

4Q23

Portland Office Market Overview



NEWMARK

Market Observations

Economy

- Portland's labor market remains slightly ahead of the national average in terms of employment rate. Annual job growth rate has continued a downward trend that began in early 2022, similar to the national average.
- Office-occupying industries experienced negative job growth in the fourth quarter of 2023, largely due to a downturn in the information sector.
- In year-over-year growth from November 2022 to November 2023, the construction industry led all sectors by 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

- The Centurion Foundation, Inc has acquired 501 N. Graham St., a 119,400-SF building that was previously owned and occupied by Legacy Health System. The building was purchased for \$60.5 million, or \$506.70/SF.
- The Collective at Vancouver, Building 1, a 44,100-SF office asset located at 4000 Columbia House Blvd. in Clark County, has been sold to T&T Hospitality Services, Inc. Newmark represented the seller Killian Pacific in the transaction.
- Talon Private Capital sold The Millenium Building, a 58,792-SF Class B office building located at 1920 NE Stucki Ave. in the Sunset Corridor, to City View Charter School. The building sold for \$11.8 million, or approximately \$200.71/SF.

Leasing Market Fundamentals

- Net absorption in the fourth quarter of 2023 amounted to negative 275,145 SF. The CBD remained the hardest-hit submarket in both the fourth quarter of 2023 and in the year overall. The total net absorption for the year reached negative 1,207,516 SF market-wide.
- Portland's development pipeline has been exhausted with the delivery of Block 216 in the CBD. No upcoming projects are being tracked to commence in the coming months, and difficult economic conditions look to continue delaying construction starts moving into 2024.
- Vacancy across the Portland market rose to 20.4%, representing a 50-basis-point increase over the third quarter of 2023. Average asking rents rose slightly due to aggressive pricing strategies among Class A assets in select submarkets.

Outlook

- The Greater Portland office market is expected to continue facing challenging conditions for both leasing and investment activity. Uncertainty regarding the economic outlook moving into 2024 will prompt operators and tenants in the market to approach it cautiously.
- Supply continues to far outweigh demand for office real estate in the Portland markets. Elevated interest in flagship and best-in-class assets has not offset the abundance of Class B and Class C space that continues to enter the market each quarter.
- Rents are expected to begin declining as the market shows signs of slowing. As more buildings become increasingly vacant, landlords will likely need to be more aggressive in pricing and concessions to attract tenants in the marketplace.

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1. Economy
 2. Leasing Market Fundamentals

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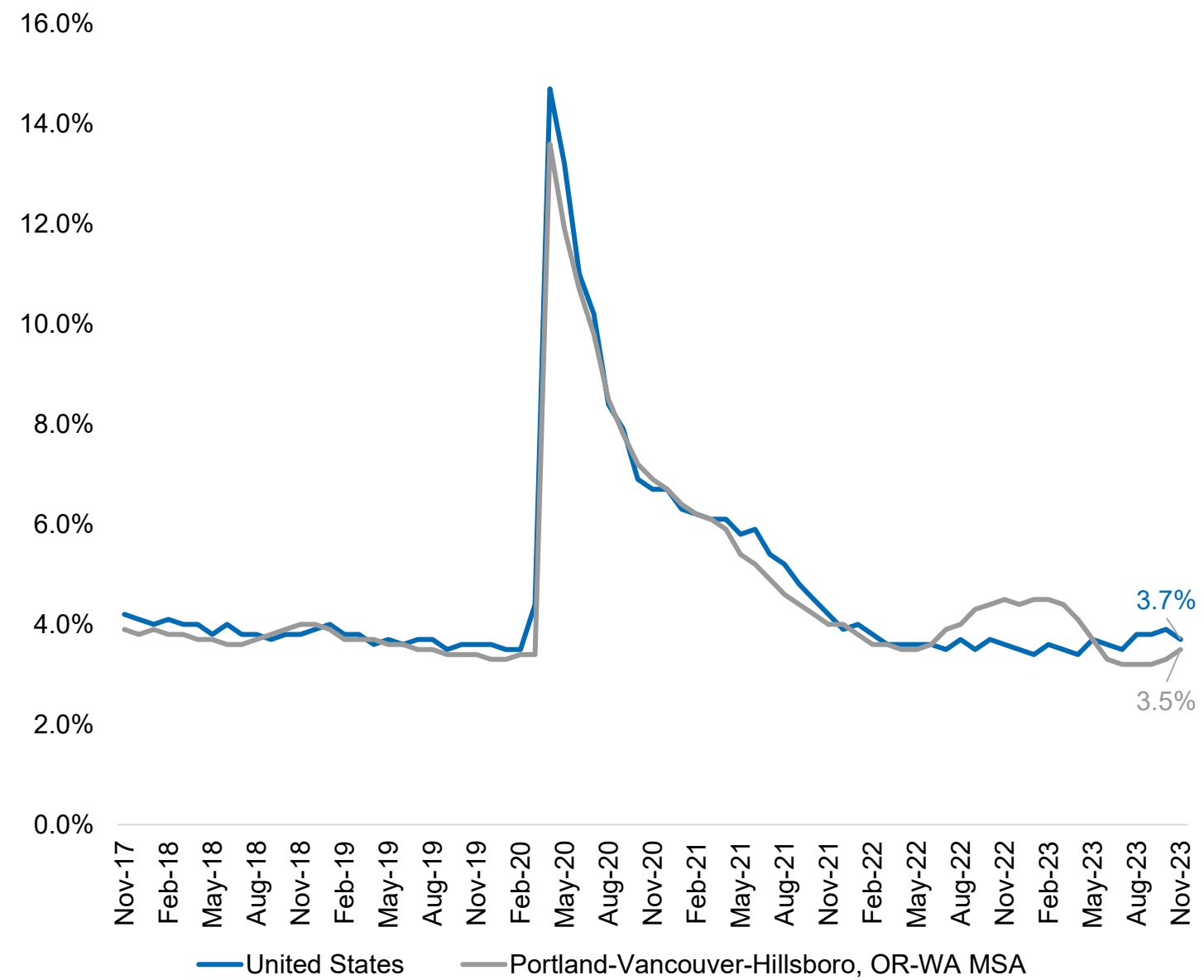
Economy



