



Portland Office Market

Cautiously Optimistic Signs of Recovery

Portland Marketwide

The Portland Metro area finished out the third quarter of 2021 with 281,912 square feet of absorption, the first quarter of positive absorption in 2021. Vacancy has held constant at 15.6%, with the highest vacancy rates in the Close-In Northwest and Close-In Southeast neighborhoods and shrinking vacancy in Tigard and Kruse Way. A jump in available inventory can be partially attributed to the completion of the 10 TwentyOne building, adding nearly 275,000 square feet of availability to the Central Business District.

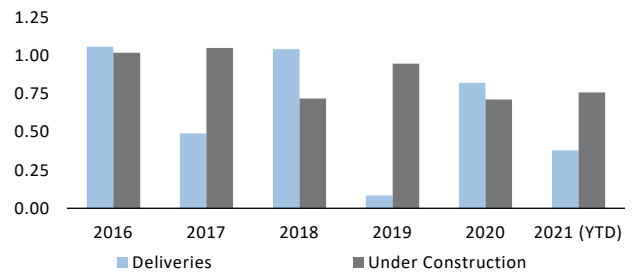
Rent increased overall, with about a 1.2% increase in average rent from last quarter. Rents have increased slightly each quarter in 2021, though Class B inventory appears to be driving much of the increase with a 1.9% overall increase in rent, compared to just 0.5% of Class A inventory. Rent in the Central Business District and Close-In markets have stayed roughly the same or decreased since last quarter, except for the Lloyd District, which saw a 10.5% jump in average rent.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	62.1M	61.6M	61.7M	↑
Vacancy Rate	15.6%	15.6%	12.6%	→
Qtr Net Abs (SF)	282K	-366K	-435K	↑
Avg FS Ask Rent/SF	\$31.40	\$31.04	\$30.11	→
Under Const (SF)	707K	757K	1.3M	↓

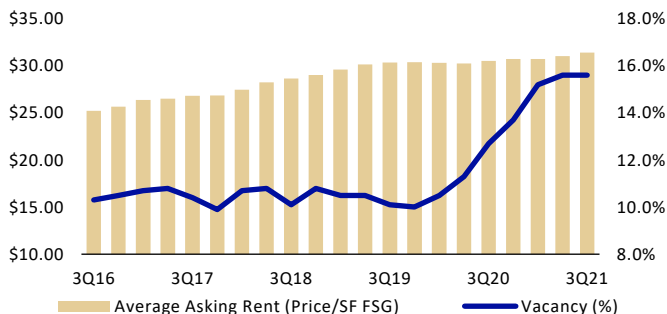
Construction and Deliveries

SQUARE FEET, MILLIONS

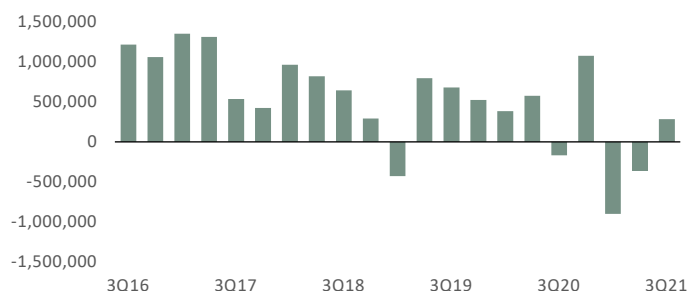


Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Urban CBD and Close-In Submarkets

Like most urban centers, Portland's urban markets have struggled to regain footing in the past year. There are some positive indicators pointing towards recovery this quarter, however. Quarterly absorption was positive for the first time in over a year at 127,601 square feet. Vacancy did remain higher than pre-pandemic levels, with an average vacancy across the urban market of 16.2%, a 2.3% increase over third-quarter 2020. High vacancy markets are generally associated with a drop in asking rent rates as lessors and owners begin to feel the impact of market forces; however, the Urban submarkets have not seen substantial decreases and, in the case of the Lloyd and Southeast Districts, have actually increased since last quarter.

