

MARKET TRENDS | PORTLAND

OFFICE

MARKET DRIVERS

OFFICE DIRECT VACANCIES continue to climb past all-time highs across the Portland metro, increasing by over 20.4% YOY to 11.2% to conclude the fourth quarter.

ASKING LEASE RATES remained stable, reporting \$28.00/SF full service by the end of the fourth quarter as landlords offer concessions in order to maintain rental rates.

COMING OFF STRONG leasing activity from the quarter prior, leasing activity experienced a decrease in 4Q 2021 with 646,511 SF. Total Class A lease activity reached 212,622 SF with sublease activity reporting 41,994 SF for all class types.

OFFICE SALES IN 4Q 2021 fell to 74 transactions, averaging \$241.83/SF with cap rates settling at 6.0%.

MAJOR PROJECTS underway in Portland include 503 on Tenth (269,908 SF) and Block 216 (169,188). In total, 812,755 SF remain under construction.

ECONOMIC REVIEW

AS LOCAL BUSINESSES REOPEN and the state continues to rebound from the effects of the pandemic, the new Omicron variant may hinder a more robust recovery. Yet, there is strong optimism that current demographics and consumer spending will drive the Portland economy forward within the next 12-24 months.

UNEMPLOYMENT RATES reached a high 13.1% in April 2020 due to the COVID-19 pandemic. Since then, unemployment has gradually fallen, standing at 4.1% in November 2021. Total non-farm employment increased across the metro by 5.62% YOY to 1,212,000.

NEAR-TERM OUTLOOK

MOVEMENT ACROSS THE METRO should gradually improve in 2022 as tenants who have been in temporary spaces or worked from home 100% of the time will need to make decisions on office requirements.

PORTLAND'S SUBURBAN MARKETS that offer buildings with amenity packages and a vibrant mixed-use offering should continue to drive demand in the following quarters.

WITH MINIMAL CONSTRUCTION in the pipeline for 2022, we can expect downward pressure on availabilities as tenants absorb existing inventory.

Market Summary

	2021	2020	2019	Annual Change
Direct Vacancy Rate	11.2%	9.3%	7.1%	20.43%
Availability Rate	15.5%	13.4%	9.6%	15.51%
Asking Lease Rate	\$28.00	\$27.99	\$28.30	0.04%
Leasing Activity (SF)	3,703,755	2,992,726	5,696,906	23.76%
Sale Volume (SF)	2,643,933	4,042,696	5,847,965	-34.60%
Net Absorption (SF)	(806,658)	(1,716,456)	(43,029)	N/A

▲ **3.7M**
LEASING ACTIVITY (SF)

▼ **-806K**
NET ABSORPTION (SF)

▲ **11.2%**
VACANCY RATE

◀▶ **\$28.00**
AVERAGE ASKING RENT

▲ **1.4M**
NEW DELIVERIES (SF)

—
YEAR-OVER-YEAR CHANGE

Market Highlights

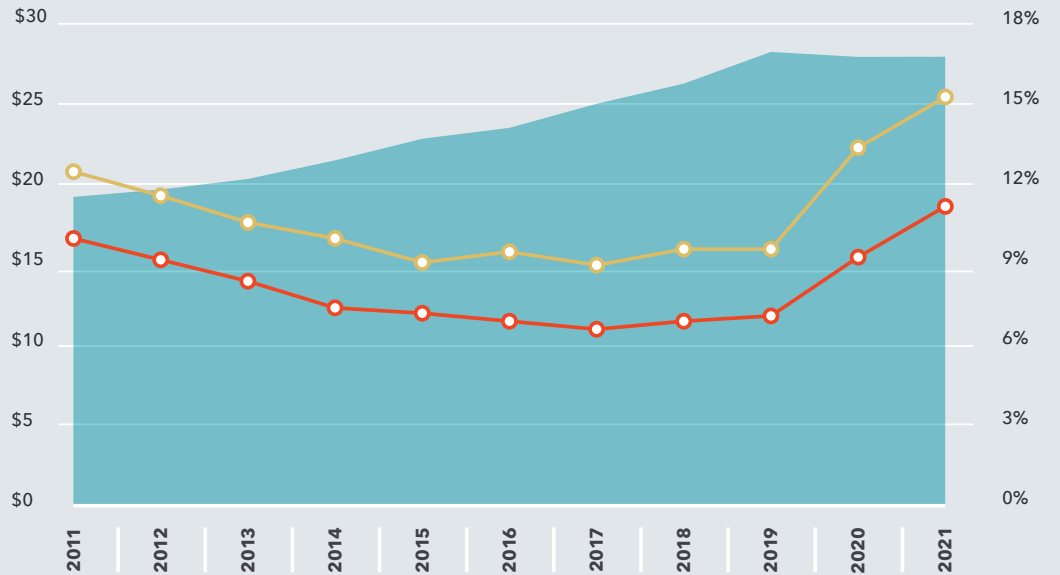
DIRECT VACANCY rates increased to 11.2%

NET ABSORPTION reported negative 108,537 SF by the end of 4Q 2021.

