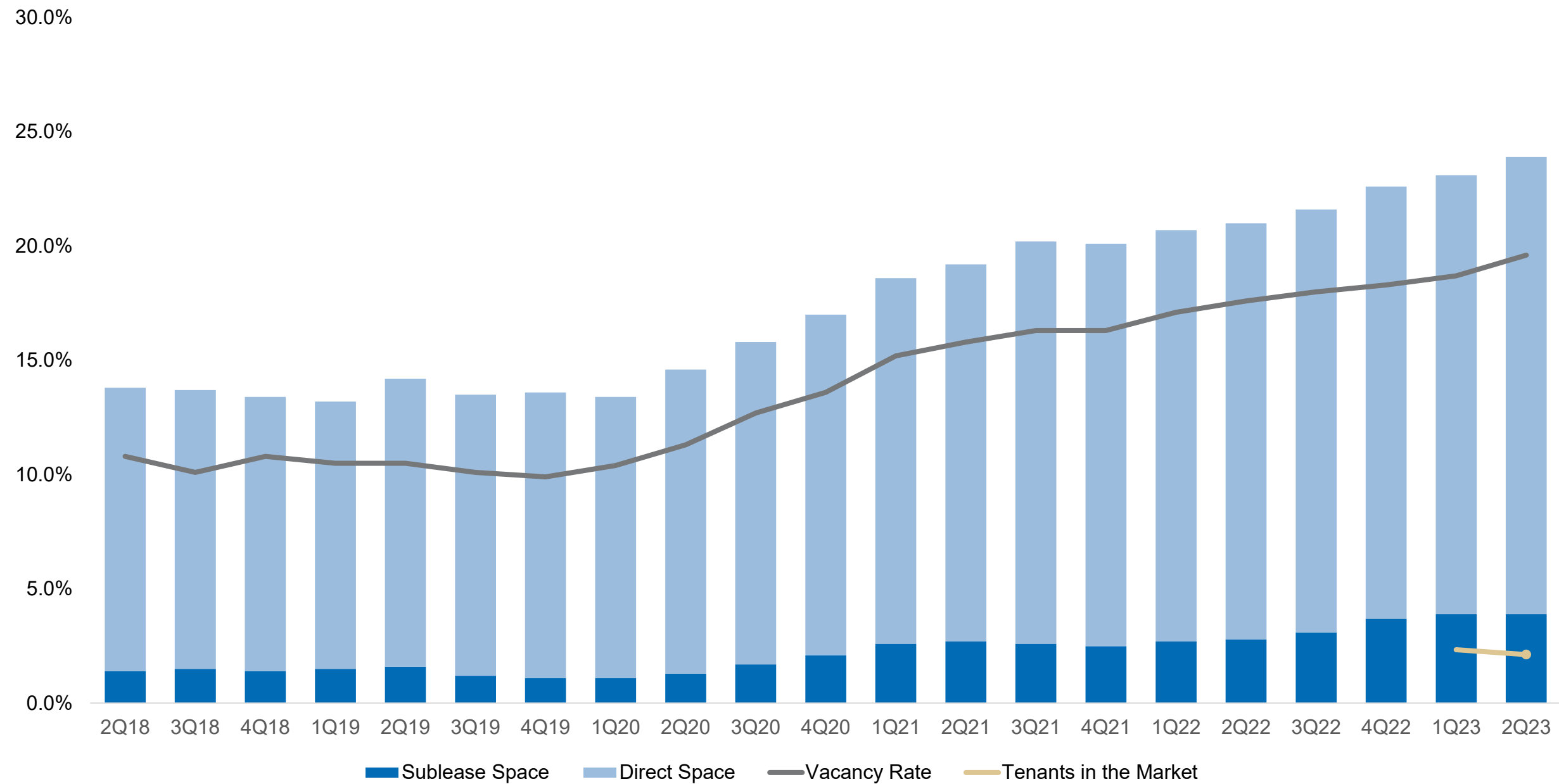
Source: Newmark Research, CoStar



# Demand Remains Consistent as Availability Increases

Market activity has remained somewhat consistent in the second quarter of 2023 as the bulk of transactions are represented by companies downsizing and relocating. Tenant demand is bolstered by professional services focusing on either high-quality CBD assets or a relocation to suburban submarkets. Overall demand remains significantly less than the increase in direct and sublease space market-wide.