New Construction

The completion of the 10 TwentyOne building in the Central Business District added nearly 275,000 square feet of available Class A office space. Two additional projects, the 710 Oregon building in the Lloyd District and the Factor Building in the Southeast District, added another 82,666 square feet of office space. An additional 484,868 square feet is currently under construction in the Portland Metro area, 93.0% of which will be located in the Central Business District or Close-In Southeast District. Over half of all current construction projects is attributable for the 503 on Tenth building in the Close-In Southeast District, projected to be completed in January of 2023.

Suburban Westside Submarkets

Portland's Westside Suburbs saw a modestly positive absorption of 21,527 square feet this quarter, a sharp increase from the negative 366,089 square feet in the second quarter. Vacancy dropped slightly, from 12.8% to 12.6%, while average rent increased slightly from \$24.09/SF to \$24.20/SF. Average rents in the market are as low as \$16.69/SF in Hillsdale and as high as \$37.69/SF in the Kruse Way submarket, with an average increase of 2.4% in Westside Suburban rent since the second quarter. Although vacancy is higher than other suburban markets, the higher rents and diverse availability of office space indicates the suburban markets are recovering alongside the city's closer-in communities.

Outlying Suburbs

The Eastside, Westside and Clark County Suburbs saw minor improvements in absorption and vacancy over the second quarter. All three markets are experiencing the lowest vacancy rate in the market, with an average of 7.8% vacancy. Available space has remained stagnant in the last year, increasing by just 134,000 square feet since third-quarter 2020. Clark County is currently expecting to add 81,841 square feet in new construction, which would bring its available space to over 7 million square feet upon completion. Asking rents in the market have also stayed fairly stagnant, increasing just \$0.14/SF. The health of the outlying suburban markets over a year and a half since the beginning of the pandemic does trend with the broader national real estate market, as employers opt for more affordable office space that allow for more social distancing or remote flexible value.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Q5id Inc	Sunset Corporate Park Bld C	Sunset Corridor/Hillsboro	Sublease	67,118
Chegg, Inc	Jacobs Center	CBD	Lease Expansion	18,652
Fidelity National Title Company	Kruse Oaks II	Kruse Way	Lease Renewal/Exp.	13,279
Hathaway Larson LLP	The Brewery Blocks – Block 4	CBD	Direct	7,812
Lower Columbia Estuary Partnership	NW Fence & Wire Building	Close-In SE	Direct	7,770

Select Investment Sale Transactions

Building(s)	Market	Approx Sale Price	\$/SF	Square Feet
5201 SW Westgate Dr.	Sylvan/Hillsdale	\$3,600,000	\$28.50	42,150
211 NE 18 th Ave.	Lloyd District	\$3,110,000	\$141.28	22,000
306 SE 8 th Ave.	Lloyd District	\$4,600,000	\$243.89	18,861