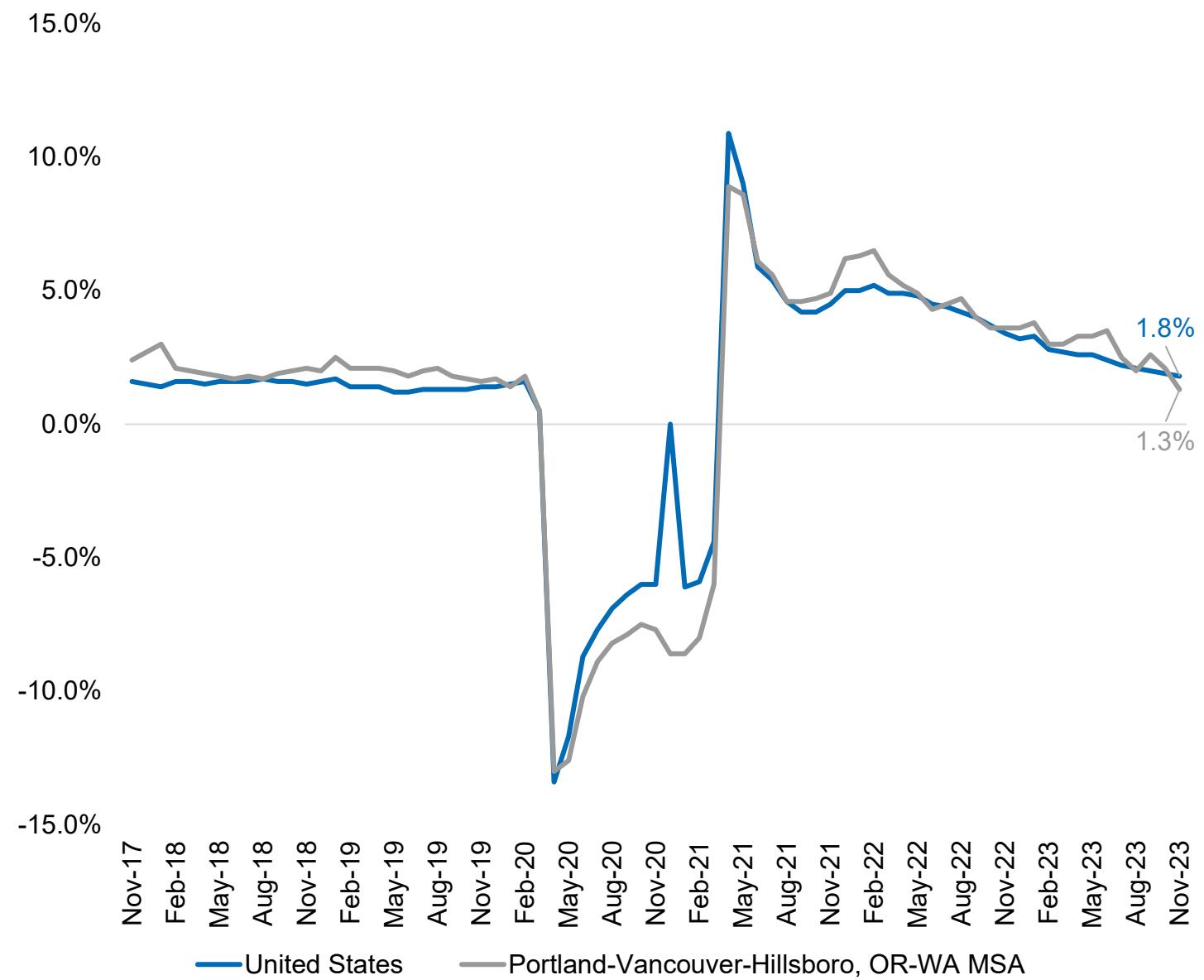
Portland Narrowly Outpaces National Averages as Growth Stagnates

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