CONSTRUCTION projects have slowed, with over 812K SF of office developments in the pipeline.

Lease Rate, Vacancy & Availability

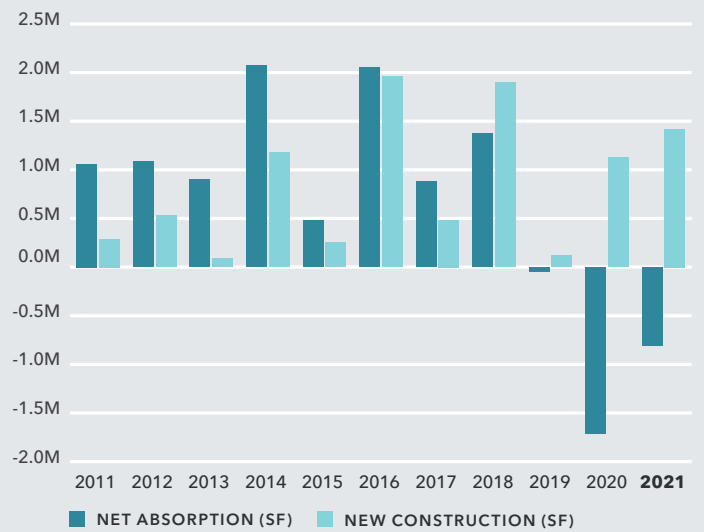
- ASKING LEASE RATE (FSG)
- DIRECT VACANCY
- TOTAL AVAILABILITY



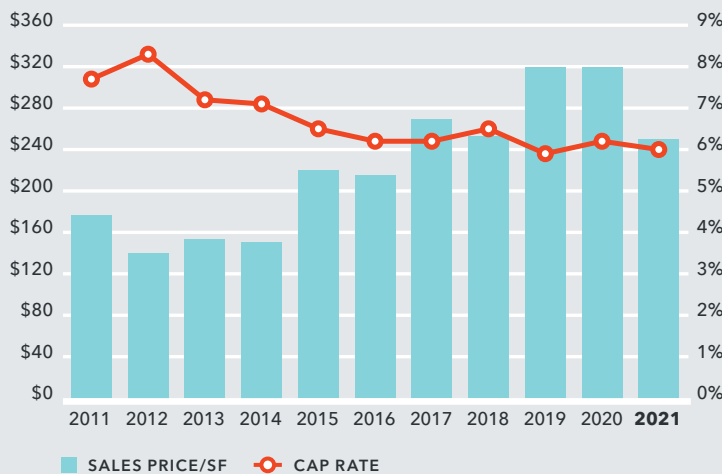
BIGGEST SALE OF THE QUARTER

**6000 & 5800 Meadows Rd.
Lake Oswego, OR**

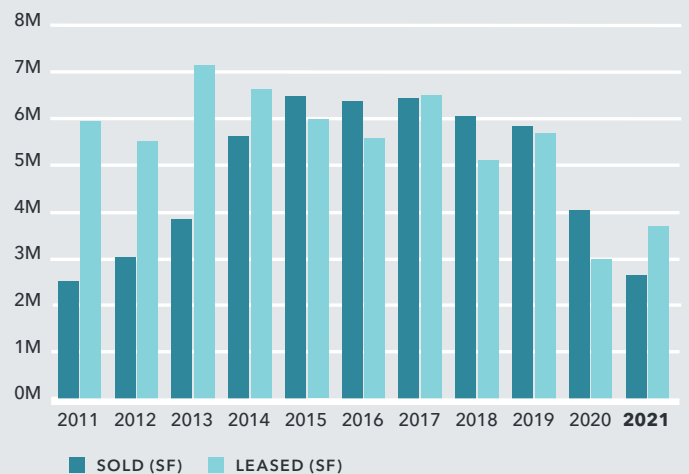
Office Construction & Absorption



Average Sales Price/SF & Cap Rate



Sale Volume & Leasing Activity



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q4 2021 Total Net Absorption	YTD Total Net Absorption	Q4 2021 Leasing Activity	YTD Total Leasing Activity	Total Rental Rate
CBD	28,638,568	17.5%	18.9%	25.7%	-146,785	-1,147,370	92,005	840,020	\$28.81
Pearl District/Chinatown	3,169,147	22.9%	24.8%	31.6%	50,745	-136,951	40,316	191,343	\$26.51
Downtown	31,807,715	18.0%	19.5%	26.3%	-96,040	-1,284,321	132,321	1,031,363	\$28.71
217 Corridor/Beaverton	2,534,513	11.2%	16.1%	20.1%	46,875	-64,853	26,666	116,259	\$20.20
Airport Way	1,143,761	10.3%	10.4%	9.4%	-33,796	-13,046	34,504	59,784	\$22.04
Barbur Blvd/Capitol Hwy	1,414,246	8.2%	9.7%	11.9%	-3,515	-44,442	15,588	27,428	\$18.67
Camas/Washougal	985,143	2.3%	2.3%	4.5%	1,075	3,642	1,050	8,595	\$24.51
Cascade Park	3,077,087	8.4%	9.0%	8.6%	-8,273	-26,451	65,925	216,255	\$24.48
CBD/West Vancouver	2,911,799	6.2%	6.4%	7.1%	54,744	64,760	59,125	139,194	\$26.81
Clackamas/Milwaukie	2,962,247	7.0%	7.2%	8.0%	25,682	-26,084	21,558	118,647	\$27.28
East Columbia Corridor	1,013,558	0.8%	0.8%	3.2%	2,378	3,803	0	968	\$28.63