Available Space and Tenant Demand as Percent of Downtown Market

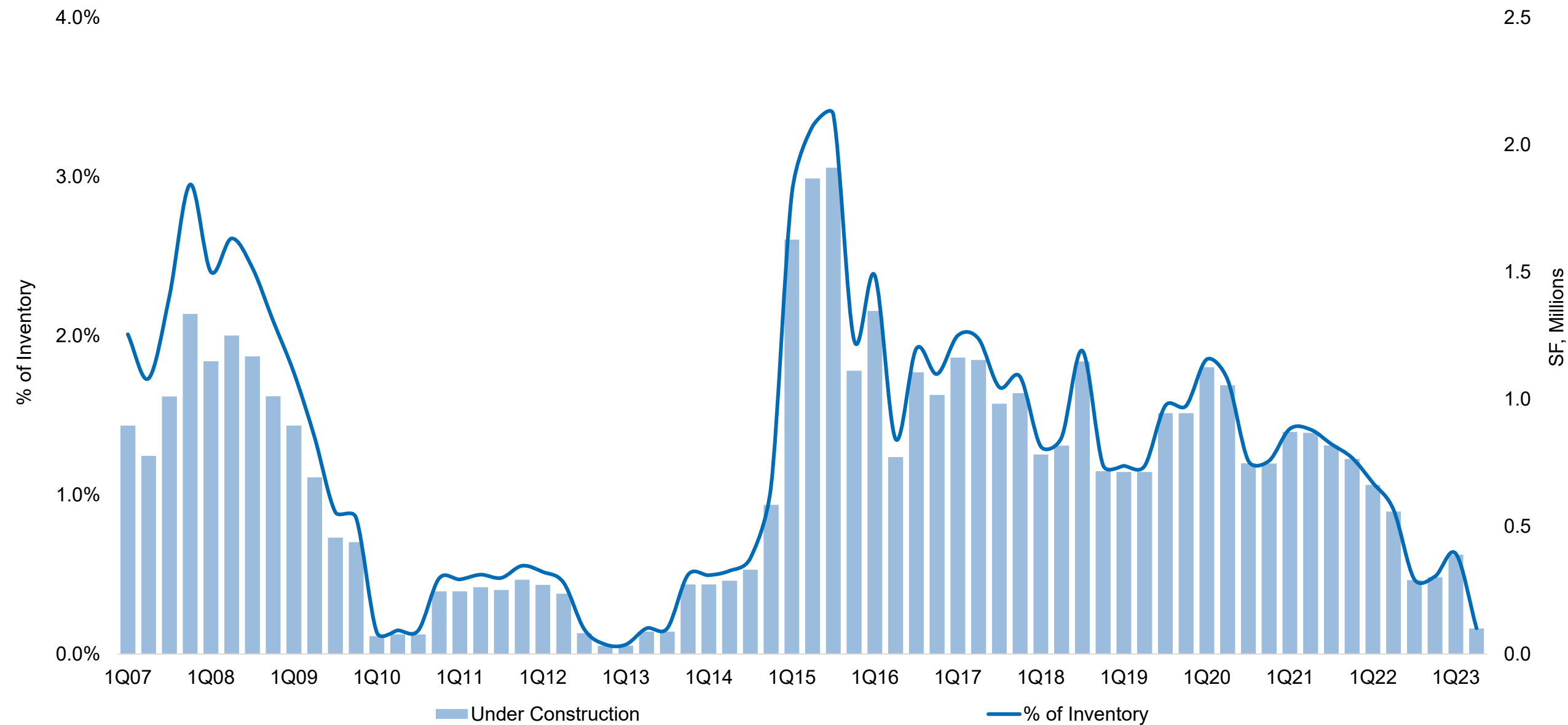


Source: Newmark Research, CoStar

# Long Anticipated Projects Deliver as Construction Pipeline Declines

Portland registered two major deliveries in the CBD in the second quarter of 2023. Block 216, a 35-story mixed use development that is home to the new Ritz-Carlton hotel, delivered approximately 158,000 square feet of Class A office space. The Offices at 11W also finished construction which has brought an additional 107,000 square feet of space to the Central Business District. With the delivery of these projects, Portland’s construction pipeline for office product has reached its lowest level since the first quarter of 2013.

