

4Q23

Portland Industrial Market Overview

NEWMARK

Market Observations

Economy

- The manufacturing and trade/transportation/utilities sectors witnessed negative job growth in the fourth quarter of 2023.
- Portland's labor market maintains a slight lead over the national average in terms of the employment rate. The annual job growth rate has persistently followed a declining trajectory since early 2022, mirroring the national average.
- In year-over-year growth from November 2022 to November 2023, the construction industry outpaced all other sectors, adding 8.7% to the labor force.
- Although employment numbers still exceed pre-pandemic levels, leasing activity and office utilization remain on downward trajectories that were amplified in the fourth quarter of 2023.

Major Transactions

- BKM Capital Partners acquired the 449,245-SF 217 Distribution Center in the Sunset Corridor from Kansas City Life. The five-property portfolio traded for \$67 million, or \$149.00/SF.
- NBP Capital purchased the Harborage Industrial Building at 8823 N Harborage St in the Rivergate submarket. The 70,970-SF industrial warehouse was purchased for \$11.5 million, or \$162.04/SF.
- 6501 NE Croeni Ave, a 49,211-SF flex asset in the Sunset Corridor traded for \$10 million or \$203.21/SF. Tinitron, Inc. was the seller in this transaction.

Leasing Market Fundamentals

- Year-to-date net absorption amounted to 779,657 SF in 2023, signifying an 86.2% decrease compared to the previous year. The current quarter's total of 64,495 SF represents a modest uptick from third-quarter figures but constitutes only a fraction of the year's absorption, particularly when compared with the heavy activity observed in the first half of 2023.
- Vacancy remained consistent from the previous quarter at 3.0%. The continued increase in available sublease space being brought to the market has helped to alleviate pressure in markets such as the I-5 South Corridor where vacancy rates are historically low.
- Activity has eased considerably as compared to the levels seen in 2021 and 2022. Despite decreased demand across industrial asset types, vacancy has yet to witness a notable increase.

Outlook

- Current market conditions predict that absorption will trend lower in 2024 as demand has cooled significantly over the course of the year. Vacancy is expected to rise as demand weakens.
- Industrial and flex sales activity stands out as a singular bright spot in the Greater Portland market. The market has demonstrated that there is a demand for industrial products at reasonable price points, despite prevailing economic conditions, and this trend is expected to continue.
- Rent growth has remained volatile geographically throughout the year and this looks to continue. Submarkets such as the I-5 South Corridor and Clark County continue to perform well due quality of product and strong demand geographically.

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2. Leasing Market Fundamentals
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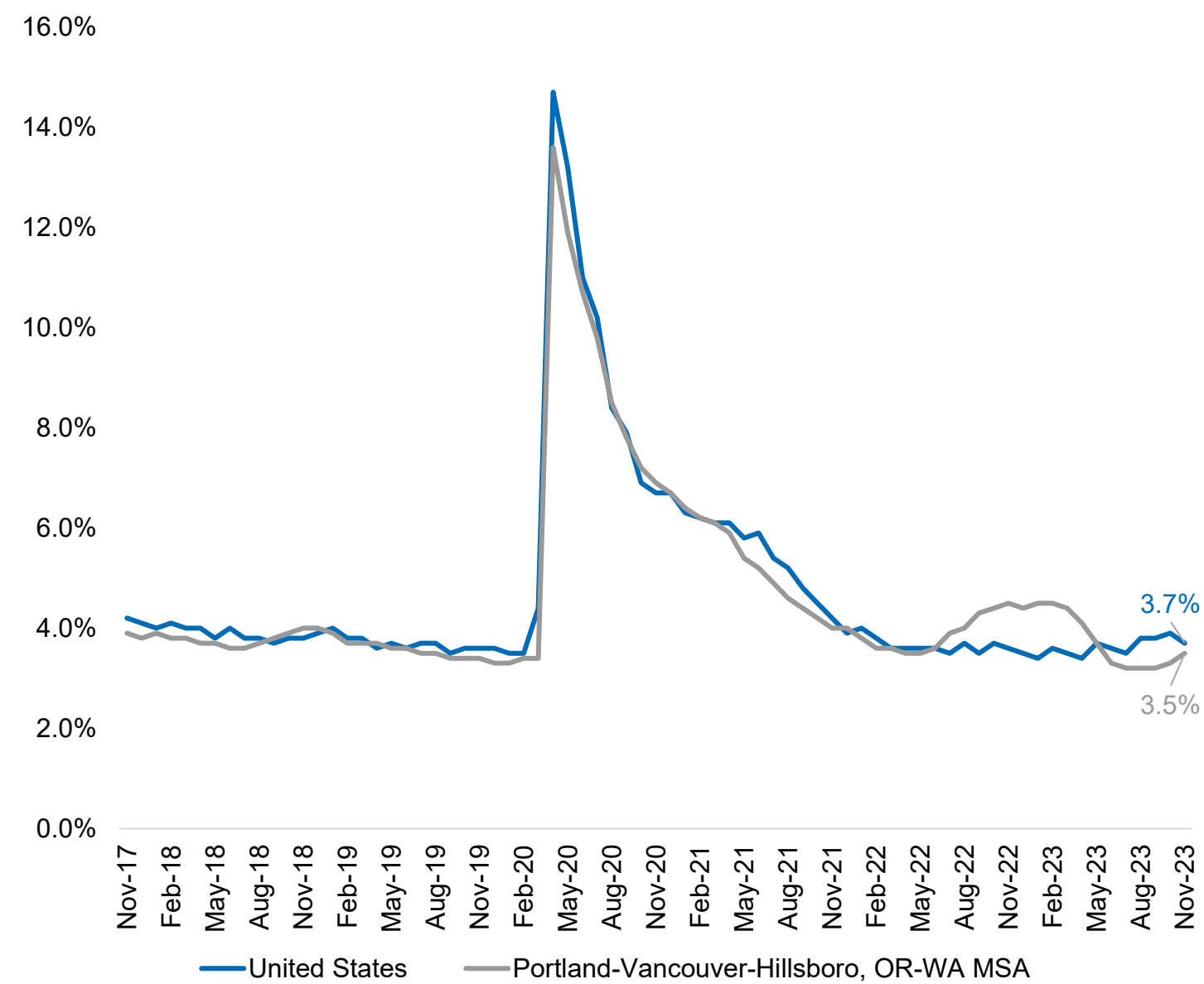
Economy