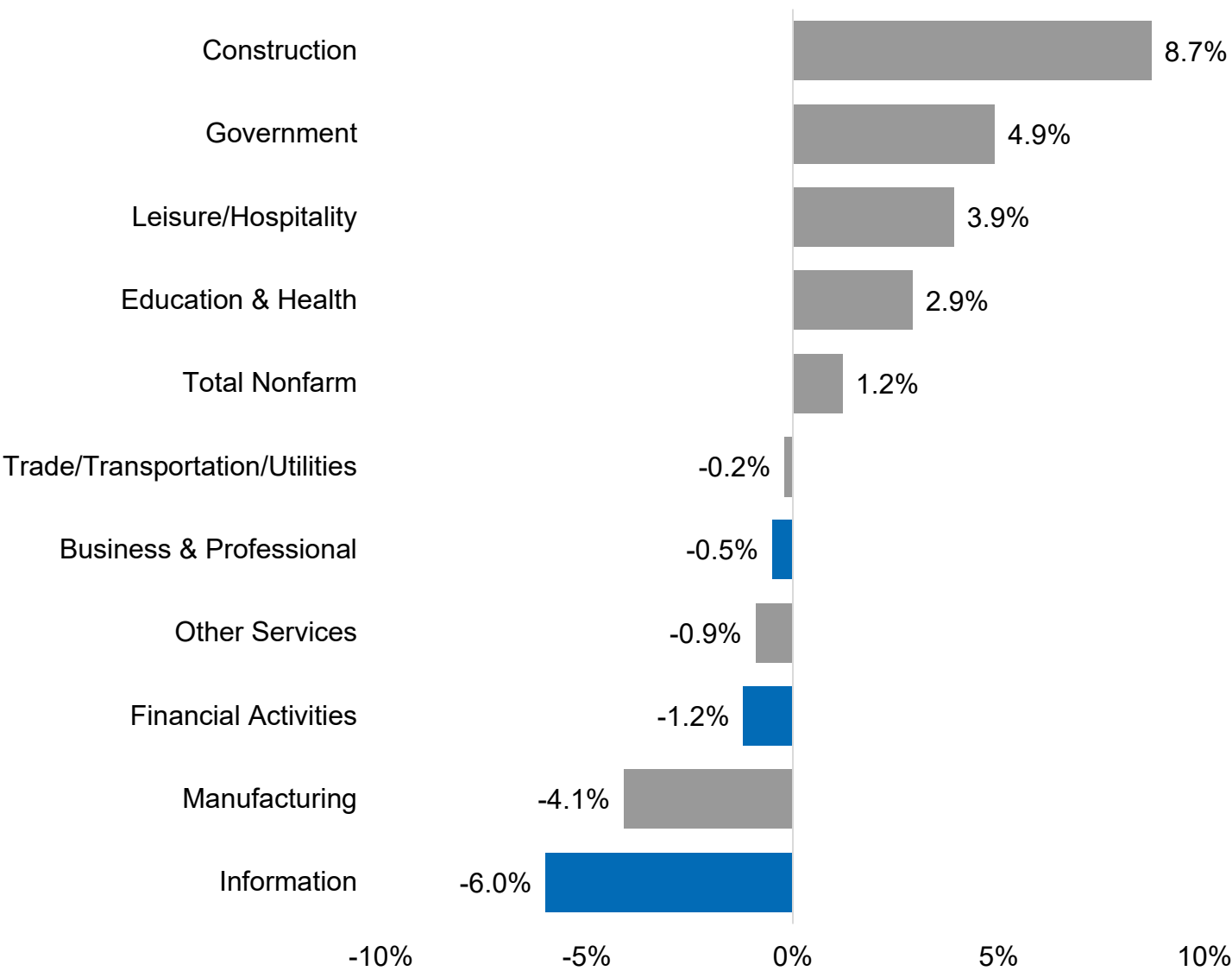
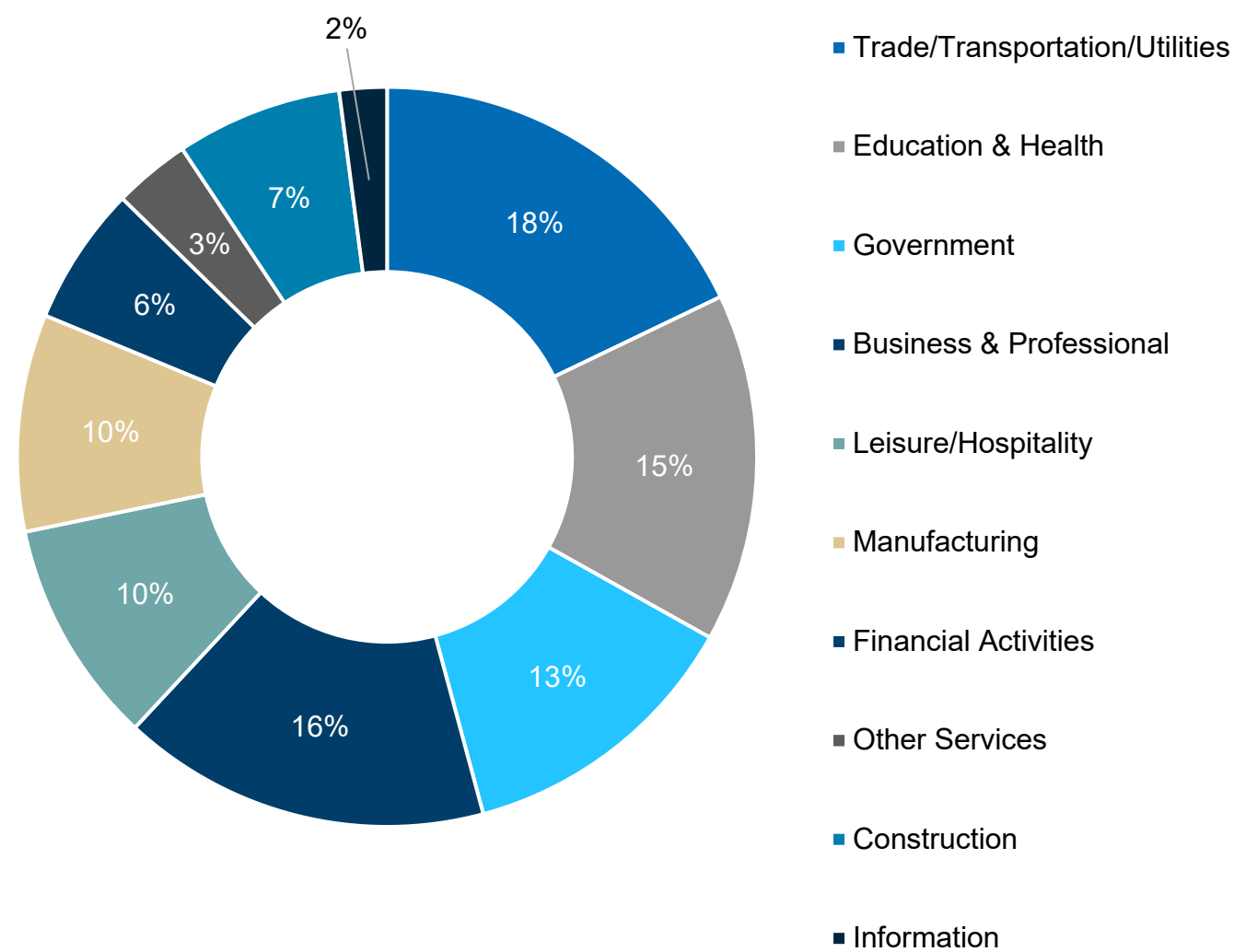
Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