Overall Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Ask Rent (Price/SF)	Class B Ask Rent (Price/SF)	Total FS Asking Rent (Price/SF)
CBD	24,115,090	314,354	19.9%	127,601	-536,388	\$ 36.65	\$ 32.15	\$ 33.45
Clark County (WA) Total	6,941,339	81,841	7.5%	58,394	-30,221	\$ 27.19	\$ 21.47	\$ 24.71
217 Corridor/Beaverton	4,879,155	-	19.7%	21,305	-293,693	\$ 29.97	\$ 19.54	\$ 25.30
Airport Way	892,764	-	9.8%	-8,202	-2,962	\$ 25.99	\$ 19.98	\$ 18.23
Barbur Blvd/Capitol Hwy	842,923	-	10.1%	-18,729	-32,806		\$ 18.14	\$ 19.03
Clackamas/Milwaukie	1,432,370	-	6.9%	2,784	-4,096	\$ 30.48	\$ 22.83	\$ 27.81
Close-In Northeast	530,339	-	8.2%	1,957	-809	\$ 36.77	\$ 24.92	\$ 29.56
Close-In Northwest	2,065,841	-	28.5%	-6,341	-21,761	\$ 41.04	\$ 32.41	\$ 34.28
Close-In Southeast	3,413,747	311,083	20.3%	38,094	-29,728	\$ 45.61	\$ 28.87	\$ 33.64
Eastside Outlying	1,865,209	-	5.9%	8,332	-22,072	\$ 23.00	\$ 20.20	\$ 20.20
Guilds Lake	51,386	-	0.0%	-	0	-	-	-
I-5 Outlying	22,254	-	0.0%	-	0	-	-	-
Johns Landing	1,381,062	-	15.0%	-8,292	5,097	\$ 33.71	\$ 31.73	\$ 32.47
Kruse Way	2,495,785	-	17.6%	57,778	30,624	\$ 37.70	\$ 30.00	\$ 37.69
Lloyd District	1,994,608	-	5.2%	-799	-24,108	\$ 35.38	\$ 39.66	\$ 36.22
North Portland	144,300	-	12.9%	0	755	-	\$ 15.00	\$ 15.00
Northwest Outlying	37,740	-	7.5%	0	0	-	\$ 17.00	\$ 17.00
Oregon City	248,152	-	7.5%	5,756	-7,219	\$ 24.00	\$ 22.10	\$ 22.25
Sunset Corridor/Hillsboro	3,811,837	-	12.2%	-52,869	-60,676	\$ 25.48	\$ 22.52	\$ 24.82
Sylvan/Hillsdale	396,652	-	7.3%	5,289	7,686	-	\$ 17.49	\$ 16.69
Tigard	2,423,566	-	8.6%	60,162	55,712	\$ 29.12	\$ 19.89	\$ 24.20
Tualatin/Sherwood	891,240	-	18.0%	10,081	-1,636	\$ 28.82	\$ 25.16	\$ 26.33
West Linn/Lake Oswego	553,669	-	18.0%	-11,383	-30,915	\$ 30.55	\$ 33.32	\$ 30.21
Westside Outlying	69,082	-	6.9%	0	-1,620	-	-	\$ 21.23
Wilsonville	572,549	-	0.5%	2,596	13,309	-	\$ 24.77	\$ 24.77
TOTALS	62,112,659	707,278	15.6%	281,912	-987,527	\$ 34.71	\$ 28.64	\$ 31.40

EMPLOYMENT

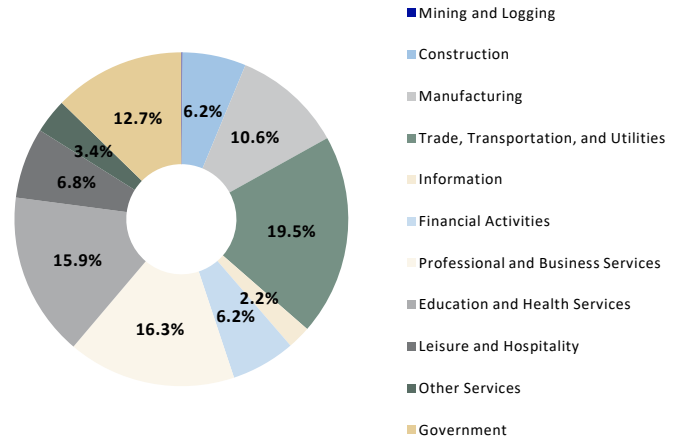
July 2021 finished with a 5.4% unemployment in the Portland Metro area and 4.6% nationwide. While still higher than pre-pandemic levels of 3.5% (local and nationwide), unemployment in the metro is continuously trending towards normalcy, compared with the 10.2% Metro unemployment rate in July 2020. All industries have seen positive employment growth since 2020, except for the financial services sector, which decreased by a modest 0.1% since last July. Leisure and hospitality continues to see rapid employment growth at 18.3% as restaurants and hotels reopen, some with proof of vaccination requirements.