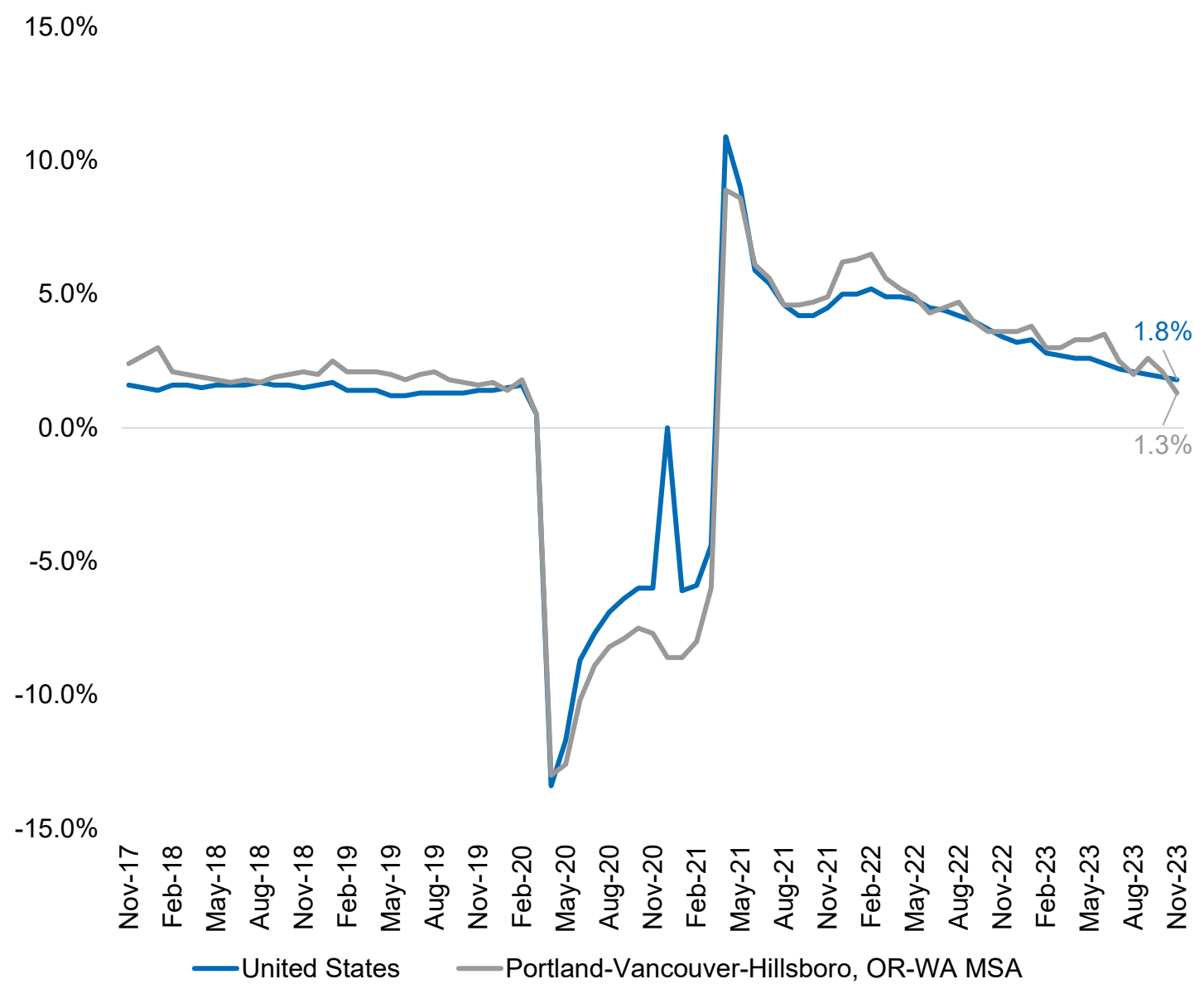
Portland Narrowly Outpaces National Averages as Growth Stagnates

The overall unemployment rate for the Portland area remains 20 basis points below the national average, despite year-over-year growth reaching the lowest levels of the year in the fourth quarter of 2023.