Job Growth Remains Muted Heading Into 2024

The construction sector led all industries in regional annual job growth for the second straight quarter. Office-occupying industries experienced a mild regression in annual job numbers, with the information sector showing negative 6.0% growth compared to the numbers from a year ago.

Employment by Industry, November 2023

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

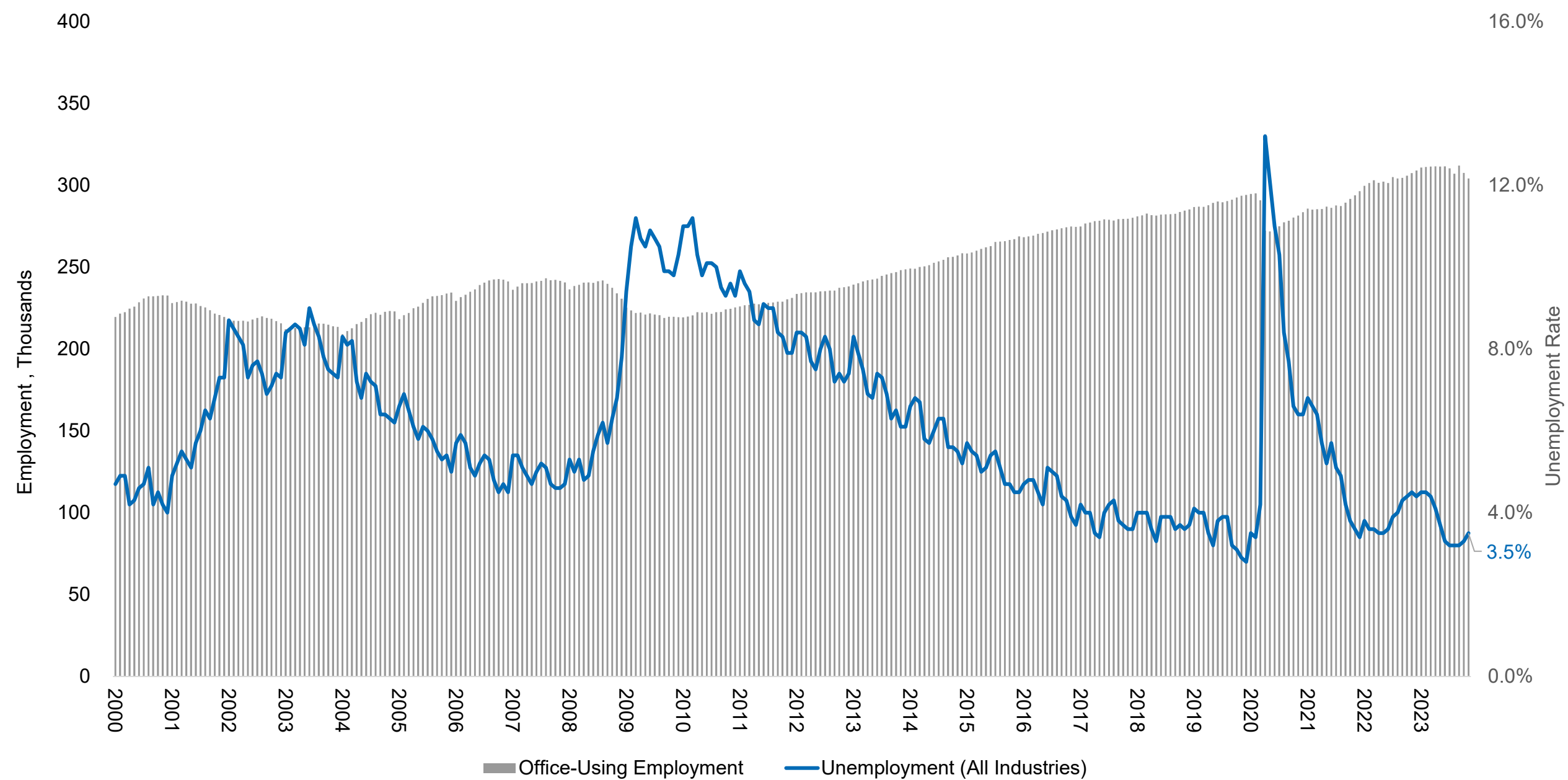


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

Office-Using Employment Declines to Close 2023

Office jobs in the region remain healthy but did experience a small decline in the fourth quarter of 2023. Overall unemployment remains slightly below the national average, but it remains to be seen if the regression experienced in the fourth quarter of 2023 will continue into 2024 for office occupiers.

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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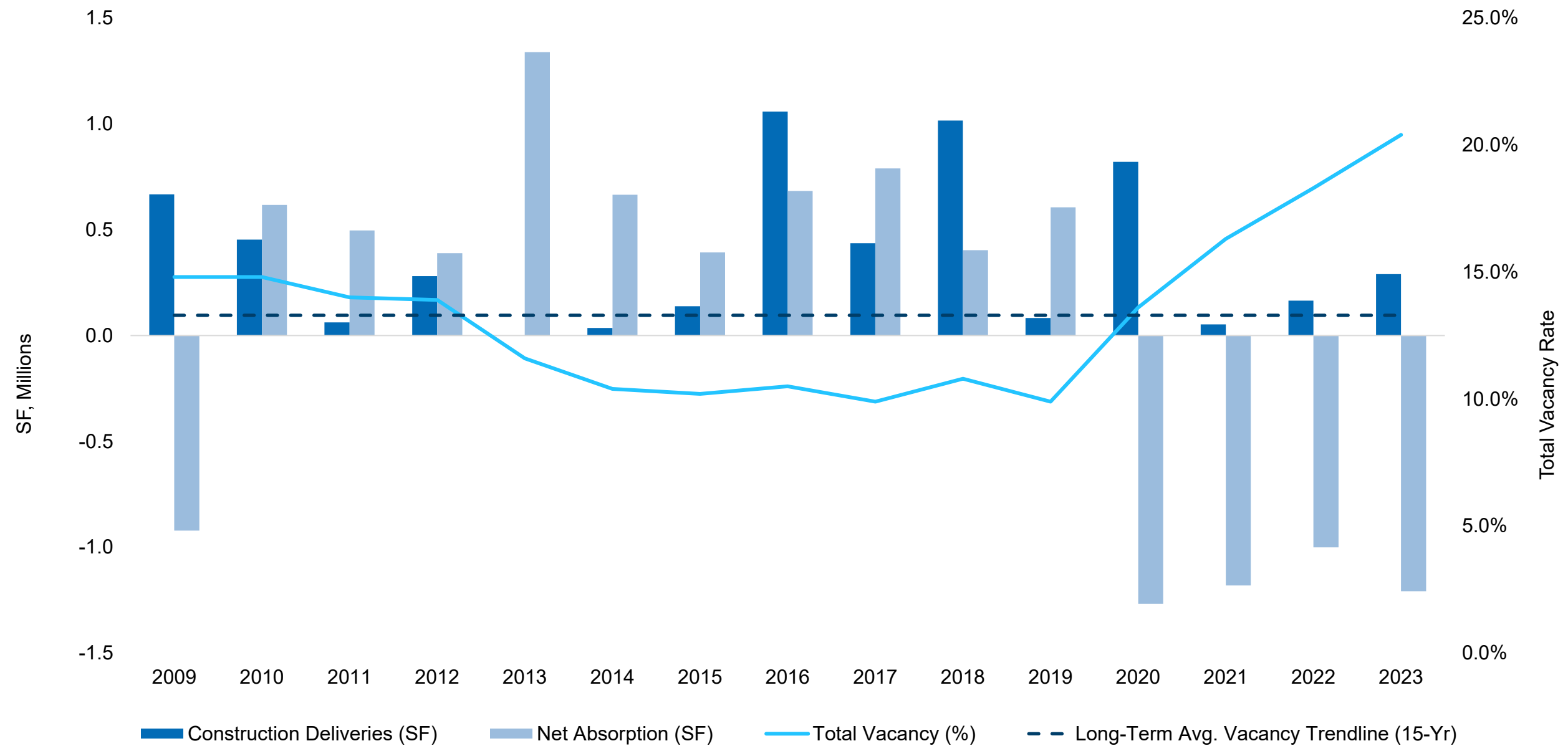
Leasing Market Fundamentals



Vacancy Passes 20% as Sluggish Conditions Persist

The market-wide vacancy rate reached 20.4% in the fourth quarter of 2023, reflecting a 50-basis-point increase this quarter as absorption numbers declined across all asset classes. Net absorption totaled negative 275,145 SF in the quarter, bringing the total for the year to negative 1,207,516 SF.

