

Portland's Industrial Market took a pause in 3Q24, with vacancy ending the quarter at 5.8%, not too far off its start at 5.5%. This relative calm contrasts with the tumultuous previous four quarters (2Q23-2Q24), with vacancies rising roughly 500 bp per quarter. At 5.8%, Portland is still below the all-time average of 6.27% and the current national average of 6.7%.

Net absorption also turned positive with 330k sf in 3Q24 compared to an average of negative 550k sf per quarter for the previous four quarters. Additionally, lower construction deliveries are expected for the foreseeable future as developers and their bankers drastically curtailed construction starts beginning in 1Q24. After four quarters of declining metrics, these bits of good news and lower interest rates have brought some much-needed blue sky to landlords and developers.

Sublease space continues to challenge the Portland market, accounting for nearly a quarter of the available industrial space. Professional landlords and sublease decision-makers take very different approaches to lease negotiations, and the resulting lease comps can be very different from market norms. For example, we are hearing that some sublease deals are done with flat rental rates for the entire lease term, which starkly contrasts with institutional landlords that typically require annual rent increases of 3.5% or more.

Combining local relationships with institutional clients has allowed Macadam Forbes to bring new product to market despite the challenging environment. Examples include the Sewell and Huffman Industrial Parks in Hillsboro, IOS investment sale in Hubbard and non-profit housing clients buying land/hotels for housing solutions all over the state.

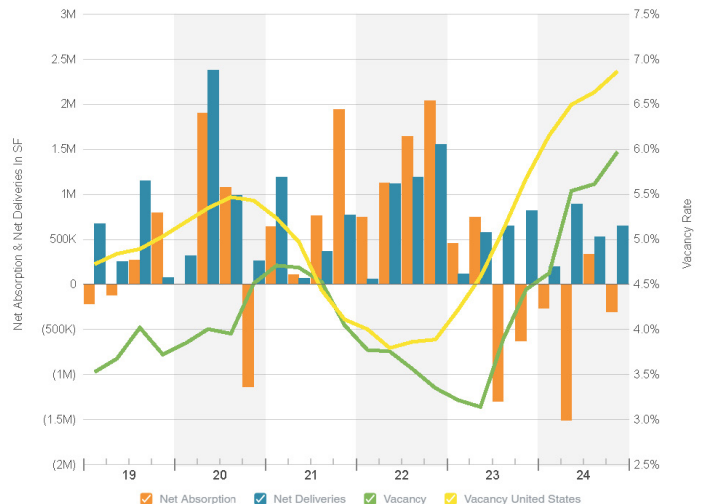
- Submarket performance varies significantly, with suburban locations on top and close-in markets struggling to keep up.
- Sales volume and pricing have been relatively flat since the beginning of 2023. With a declining interest rate environment, this is expected to change for the better.
- Portland land constraints make it tough to overbuild. With under-construction SF less than 1% of total market SF, it's unlikely that new supply will significantly undermine the market's efforts to get back on its feet.
- Intel and Nike have outsized influences on Portland's real estate market, and both are working through industry/market challenges.

Vacancy Rate	Asking Rent (NNN)
5.8% ↑	\$0.943/SF
Net Absorption	Sale Volume (YoY)
-2.1M ↑	\$501M ↓

INDUSTRIAL (5K+ SF)

	Inventory SF	Under Construction SF	12 Mo Net Absorption SF	Vacancy Rate	Market Asking Rent/SF	Market Sale Price/SF	Market CAP Rate
I-5 Corridor	31.2M	407K	-67.3K	3.8%	\$11.02	\$166	6.9%
Westside	24.4M	0	-122K	1.5%	\$13.23	\$178	7.0%
Close-in	20.4M	0	-761K	9.3%	\$11.96	\$173	6.7%
Clark County	29M	1.1M	755K	5.8%	\$11.53	\$159	6.7%
N/NE	81M	793K	-1.6M	7.7%	\$10.59	\$158	6.8%
Southeast	28.1M	0	-341K	3.1%	\$11.25	\$166	6.6%

NET ABSORPTION, NET DELIVERIES & VACANCY



LEASE COMPS

Burnt Creek Logistics | Clark County
681,780 SF \$.77/SF/mth Shell Rate Grocery Outlet