Unemployment Rate, Seasonally Adjusted



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

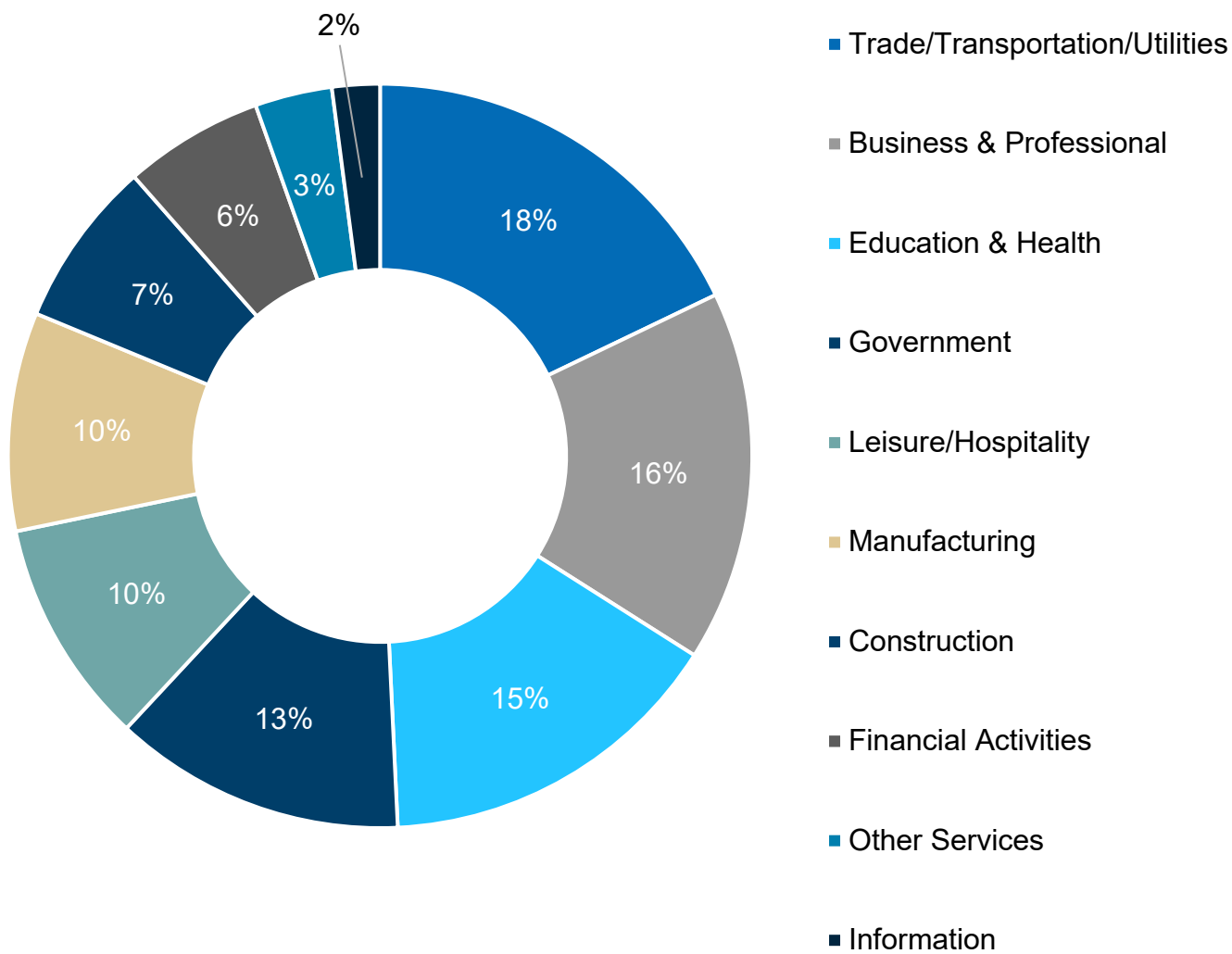


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

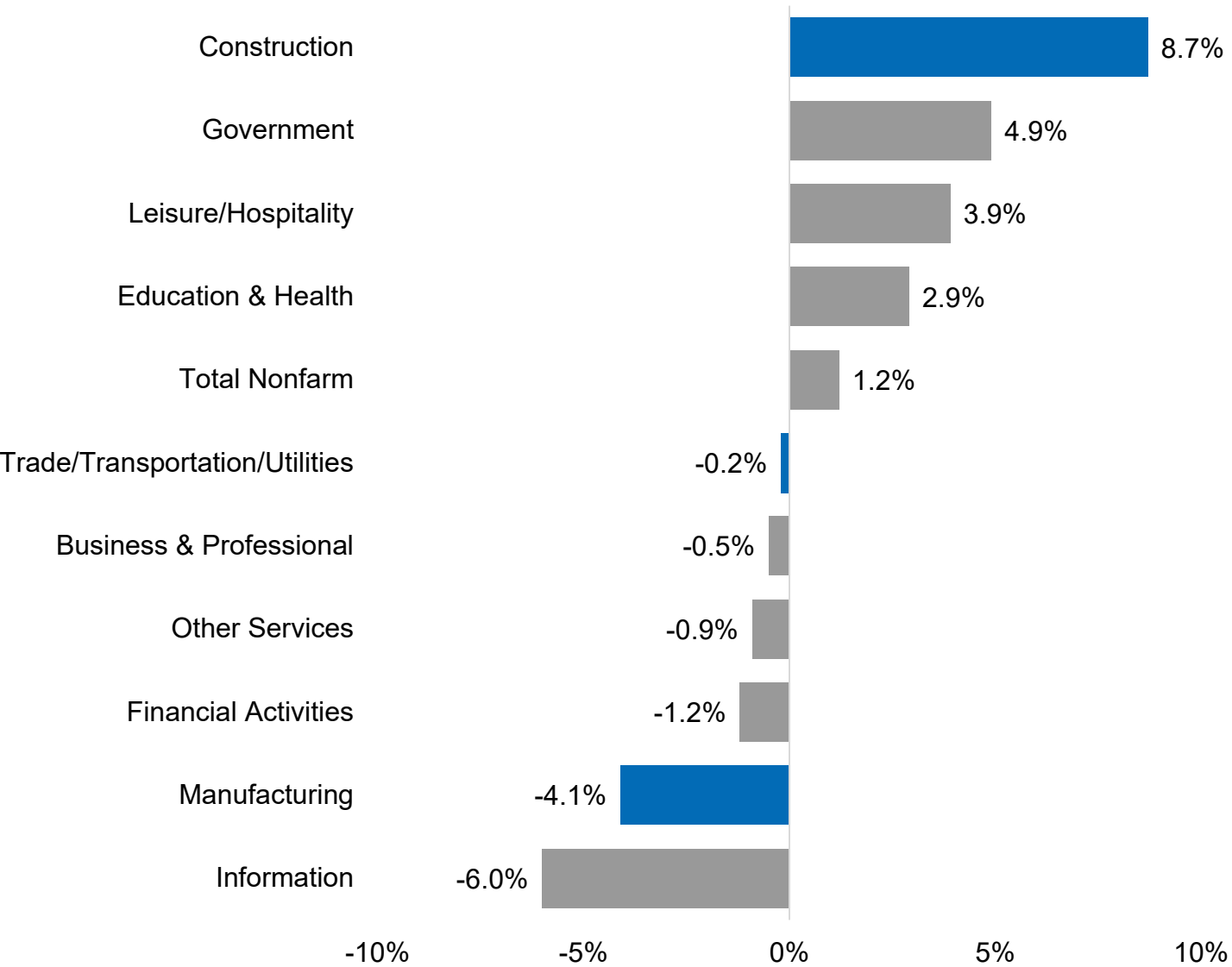
Industrial Job Growth Shows Regression Heading Into 2024

The construction sector led all industries in regional annual job growth for the second straight quarter. Industrial industries experienced fluctuation in annual job numbers, with the manufacturing sector showing negative 4.1% growth compared to the numbers from a year ago.