Office Under Construction and % of Inventory



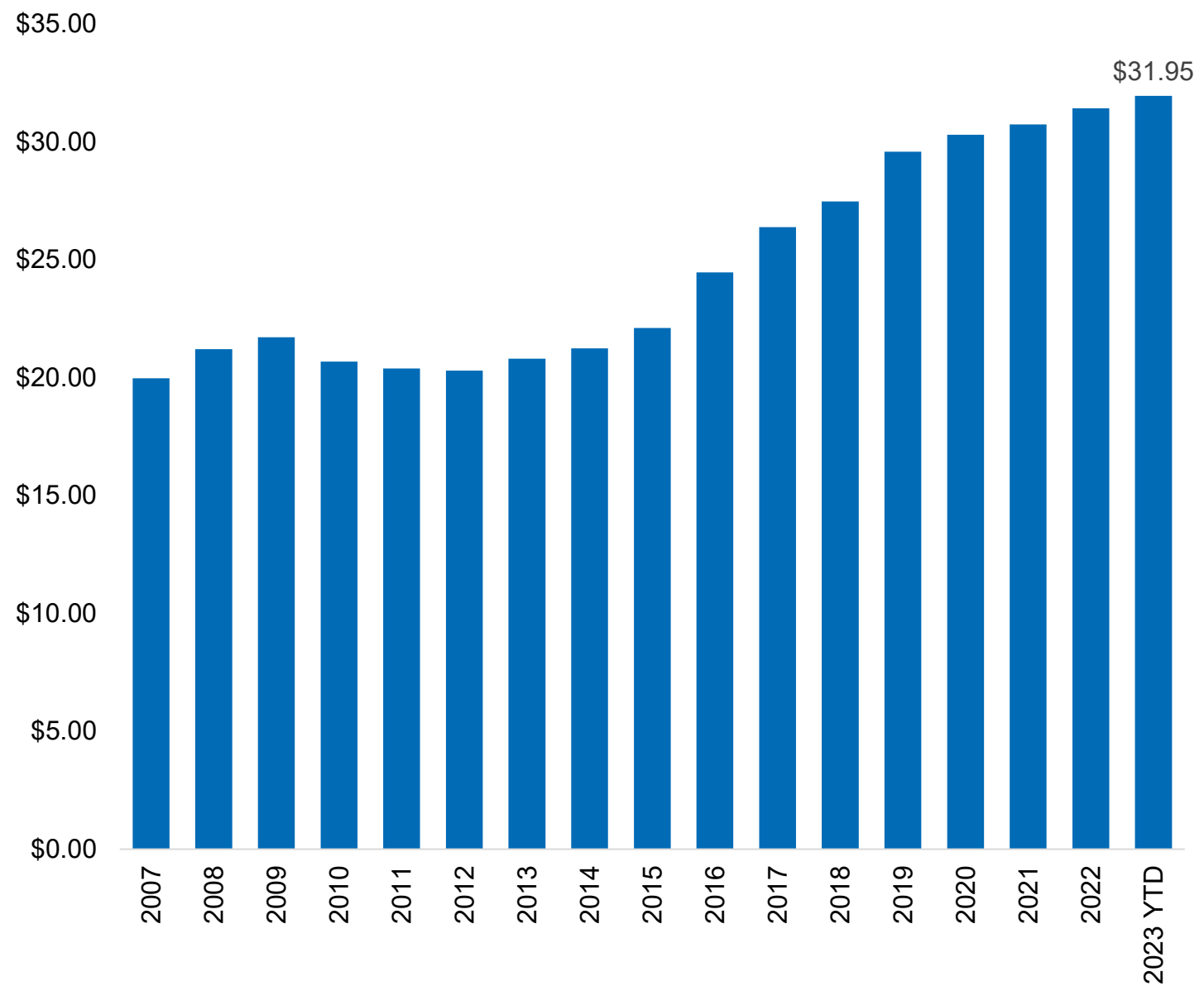
Source: Newmark Research, CoStar



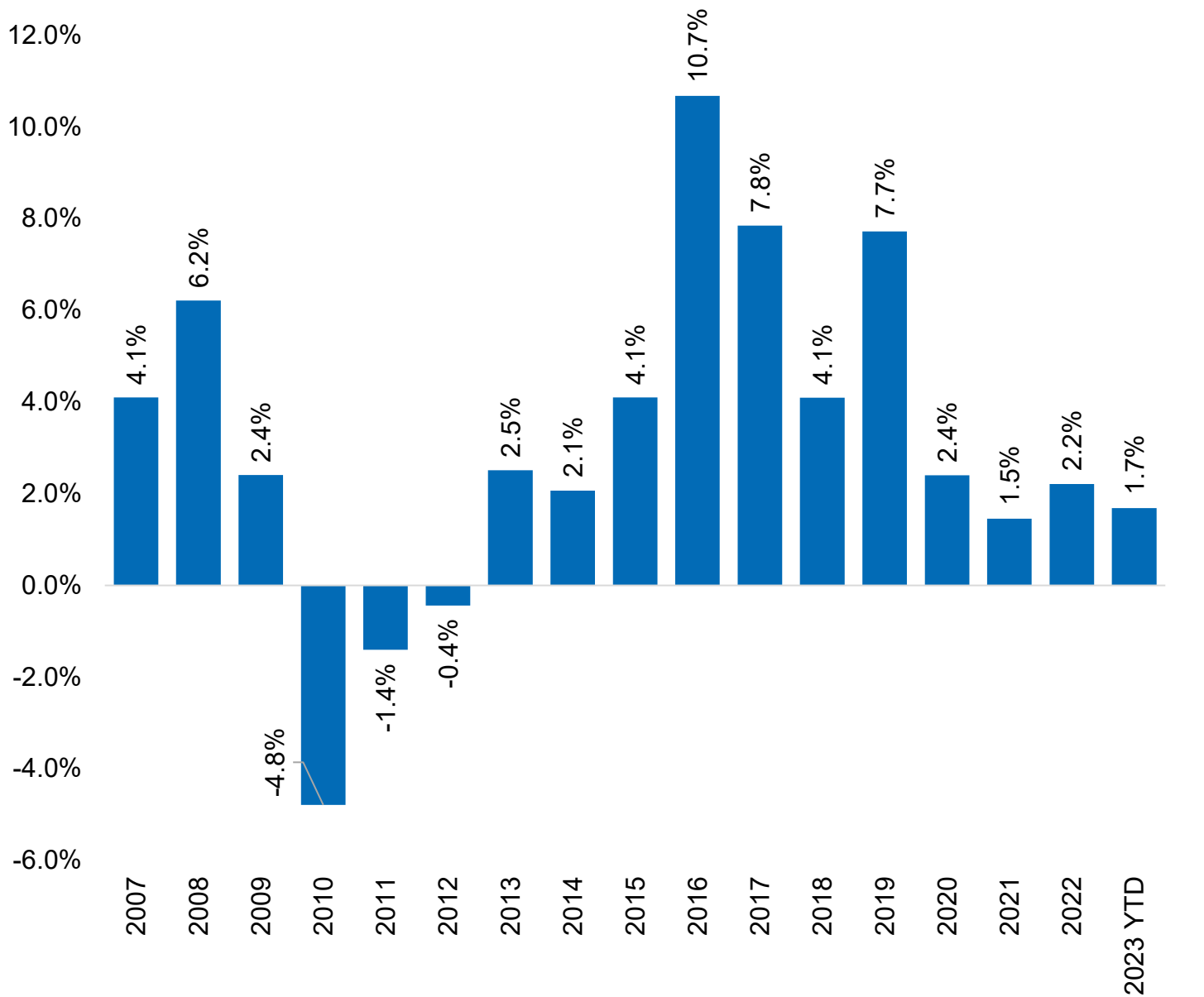
# Rents Continue Steady Increases

Asking rates increased this quarter despite continued negative net absorption and a rise in vacancy rates market-wide, however free rent and Tenant Improvement packages being offered to tenants have increased. The CBD and Kruse Way submarkets represent the largest increase in asking rents, namely in their Class A assets. Total year-over-year asking rent growth has been 1.7% which remains consistent with the yearly growth that has been recorded since the onset of the pandemic.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