OUTLOOK

Employment growth in key office sectors like professional services and information are good indications of recovery. However, in the advent of work from home and talks of four-day work weeks, the potential for smaller or entirely remote offices may create a challenge when filling downtown office vacancies in the next few years.

Employment by Industry

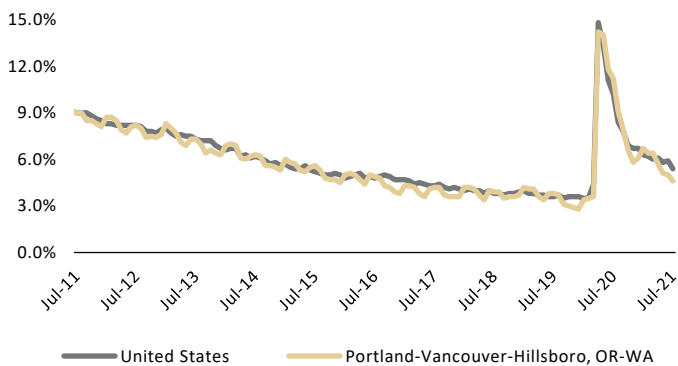
PORTLAND METRO



Source: U.S. Bureau of Labor Statistics, February 2021

Unemployment Rate

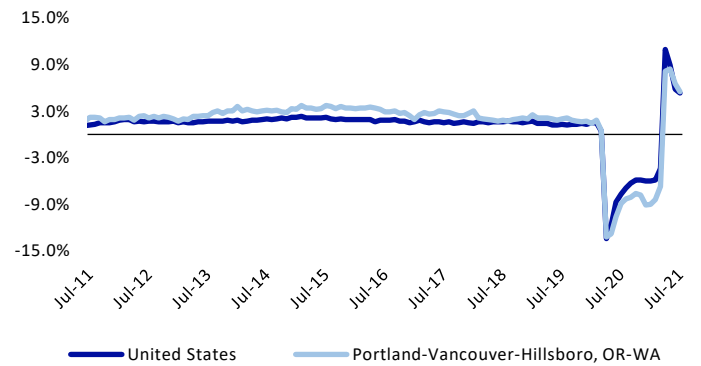
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

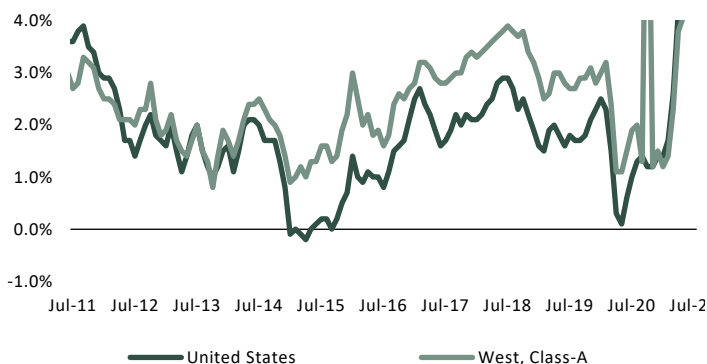
TOTAL NONFARM, NOT SEASONALLY ADJ, 12-MO % CHANGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

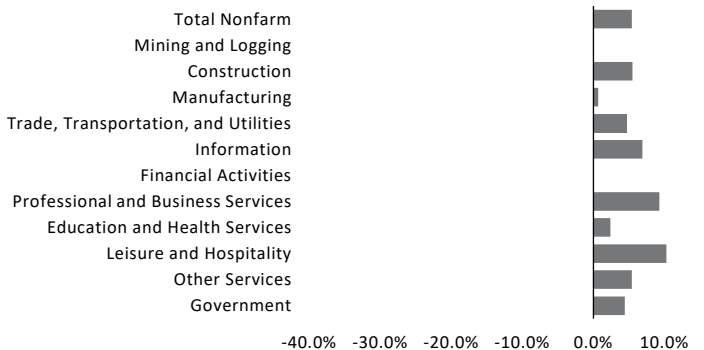
ALL ITEMS, 12-MO % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PDR, 12-MO % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, February 2021