Sherwood Commerce Center | Washington County
42,000 SF \$.95/SF/mth Shell Rate Studson

SALE COMPS

6447 N Cutter Circle | Swan Island
212,015 SF \$153/SF 5.74% Cap
FedEx Distribution Center

3601 NW Yeon | NW Portland
207,082 SF \$134/SF Prologis to Exeter

Three themes highlight the office market update: general market activity, employees' return to the office, and the reset in downtown office values compared to the suburban market. Overall, Portland's office market is still struggling in comparison to pre-pandemic metrics. New lease deals in 2024 are tracking approximately 20% below the quarterly average of 2015-2019. However, there has been a slight increase in new deals compared to the same period in 2023, suggesting the market is showing signs of a recovery.

A trend that should assist in office recovery is the growing number of employees returning to the office. An increasing number of companies require employees to return to the office. Locally, this is highlighted by companies like Nike requiring employees to be in the office for a minimum of 4 days per week. This trend will increase investors' appetite for office properties, especially those with strong amenities.

A significant theme in Portland will be resetting office values within the CBD. The supply of large office assets in default and going back to the bank continually increases, and as a result, these buildings are selling at record-low prices. Notable recent sales include, but are not limited to, the following:

- Montgomery Park – Sold for \$33 million in August. Previously sold for \$255 million in 2019.
- Loyalty & Hamilton Buildings – Sold for a combined \$2.8 million (\$36.96/SF).

These transactions starkly contrast the suburban market where buildings like Kruse Woods V in Lake Oswego are selling for \$250/SF.

Vacancy Rate
13.5%

Net Absorption (SF)
-1.6M

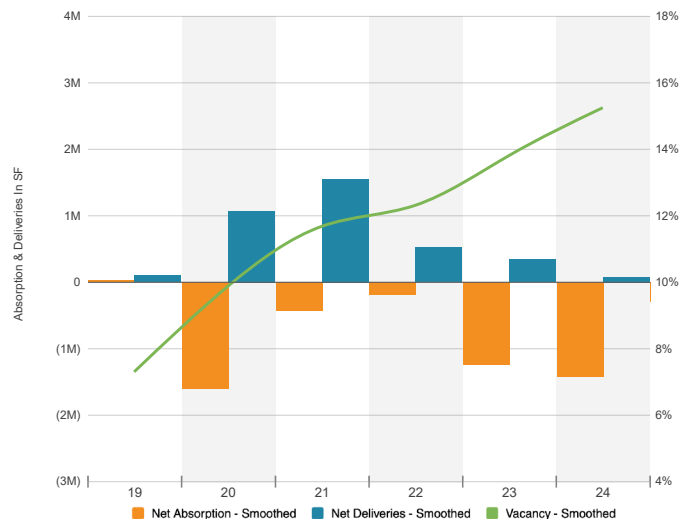
Asking Rent
\$29.92/SF

Avg. Sale Price
\$245/SF

OFFICE (10K+ SF)

	Inventory SF	Under Construction SF	12 Mo Net Absorption SF	Vacancy Rate	Market Asking Rent/SF	Market Sale Price/SF	Market CAP Rate
I-5 South	8.2M	0	-191K	16.5%	\$32.97	\$231	8.4%
Hwy 217	7.7M	0	-121k	16.7%	\$28.84	\$211	8.3%
Kruse Way	2.4M	0	-8.3K	26.0%	\$39.36	\$268	8.0%
Westside	21.9M	0	-227K	6.5%	\$29.58	\$222	8.4%
CBD	25.9M	0	-468K	25.7%	\$32.99	\$308	7.4%
Close-in NW	9.7M	63.9K	-97.8K	26.4%	\$31.97	\$275	8.0%
Clark County	10.2M	531K	-154K	7.8%	\$30.98	\$233	8.3%
Close-in Eastside	8.2M	0	6.9K	15.5%	\$31.04	\$262	7.9%
Eastside	5.1M	0	-86.4K	6.5%	\$27.11	\$213	8.6%
Milwaukie/Clackamas	2M	0	-4.6K	9.5%	\$31.67	\$233	8.4%