Employment by Industry, November 2023



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

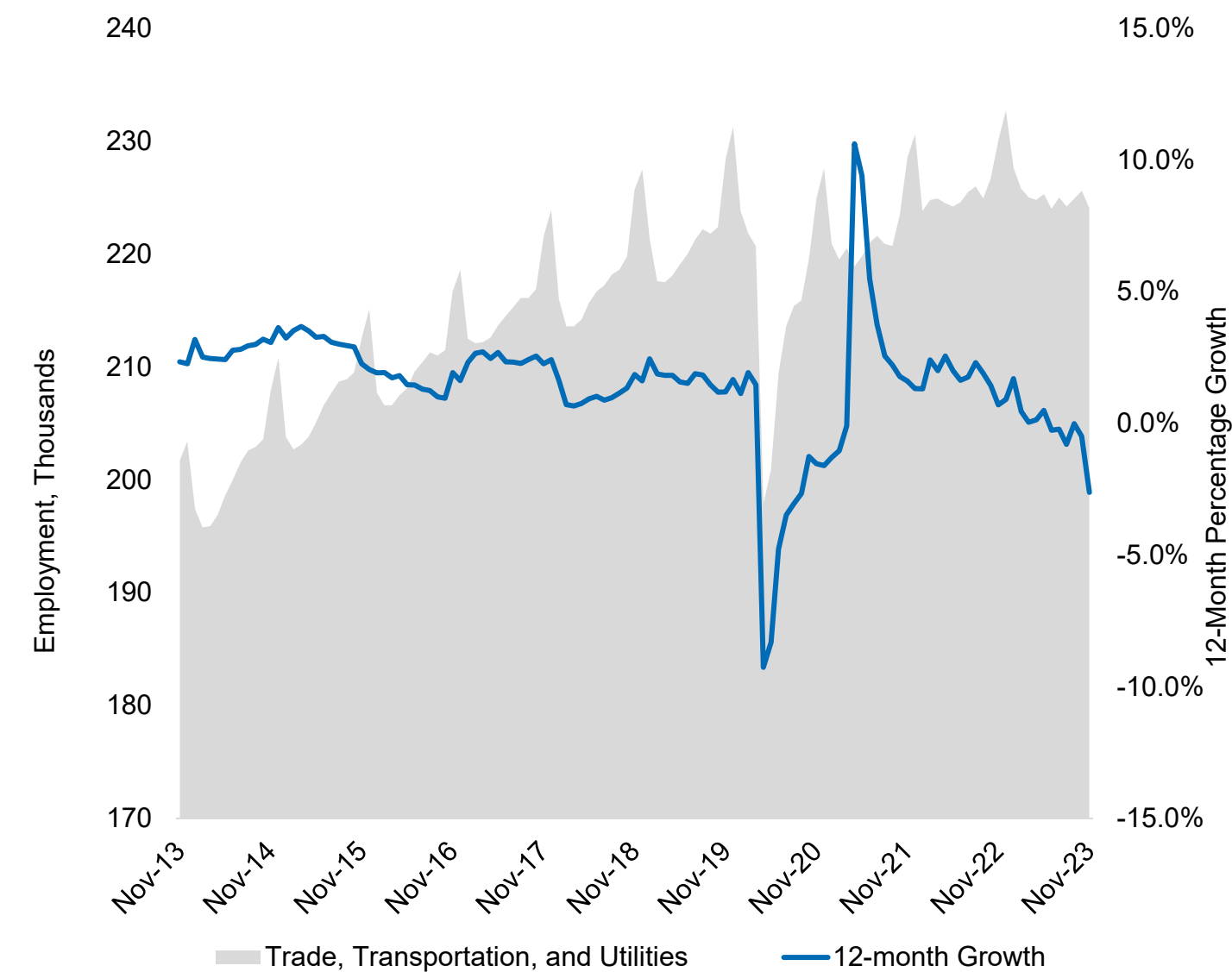


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

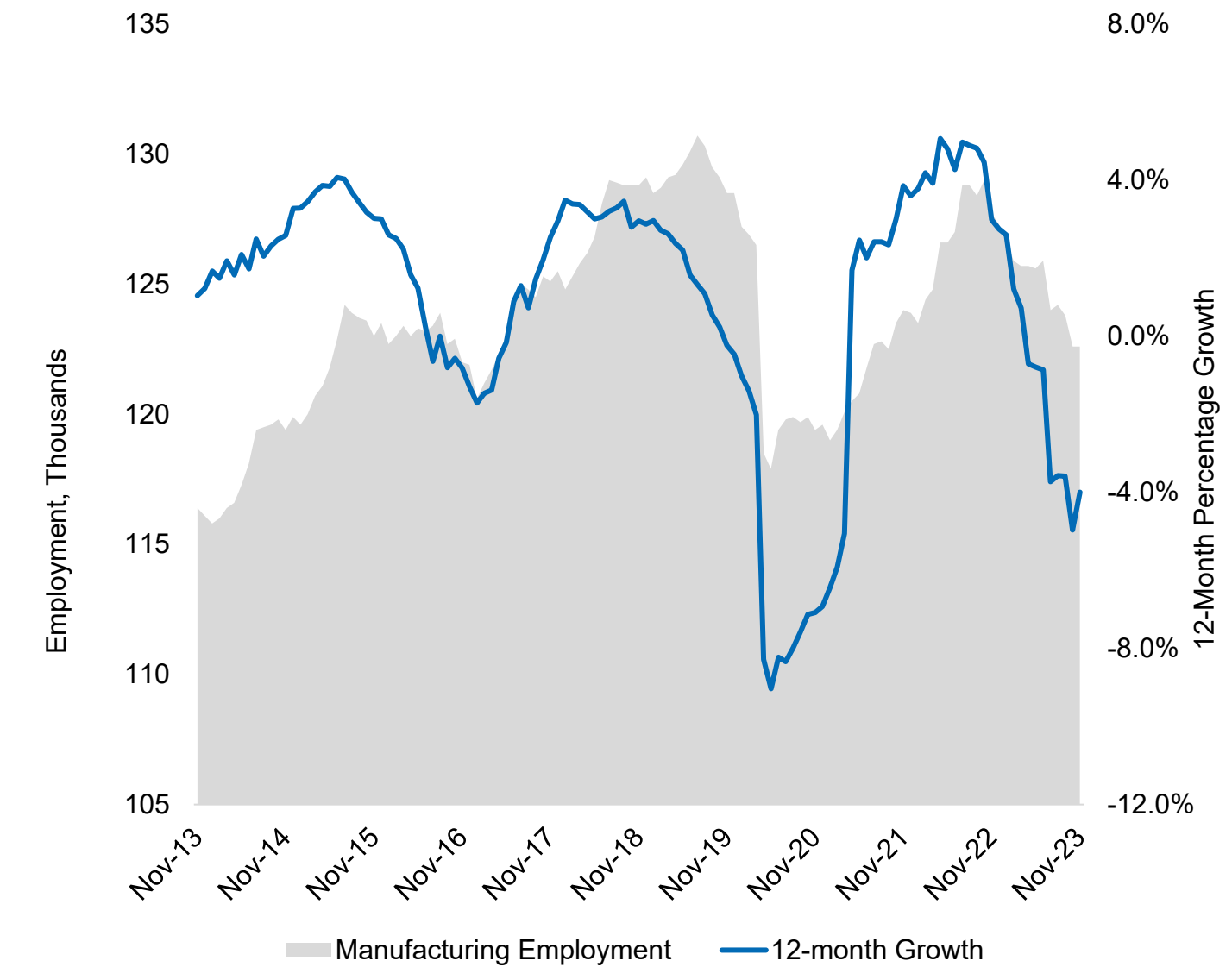
Employment Numbers Weaken in 4Q23 for Industrial Sectors

Manufacturing jobs have posted declining numbers each quarter in 2023. Trade/transportation/utilities employment has leveled off and numbers remain above pre-pandemic levels despite a slight regression.

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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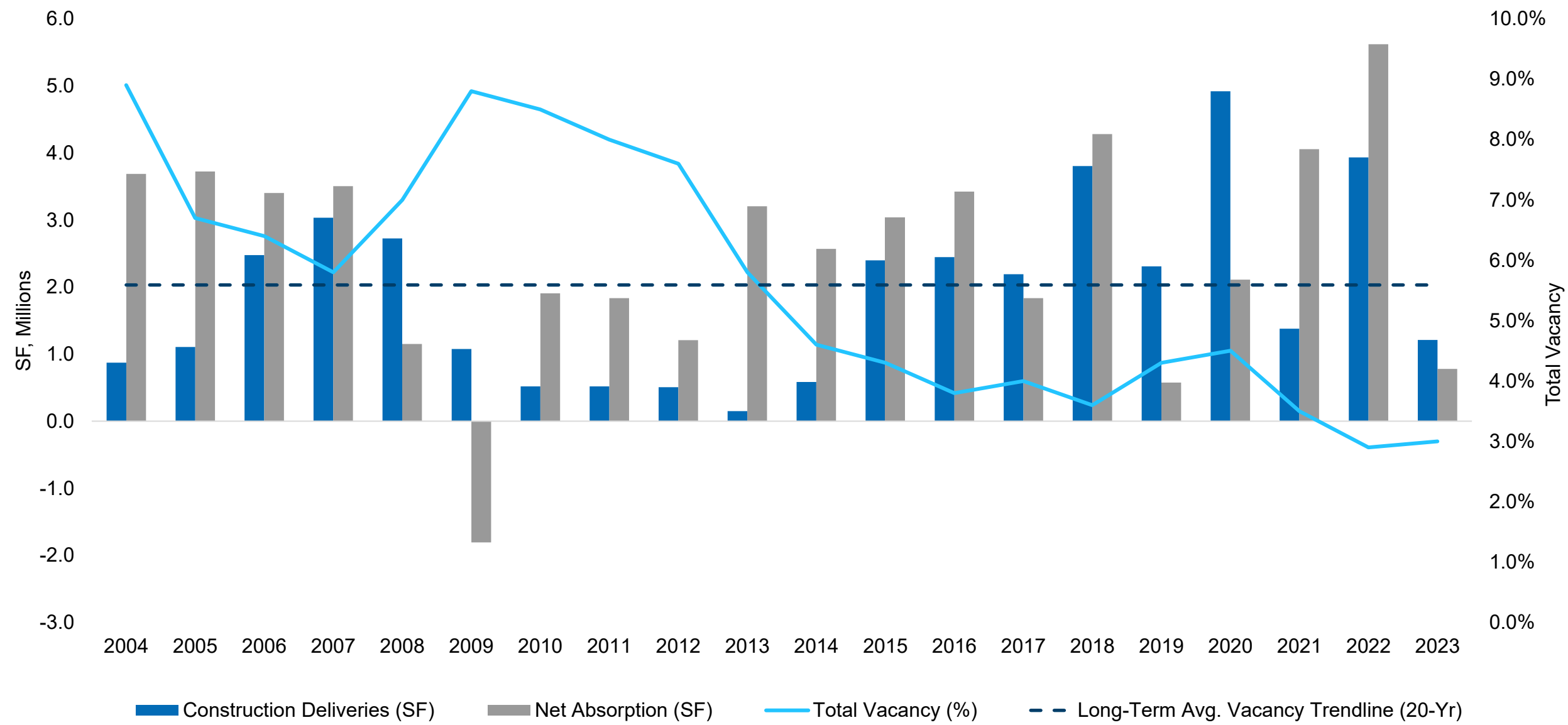
Leasing Market Fundamentals