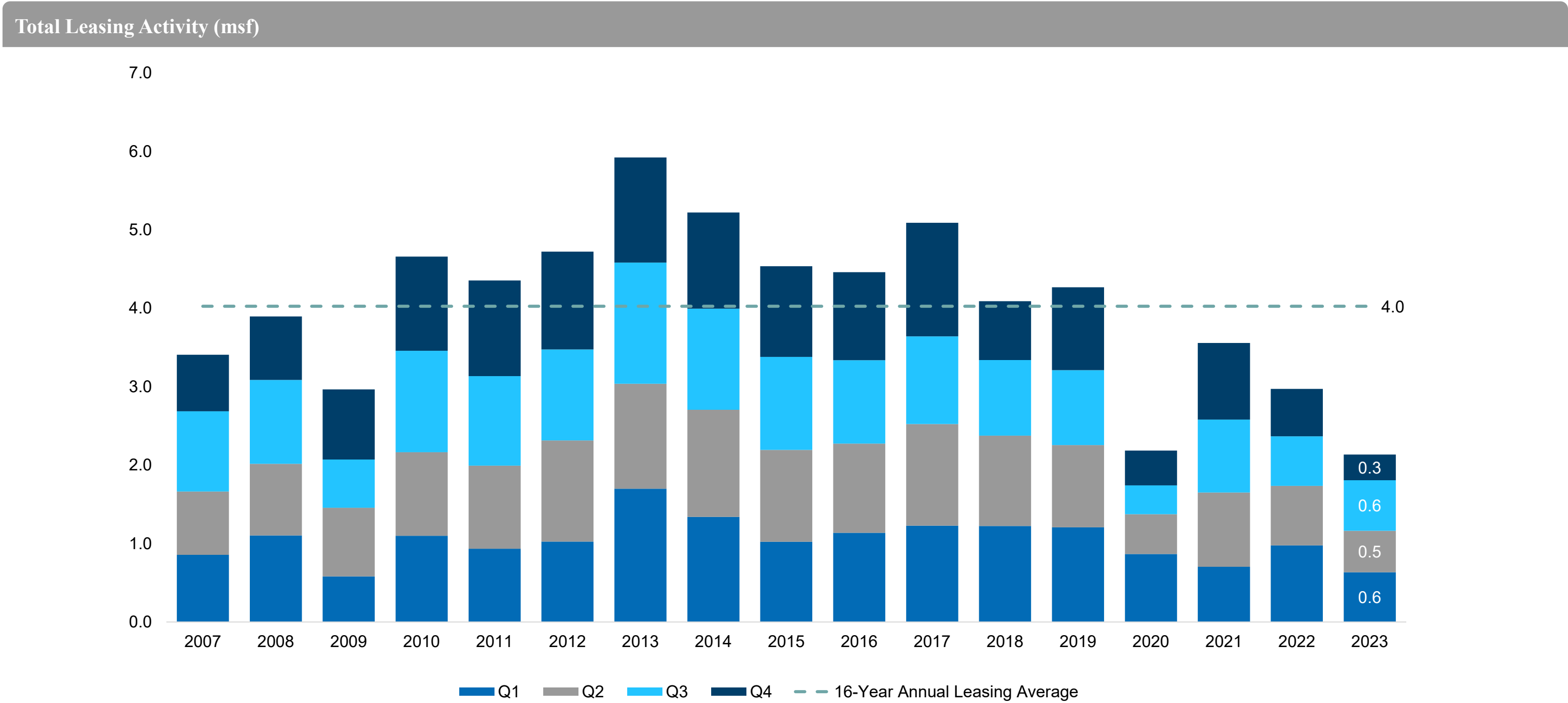
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Records Slowest Year Since the Pandemic

The Greater Portland market experienced a significant downturn in activity throughout 2023. Submarkets surrounding Downtown and the Urban Core continue to be the most impacted, measuring record-high vacancy and availability rates to close the year.



Source: Newmark Research, CoStar



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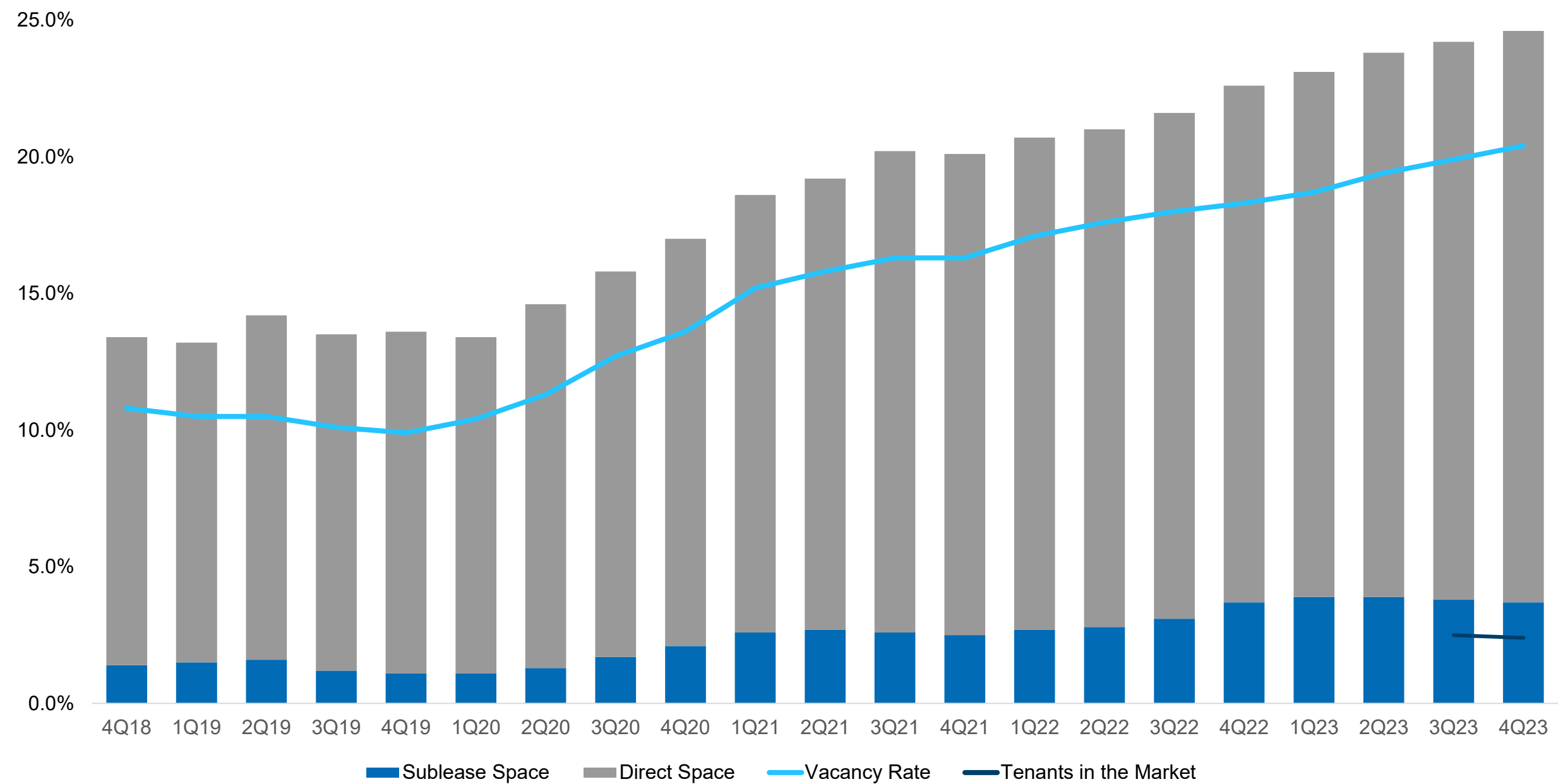


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Demand Consistent as Market Slows Substantially

Total office requirements currently being tracked for tenants in the market remained relatively unchanged in the fourth quarter of 2023. Few tenants entered or exited the market, suggesting that many companies continue to tread water amid tumultuous market conditions. Vacancy rates are expected to rise amidst continued downsizing and market exits by existing tenants.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

