SOUTHWEST MARKETS NEWSLETTER

Sherwood Commerce Center | FOR LEASE

AUGUST 2024

Midyear check-ins are usually less dramatic than year-end updates; this year is no exception. Market trends take time to embed themselves and become self-evident. A year is a minimum amount of time and usually is still not enough of a period to see clear-cut direction. To those of you who do not keep my communications, let me revisit what I saw at year-end 23 and where we seem to be headed halfway through 2024.

First of all, almost all commercial real estate sectors are still slow. The range of this spectrum ranges from the steady suburban industrial market to the declining downtown CBD office market (look out below!). Overall, the markets have improved slightly over the end of the year as the interest rate shock becomes less acute and some folks find workarounds. Most surprisingly, the Federal Reserve seems on track to achieve the 'soft landing' of keeping the economy afloat and simultaneously calming price increases. While we are not assured inflation will continue to moderate, evidence abounds this element of economic misery is headed in the right direction.

The most alarming trend developing since year-end is the Multnomah County industrial market following the same downward spiral as the county's office market. Certainly, this decline is nowhere near as acute as the office markets fall from grace, but it is surprising considering that industrial markets, in general, are healthy. Defenders of Portland's political direction have long blamed the decline in office and retail occupancies as a symptom of the pandemic and the subsequent work-at-home trend. Industrial businesses do not have the luxury of allowing work at home, and this, on a macro scale, has kept this sector afloat during the precipitous rise in interest rates. Based on my observations and discussions with business owners, the county's high taxes and dystopian surroundings are forcing them to make decisions to relocate to more hospitable confines. Theft, employee harassment, and a sense that law enforcement is overwhelmed are consistently cited as the reasons for moving. While all of the surrounding counties have benefitted from this mini migration, Clark County, in particular, has reaped the rewards.

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Bio

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OFFICE (10K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate	Market Asking Rent/SF	Market CAP Rate
I-5 South	8.1M	0	82K	13.9%	$33.01	$237
Hwy 217	7.6M	0	5.9K	15.8%	$28.42	$217
Kruse Way	2.4M	0	12.8K	26.3%	$39.13	$273
Hillsboro	18.4M	0	432K	6.8%	$28.38	$234
CBD	25.9M	0	715K	26.0%	$33.65	$344
Close-in NW	9.6M	0	340K	28.0%	$32.14	$300
Clark County	10M	531K	84.4K	7.5%	$29.89	$228
Close-in Eastside	7.9M	0	136K	16.8%	$31.56	$289
Eastside	5.1M	0	107K	6.7%	$26.67	$226
Milwaukie/Clackamas	2M	0	18.1	9.8%	$28.33	$228

Data Sourced from CoStar

While still high, suburban office vacancies have continued to moderate compared to the falling knife in the Portland Central Business District (CBD). Nonetheless, the socioeconomic trend of remote work has had deleterious repercussions on suburban office markets. Beaverton and Hillsboro, in particular, have had a long dry spell. Not only do refugees from the Portland CBD shun this area in favor of Kruse Way/217, but the Nike contraction has left gaping holes in the market and has caused a significant decline in property values in that area.

Turning to the Downtown Portland office market, there is no sense in beating a dead horse. Plenty of its woes are written daily in the press and spoken of in the local television news. There will continue to be a decline as lease terms expire and companies continue to migrate and downsize, a trend we all hope will reverse soon. We need our flagship city to regain its footing; elections have consequences, and the political tide seems to be moving more toward the center and away from some extreme governing experiments we have witnessed.

To the gist of this newsletter, the Southwest Industrial markets are still strong. Though not as salubrious as they were from 2016-2022, they still have high occupancy rates and steady lease rates. As you can see from the industrial table herein there has been some increase in vacancy but nothing to indicate significant contraction, especially when compared to the Portland industrial market. The health of this market is rooted in business diversity, outstanding demographics, and a strong tech sector that has experienced growth while other sectors have stagnated or declined. Intel, Lam Research, and Analog Devices have all been expanding and have benefited the economic ecosystem in Southwest. The buzz around artificial intelligence will continue to help many companies in the I-5, 217, and 26 corridors.The continued growth of companies in this region and the corresponding lack of developable land should bode well for rental rates in the coming years. A return to a robust economy will likely see outsized rent growth in this area compared to Multnomah County.

INDUSTRIAL (5K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate	Market Asking Rent/SF
I-5 Corridor	31.1M	18K	397K	4.3%	$11.07
Westside	24M	10.7K	139K	1.4%	$13.21
Portland Metro	100.1M	1M	3.7M	8.2%	$11.22
Southeast	27.9M	0	191K	2.4%	$11.24
Clark County	28.4M	1.4M	526K	5.8%	$11.44

Data Sourced from CoStar

Significant Completed Transactions 2024 By Stu Peterson

1980 SE 4th Avenue, Suite B
Braber Equipment Building, Canby OR
SF Leased: 37,500 SF

11555 SW Leveton Drive, Tualatin OR
Industrial Land Sold to LAM Research
Acres Sold: 19 AC

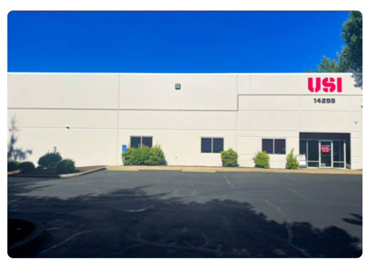
SW Hunziker St & SW Wall St, Tigard OR
Industrial Land
Acres Sold: 11 AC

Clean Water Services, Beaverton , OR
Office Building
SF Sold: 80,000 SF

Featured Listings

9800-9900 SW Tigard Street

4405 Turner Road



14255 SW Galbreath Drive

18280 SW 108th Avenue

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