Vacancy Increases as Market Shows Signs of Weakening Fundamentals

Industrial assets saw a slight rise in vacancy numbers to 3.0% market-wide. General industrial assets registered negative absorption for the first time in 2023, totaling negative 278,269 SF of absorption in the fourth quarter of 2023. Construction deliveries amounted to 489,700 SF of new product, with the bulk of construction in the pipeline due to be delivered in the first quarter of 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

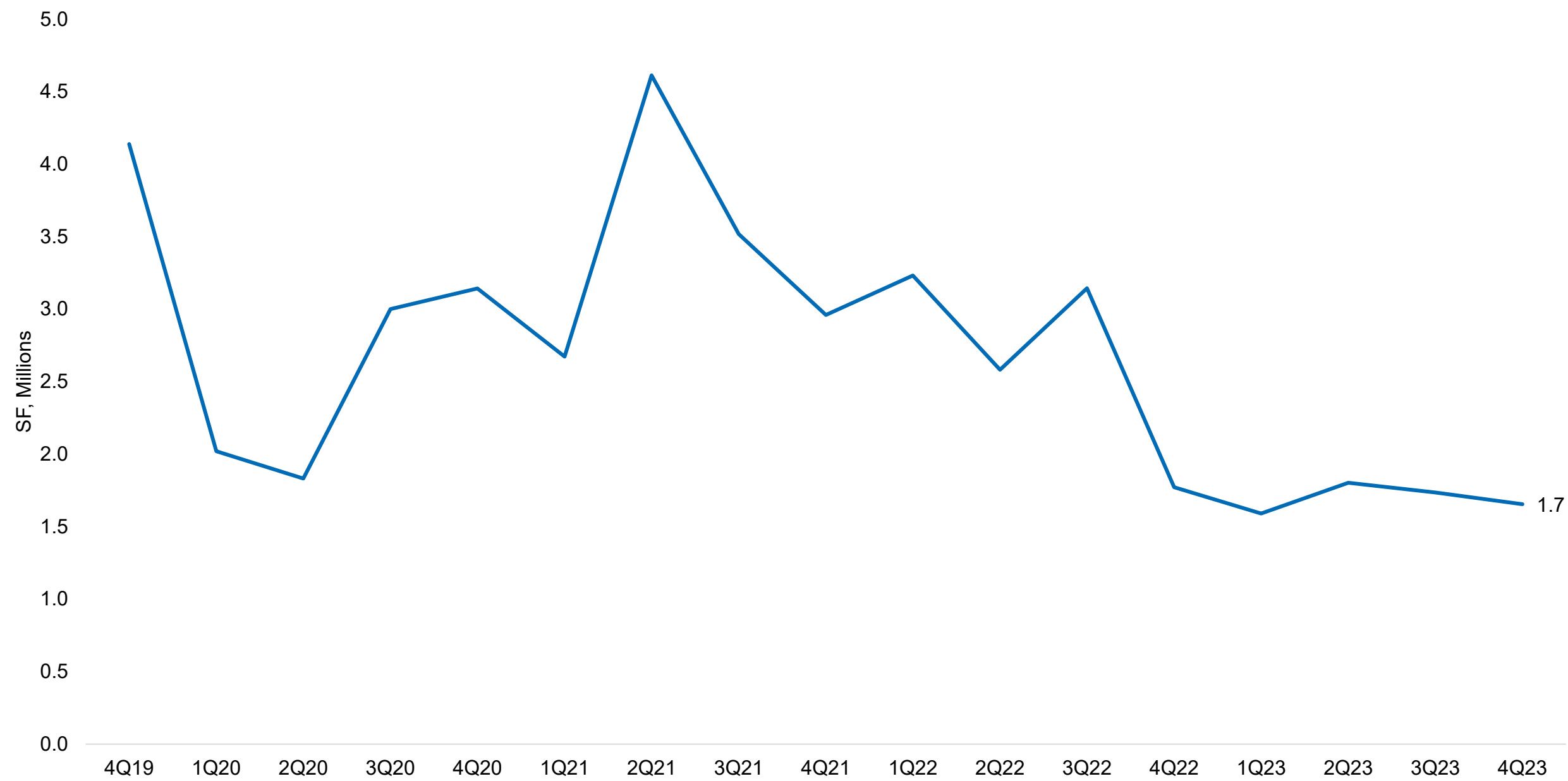


Source: Newmark Research

Leasing Activity Trends Lower for Second Straight Quarter

Leasing activity totaled 1.7 million SF in the fourth quarter of 2023, which represents a 6.6% decline year-over-year. Deal velocity has been consistently slow each quarter since recording a sharp decrease in the fourth quarter of 2022.