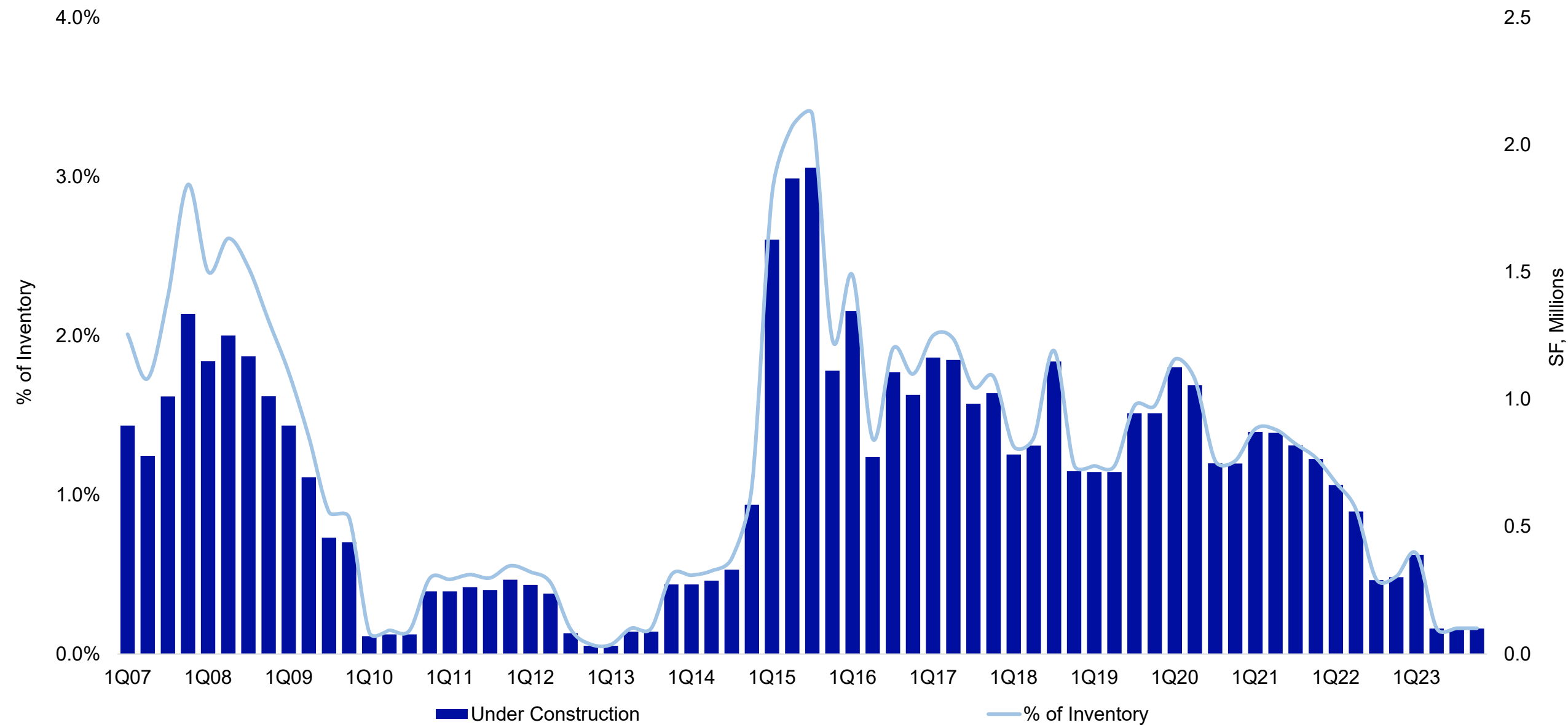


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Development Pipeline Idle Entering 2024

There were no additions to the development pipeline in the Portland market in the fourth quarter of 2023. With diminished demand and vacancies continuing to rise among office inventory, the downward trajectory of construction starts is expected to persist. Clark County has two projects, Terminal 1 and Block 1 of the Waterfront, which aim to add over 500,000 SF of office space in Vancouver in 2025.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

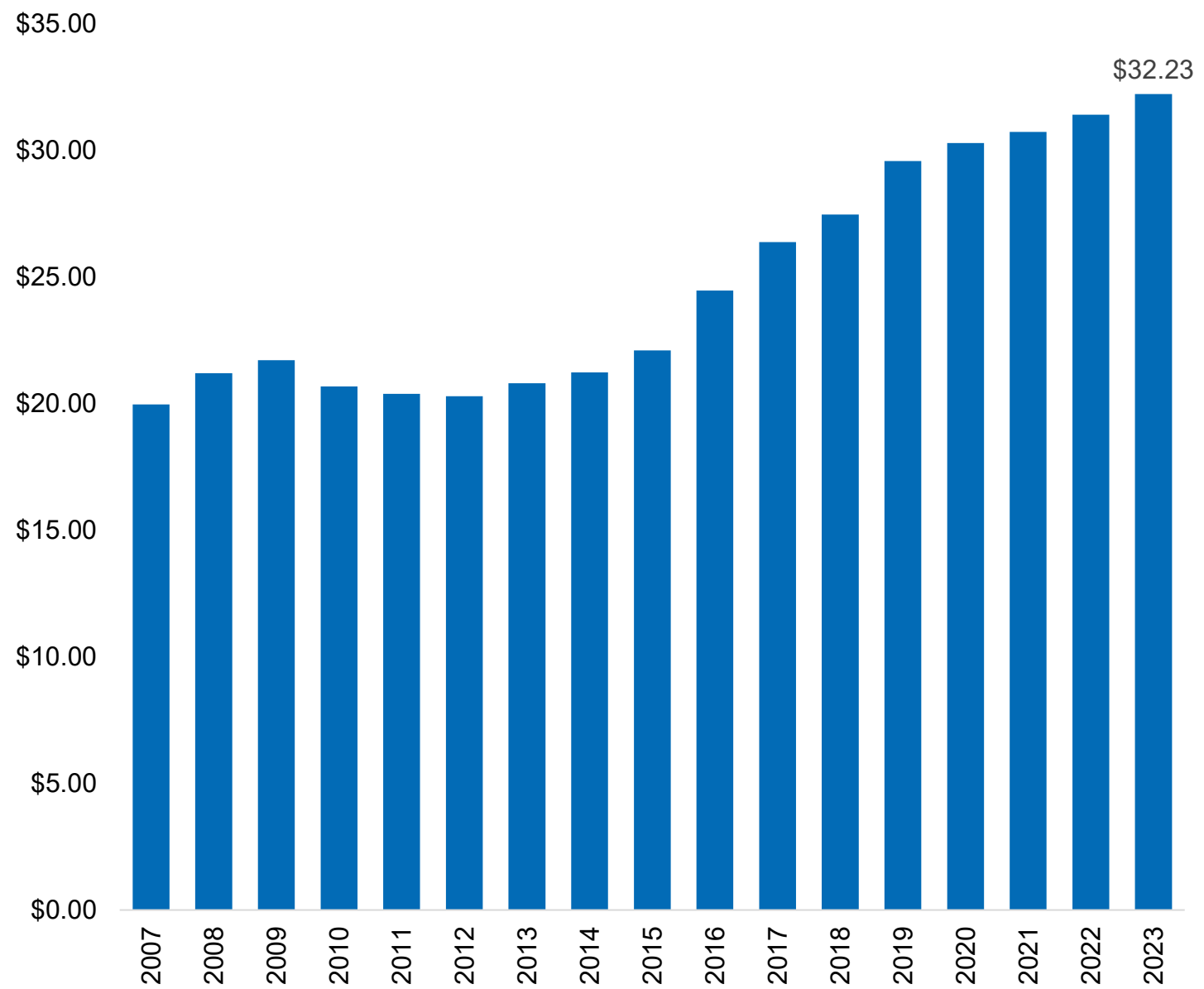
A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting the sky and other parts of the structure. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is superimposed over the middle of the image, containing white text.