NET ABSORPTION, NET DELIVERIES & VACANCY



SALE COMPS

Montgomery Park

Sale Price: \$33,000,000
Previously sold for \$255 million in 2019

Loyalty & Hamilton Buildings

Combined Sale Price: \$2,800,000 (\$36.96/SF)

Kruse Woods V

Sale Price: \$250/SF

The most significant news after the third quarter was the first Federal Reserve interest rate cut since August 2019. The FOMC's 50-basis-point cut indicates that concerns about rising unemployment now outweigh inflation risks. Lenders had largely anticipated this cut, and the consensus is that rates will keep dropping through 2025. This bodes well for investors and sellers of multifamily properties, as the gap between asking prices and bids should narrow, improving stability and deal volume.

The Portland MSA has felt the impact of new deliveries, though the pace is slowing sharply. In the past 12 months, 6,581 units were absorbed, with 4,286 units under construction, down from a 2022 high of 13,000 units. Vacancy rates rose to 7.2%, but average rents increased by 1.36% to \$1,661 monthly, with the highest vacancy in Portland. The suburbs are expected to continue outperforming the city.

Capitalization rates have stabilized at 5.5%, and as interest rates fall, a reduction in cap rates is expected in 2025, boosting sales values. However, rising operating expenses, especially insurance, utilities, and labor, remain challenging for multifamily owners.

- Federal Open Market Committee rate cut from 5.375% to 4.875%
- Strong absorption of current oversupply
- Rent growth has kicked in and should accelerate in 2025
- Sales activity is still anemic

Vacancy Rate	Market Asking Rent/Unit	Market Sale Price/Unit	Market Cap Rate
7.1%	\$1,664	\$246K	5.5%

MULTIFAMILY

	Inventory Units	Units Under Construction	12 Mo Absorption Units	Vacancy Rate	Market Asking Rent/Unit	Market Sale Price/Unit	12 Mo Sales Volume
Tualatin/Sherwood	4,157	0	258	4.9%	\$1,811.00	\$289K	\$61.3M
Lake Oswego	4,045	158	45	6.3%	\$2,012.00	\$280K	\$2.6M
Hillsboro	20,655	398	293	4.7%	\$1,876.00	\$302K	\$178M
Beaverton	16,440	312	118	6.0%	\$1,630.00	\$227K	\$22.2M
Tigard	7,829	93	191	4.4%	\$1,705.00	\$250K	\$4.5M
Southwest Portland	7,903	616	501	7.3%	\$1,708.00	\$287K	\$3.5M
Downtown Portland	13,599	0	228	9.1%	\$1,844.00	\$340K	\$62.6M
Northwest Portland	14,000	341	431	12.2%	\$1,636.00	\$265K	\$5.7M
Vancouver	37,988	708	1,821	7.6%	\$1,677.00	\$233K	\$192M
North Portland	5,420	6	282	11.3%	\$1,532.00	\$225K	\$35.3M
Northeast Portland	8,083	331	186	8.1%	\$1,593.00	\$257K	\$9.9M
Central Northeast	4,407	0	34	6.2%	\$1,398.00	\$181K	\$61.2M
Southeast Portland	23,428	817	612	7.7%	\$1,482.00	\$230K	\$94.7M
East Portland	10,765	19	93	4.4%	\$1,299.00	\$156K	\$14.1M
Gresham/Troutdale	16,241	405	161	6.0%	\$1,563.00	\$201K	\$5M
Damascus	13,672	0	418	6.7%	\$1,680.00	\$226K	\$23.7M

SALE COMPS

Stoneridge at Cornell | 14800 NW Cornell, Portland

Sept 2024 244 Units 5.3% Cap Rate
\$54,000,000-\$231,760 Per Unit Buyer: FPA Multifamily

Sundial Apartments | 7875 SW Vlashos Dr, Wilsonville

Sept 2024 120 Units Buyer: FPA Multifamily
\$25,787,500-\$214,896 Per Unit

Crestview Crossing | 4460 Jory St, Newberg

July 2024 51 Units 5.4% Cap Rate
\$14,075,000-\$273,667 Per Unit Buyer: Undisclosed

NET ABSORPTION, NET DELIVERIES & VACANCY