Total Leasing Activity (SF)

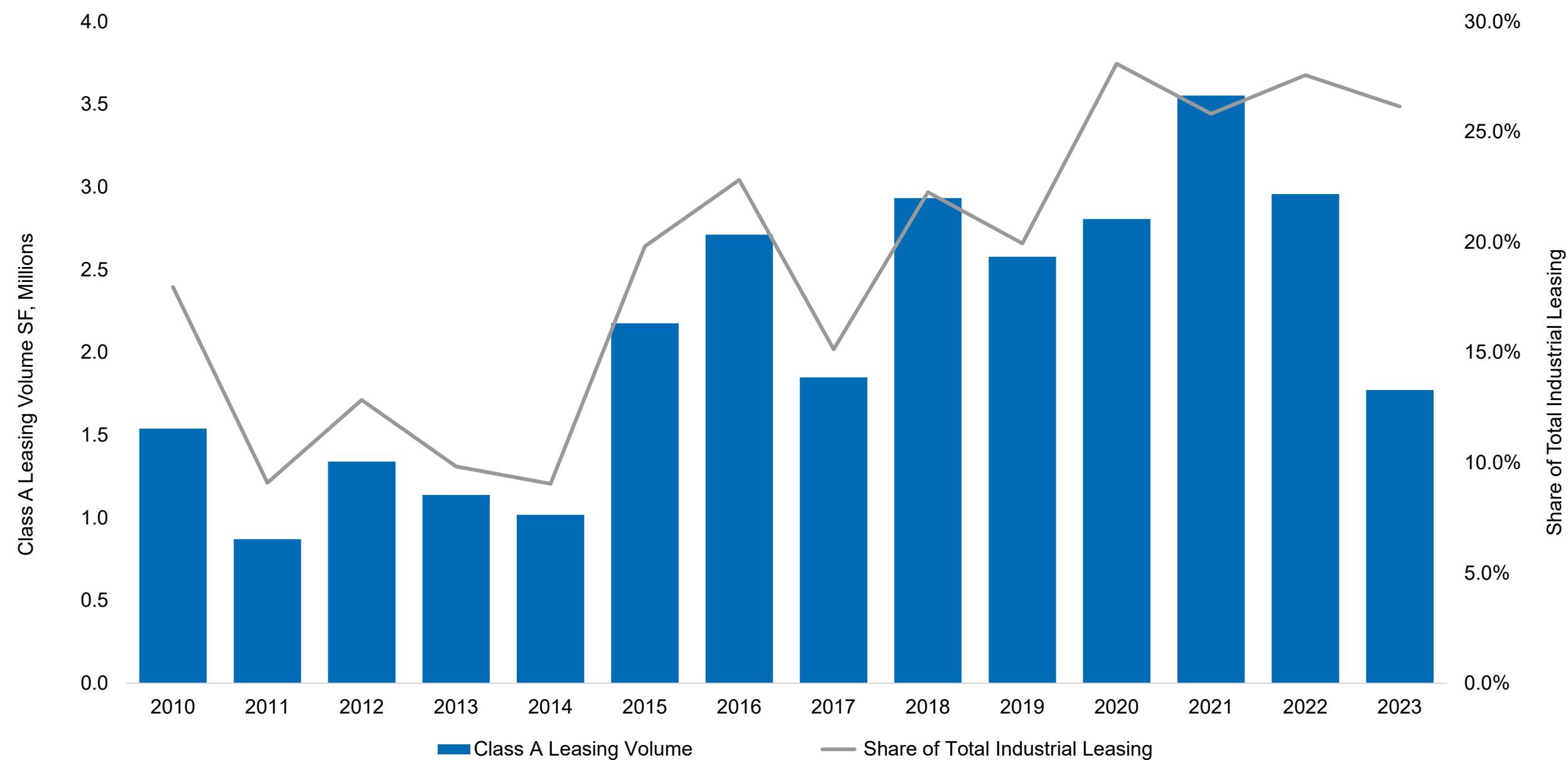


Source: Newmark Research, CoStar

Class A Leasing Volume Closes Year Behind 2022 Numbers

Class A leasing volume has constituted 26.15% of all leasing activity for industrial assets in 2023. This reflects a 2.4% decrease compared to 2022 numbers. While demand for high-quality space remains healthy, it is hindered by a scarcity of available Class A space in the market.

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



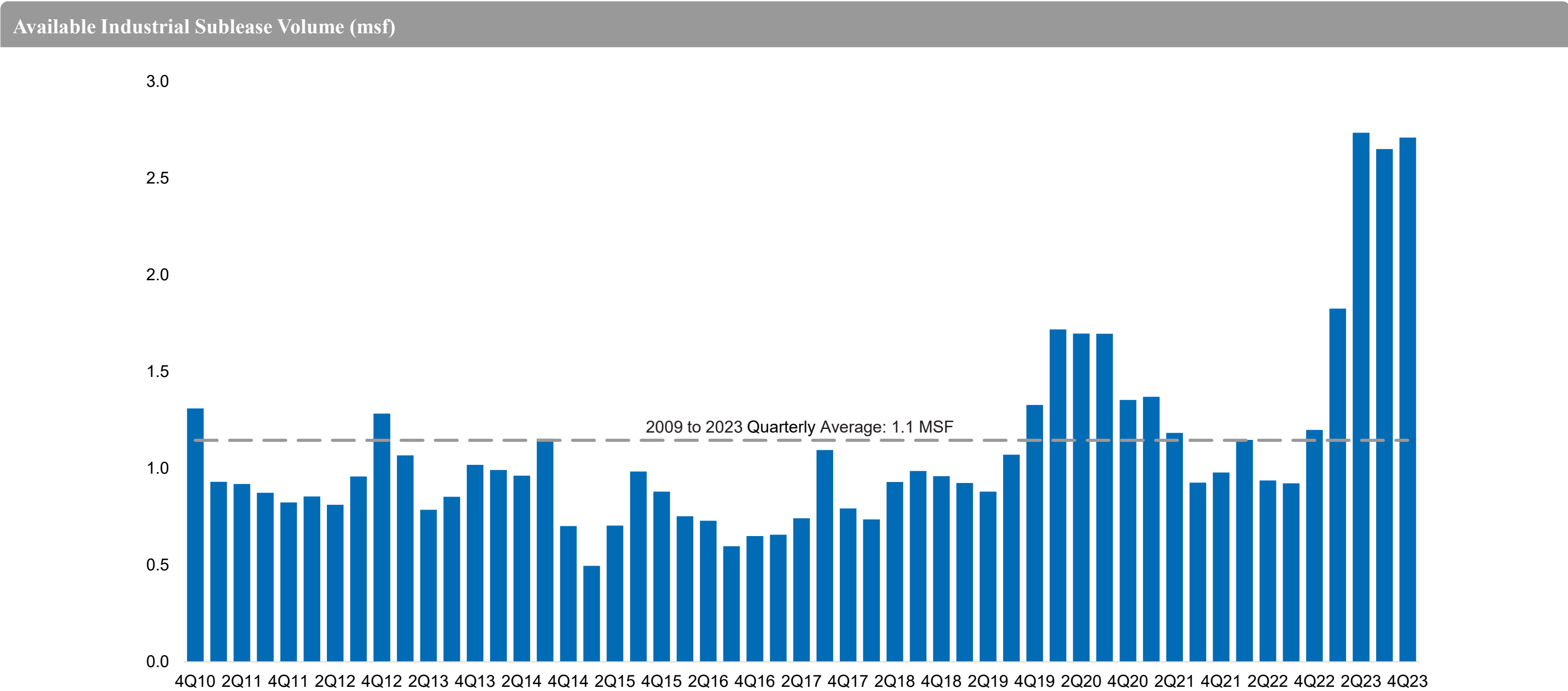
Source: Newmark Research, CoStar



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Sublease Availability Sees Sharp Rise in 2023

At the close of the year, there is currently 2.7 million SF of available sublease space being tracked across the market. The total amount of available sublease space more than doubled in 2023, and in many markets, it represents a higher total availability than direct spaces. Declining consumer demand, weakening market fundamentals, and uncertain economic conditions are all contributing factors to the recent surge in sublease availability.