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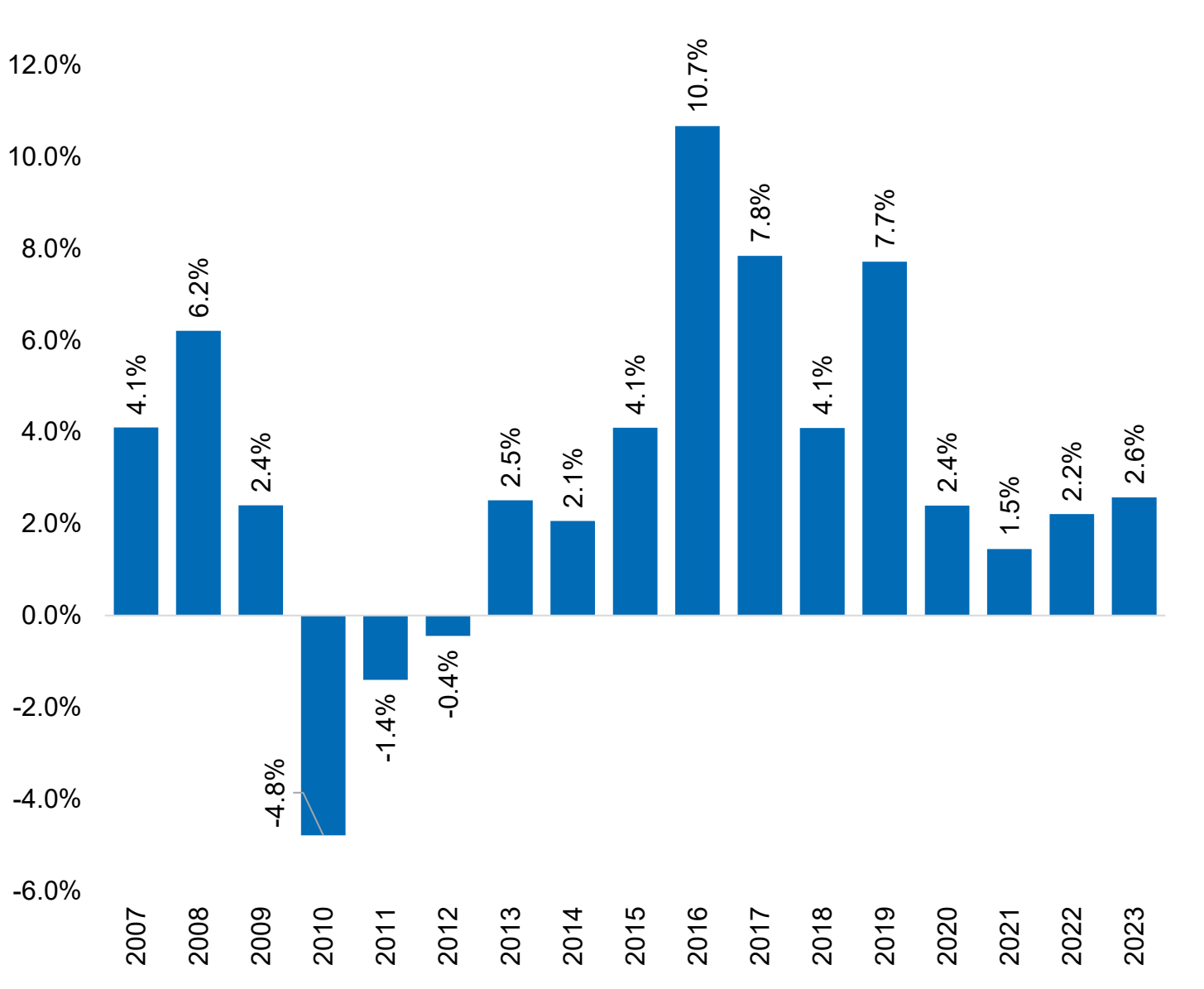
Rents Measure Slight Gain

Average asking rates rose slightly to \$32.23/SF across all asset classes in the fourth quarter of 2023. The observed 2.6% increase year over year is bolstered by high-end assets, while Class B and Class C buildings experienced negative rent growth in 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