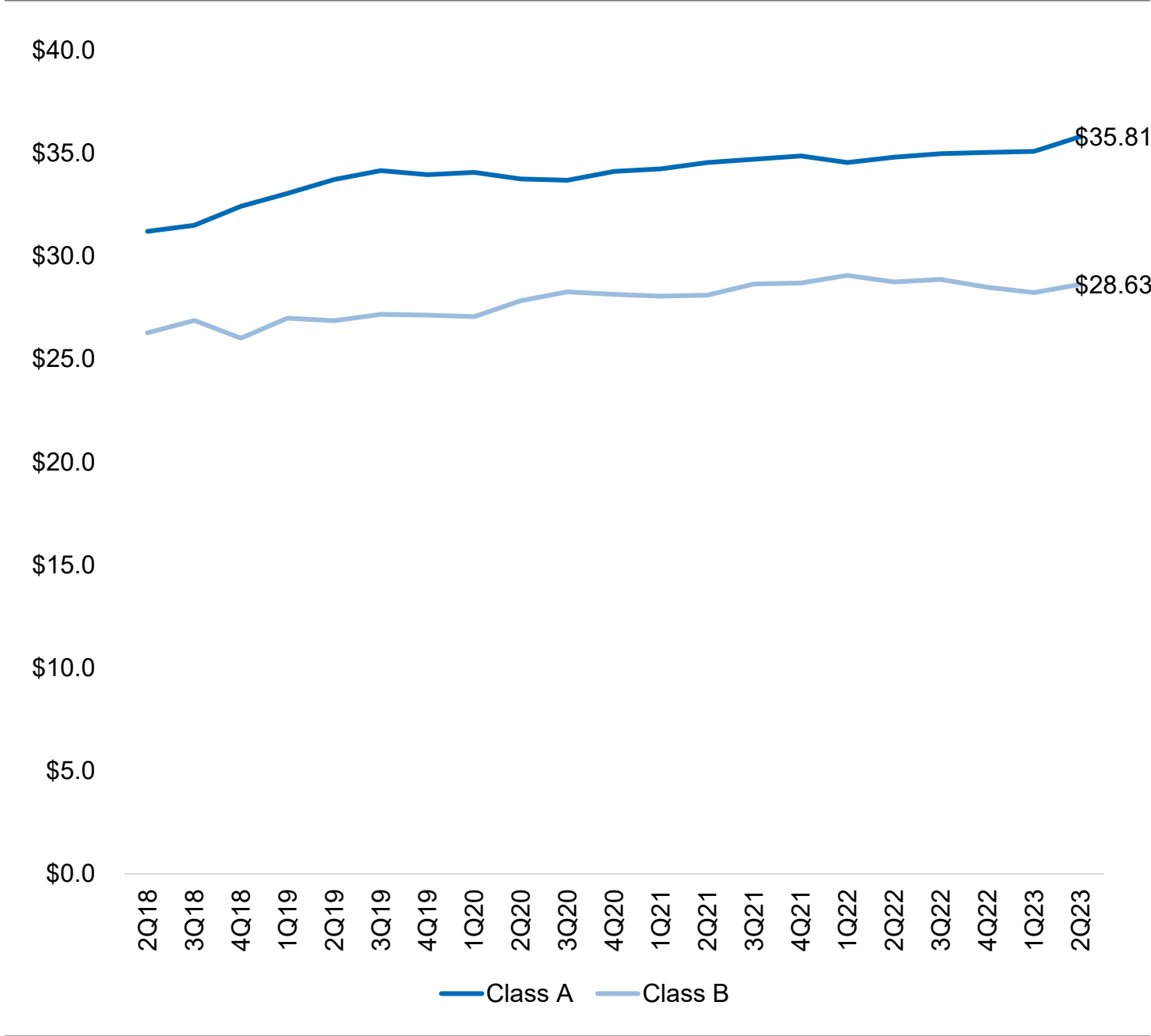


Source: Newmark Research, CoStar

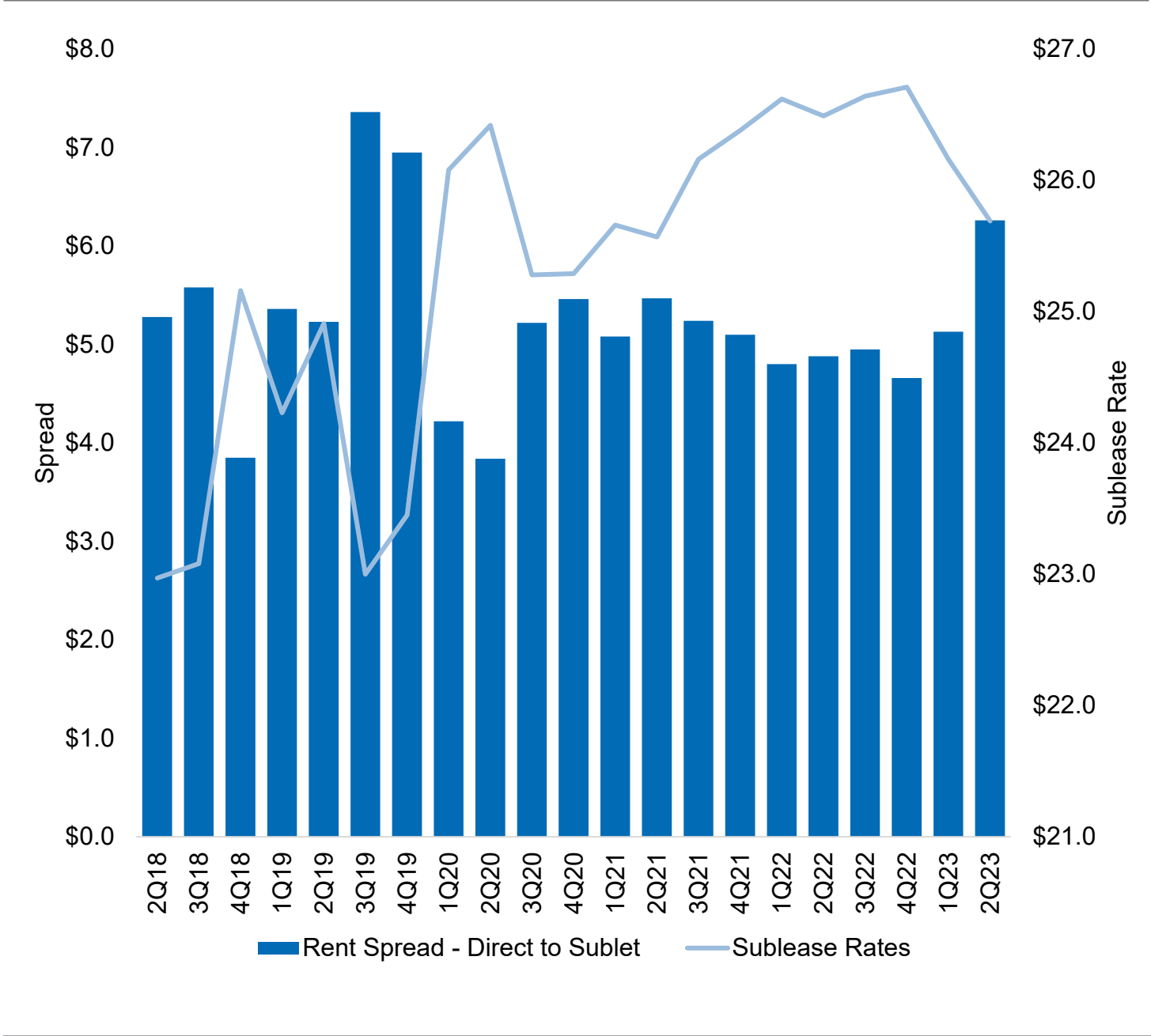
# Asking Rents Edge Upward

Asking rents recorded a marginal increase in the second quarter of 2023. This increase has been bolstered by the delivery of two best-in-class office buildings in Downtown Portland. Rents remained consistent among Class B and Class C assets. Sublease rents remain in fluctuation based upon availability and product type as the market continues to be flooded with newly available sublease opportunities.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# Leasing Activity Remains Sluggish

The office market in Portland continued to see lagging activity that was outpaced by downsizing and relocations. The CBD saw an increased share of the market activity which was bolstered by the delivery of two long-awaited projects, Block 216 and The Offices at 11W. Most of the leasing velocity was centered around Class A assets centrally located within Downtown Portland.

## Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Miller Nash, LLP	1102 SW Washington St	CBD	Direct Lease	32,000
This lease marks the second notable tenant to move into the new offices at 11W. Miller Nash had previously been a tenant at US Bancorp Tower since the early 1980's.				
Davis Wright Tremaine	560 SW 10 <sup>th</sup> Ave	CBD	Direct Lease	19,100
Davis Wright Tremaine is the first major office tenant to sign a lease at the newly delivered Block 216 project.				
All Classical Public Media, Inc.	222 SW Columbia St	CBD	Direct Lease	15,643
Relocating the company headquarters to Koin Tower from the SE Close-In submarket.				
Cascade Energy	630 SW 5 <sup>th</sup> Ave	CBD	Direct Lease	10,150
Relocated to the CBD from the eastside.				
Lan Su Chinese Garden	38 NW Davis St	CBD	Direct Lease	10,609
38 Davis is now at 100% occupancy in Old Town.				

Source: Newmark Research

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