Source: Newmark Research, CoStar

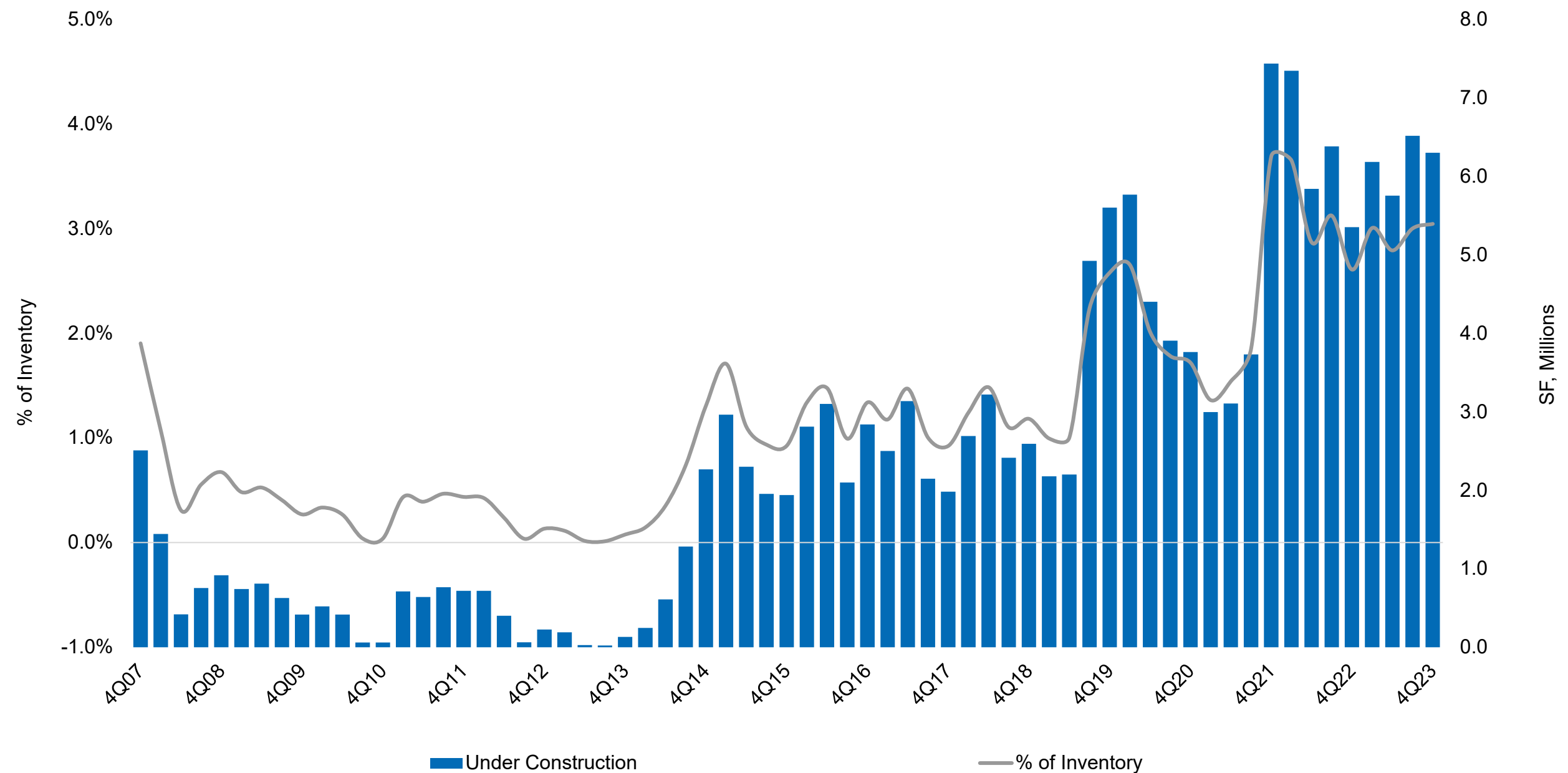


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Industrial Supply Constant in 4Q23

There are currently 6.3 million SF under construction, being tracked in the Greater Portland area. Nearly all projects currently monitored for industrial inventory are slated to deliver in the first half of 2024. Amazon’s fulfillment center in the I-5 South Corridor is set to officially deliver in the first quarter of 2024, totaling 3.8 million SF of occupied distribution space.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