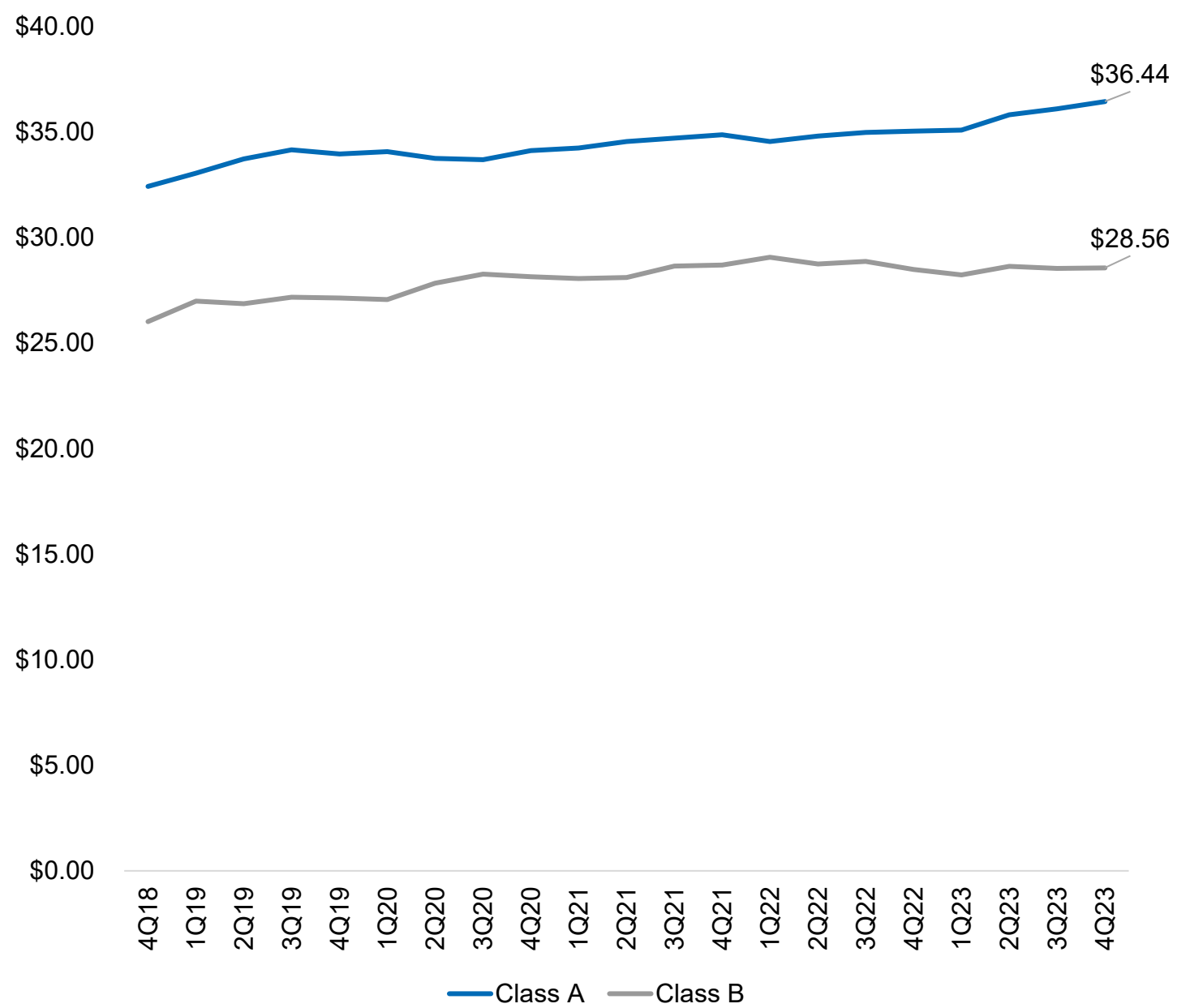


Source: Newmark Research, CoStar

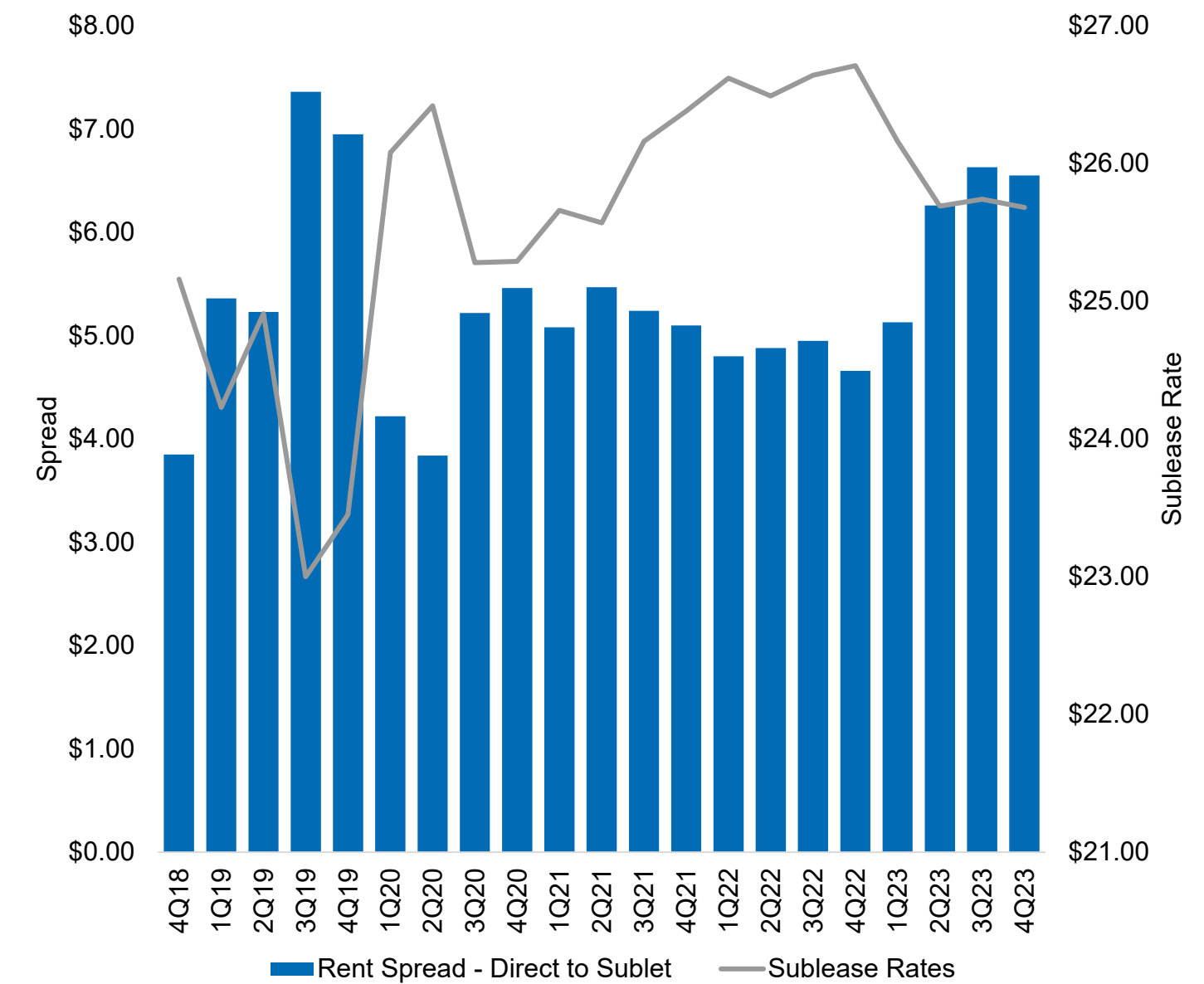
Class A Rates Rise to End 2023

Class A asking rents measured a 3.8% rise compared to the fourth quarter of 2022. Steady increases quarter by quarter are likely the byproduct of Class A office space commanding an inflated share of overall leasing activity market-wide. Sublease rates in the Portland area have remained consistent since the second quarter of 2023 as supply continues to greatly outpace demand for second-generation space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slowed in 4Q23

Leasing activity over the quarter slowed across many of the major submarkets in the Portland market. Kruse Way saw the heaviest activity of the quarter, bolstered by the ongoing trend of companies relocating away from the CBD in favor of amenitized space in the Suburban market.

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Undisclosed	5885 Meadows Rd	Kruse Way	Direct Lease	25,268
Kruse Way was a leading submarket for both leasing activity and net positive absorption in the fourth quarter of 2023.				
Kiewit Engineering	10200 SW Greenburg Rd	217 Corridor/Beaverton	Extension	17,527
The Kansas based engineering firm relocated their offices from 2 Lincoln Center to the the 2 nd floor at 5 Lincoln Center as part of the extension.				
Fortis Construction	5331 S Macadam Ave	Johns Landing	Direct Lease	18,793
The Water Tower Building is now 82% leased following broad renovations that were completed in 2023.				
Parametrix	5 SE Martin Luther King Jr Blvd	Close-In SE	Direct Lease	12,000
The engineering firm relocated to 5MLK from their previous offices in the Lloyd District.				
TriMet	101 SW Main St	CBD	Renewal	11,519
TriMet recommitted to Portland’s CBD in early 2023 by relocating their administrative headquarters to One Main Place and now occupy more than 95,000 square feet of office space in the building.				

Source: Newmark Research

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