For more information:

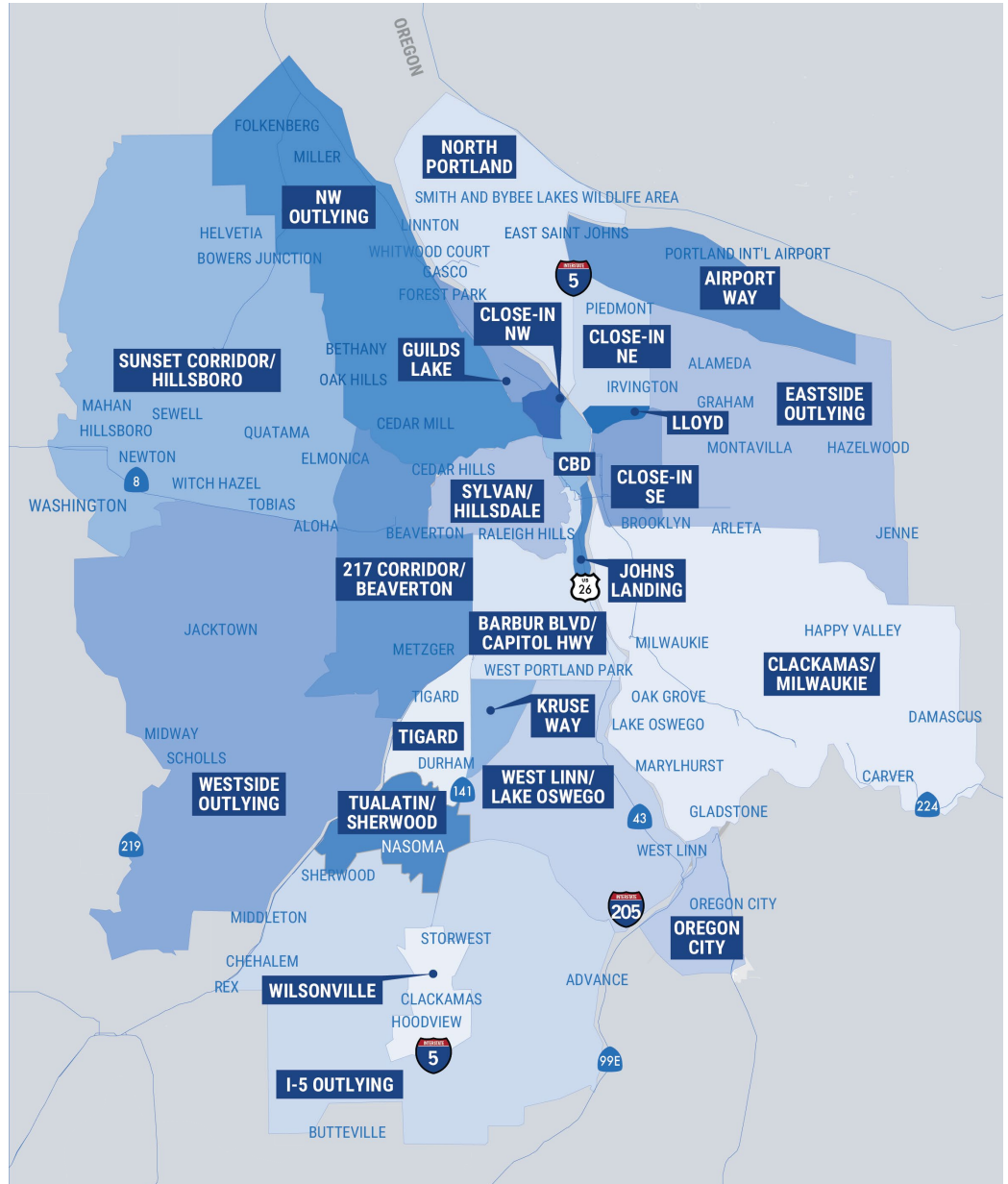
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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