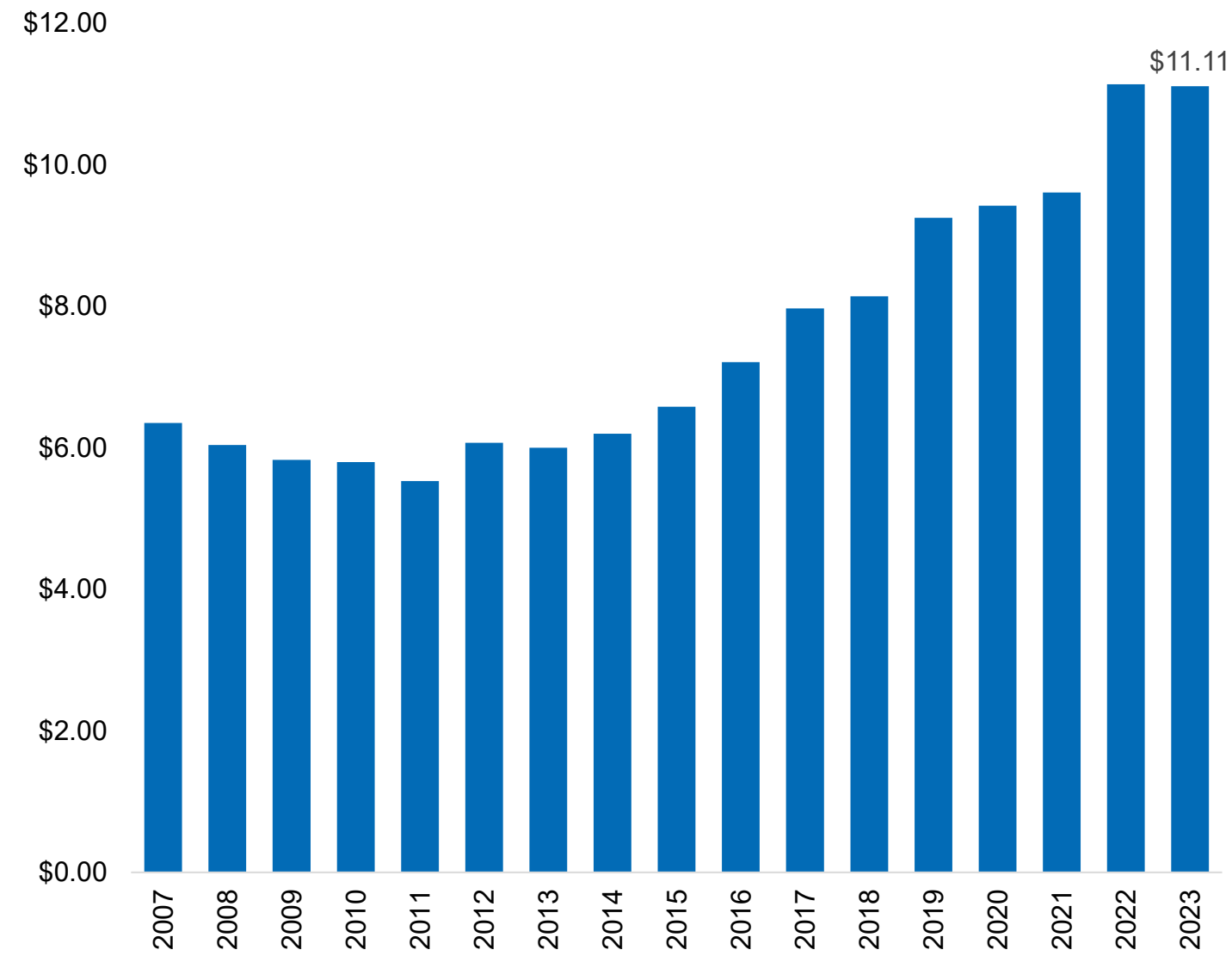


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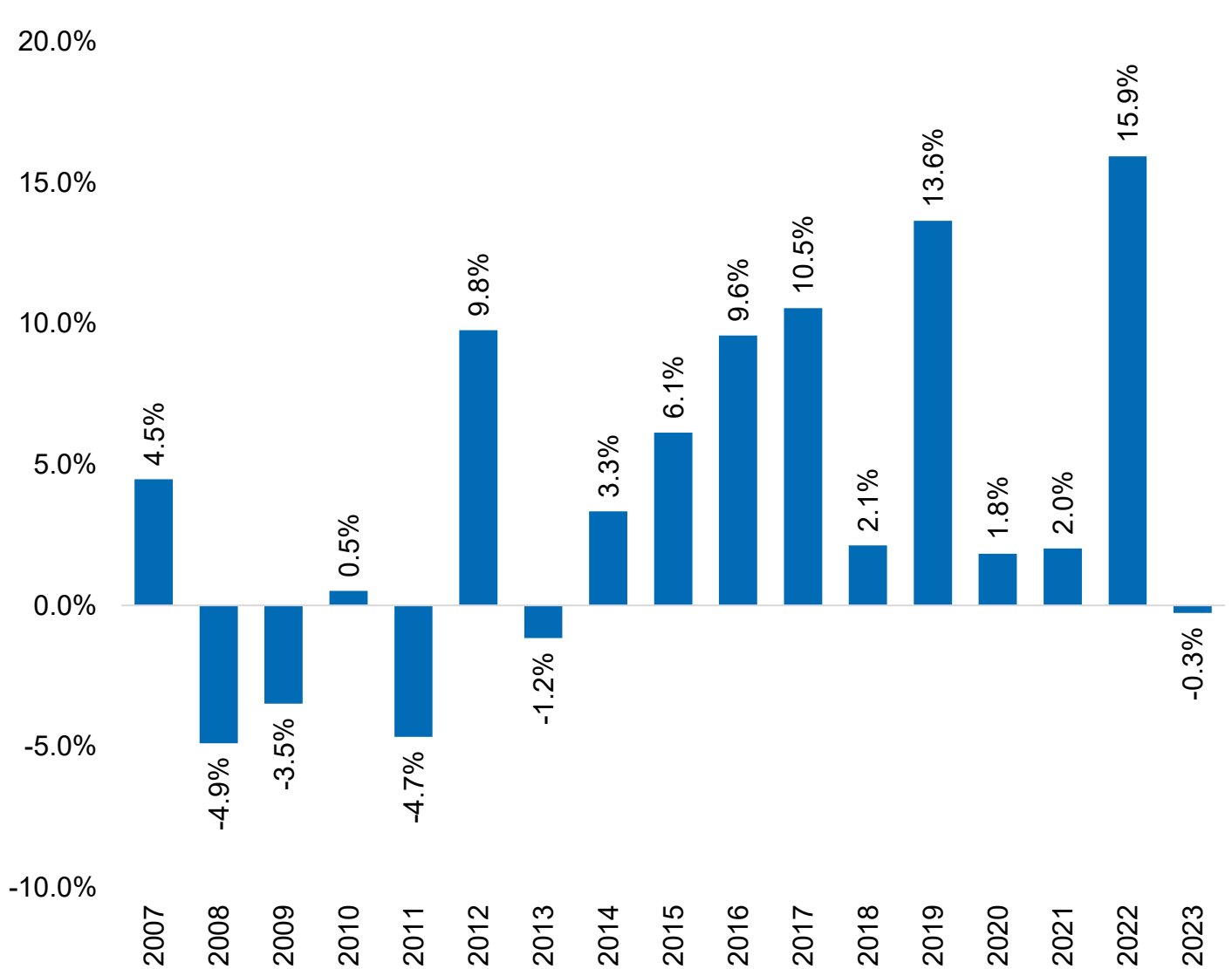
Asking Rents Steady Throughout 2023

Average asking rents remain stable compared to values from a year ago across all industrial asset classes. The stabilization of rates is likely attributed to a continued slowdown in leasing activity and tenants in the market. Despite low inventory, the lack of demand for existing space has slowed the increase in rates recorded since early 2021.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Notable 4Q23 Lease Transactions

Four of the largest leases signed in the fourth quarter of 2023 were renewals involving long-term tenants. Deal velocity remained subdued due to an overall decrease in leasing activity among large space occupiers in the market. Clark County continues to witness an increased share of movement compared to neighboring submarkets to the south.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
OIA Global Logistics <i>The Portland based company renewed in their current footprint.</i>	14601-14561 N Bybee Lake Ct	Rivergate	Renewal	167,305
OnTrac <i>OnTrac renewed their long-time warehouse space in Vancouver.</i>	3665 NW 32 nd Ave	Clark County	Renewal	163,328
Interstate Batteries <i>Camas Meadows Industrial Park is expected to deliver in the second quarter of 2024.</i>	5050 NW Camas Meadows Dr	Clark County	Direct New	161,151
Expeditors <i>Expeditors renewed their lease at Stockyards Commerce Center – Building C.</i>	2522 N Marine Dr	Swan Island/Close-In NE	Renewal	144,060
Cummins, Inc. <i>The engine manufacturing company has been a tenant at PDX Logistics Center II since it delivered in 2016.</i>	9601 NE Alderwood Rd	NE/Columbia Corridor	Renewal	119,995

Source: Newmark Research

Appendix / Tables





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Newmark business contact for this information

For more information:

Dexter Muller

Research Analyst

Portland Research

Dexter.Muller@nmrk.com

Portland

760 SW 9th Ave, Suite 200

Portland, OR 97205

t 503.972.5456

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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