Gateway	2,232,069	1.7%	1.7%	2.4%	9,181	-3,095	2,917	31,036	\$23.01
Gresham	1,015,922	6.5%	6.5%	10.4%	8,177	7,962	0	24,077	\$19.46
Guilds Lake	514,518	6.5%	8.1%	9.0%	5,003	14,299	5,003	32,003	-
Hayden Island/Swan Island	2,043,883	1.1%	1.1%	1.1%	5,800	233,703	0	134,832	\$15.00
Hazel Dell/Salmon Creek	833,359	2.9%	2.9%	2.7%	11,734	18,112	2,454	27,454	\$23.02
Johns Landing	1,823,618	12.7%	12.9%	15.3%	-28,859	-12,691	9,041	42,332	\$30.74
Kruse Way	2,782,175	19.6%	21.5%	20.3%	-60,210	-96,003	38,578	253,332	\$38.21
Lake Oswego/West Linn	932,035	10.6%	10.8%	11.3%	7,193	-35,083	8,898	52,031	\$29.35
Lloyd District	5,594,634	9.4%	10.0%	14.1%	-23,035	-110,000	27,975	132,017	\$30.72
Mall 205	911,167	5.4%	5.4%	9.1%	13,061	-1,350	1,387	20,019	\$20.15
NE Close-In	1,564,540	4.5%	4.5%	5.5%	2,061	-1,020	5,156	27,350	\$26.83
North Beaverton	3,105,748	15.6%	15.6%	18.2%	-20,226	-215,293	15,220	106,706	\$26.05
Orchards	754,385	3.8%	3.8%	3.8%	17,330	88,695	4,800	32,316	\$22.13
Oregon City	852,262	2.3%	2.3%	1.6%	5,050	-863	7,251	18,716	\$19.94
Rivergate	71,876	0.0%	0.0%	0.0%	0	0	0	0	-
SE Close-In	3,450,713	13.3%	16.7%	29.4%	-53,746	-131,384	34,783	144,153	\$27.80
Sherwood	148,409	0.8%	0.8%	0.8%	1,071	2,126	1,071	3,464	-
St. Johns/Central Vancouver	1,703,002	1.1%	1.1%	1.6%	4,010	25,989	4,025	10,021	\$22.00
Sunset Corridor/Hillsboro	14,584,390	5.2%	5.5%	5.7%	34,326	964,756	19,693	398,244	\$24.43
SW Close-In	745,466	29.9%	29.9%	30.4%	-21,134	-45,432	5,301	23,844	\$17.93
Sylvan/Hillsdale	778,984	5.2%	5.5%	5.5%	-6,257	-11,236	5,478	16,181	\$16.86
Tigard	4,503,509	11.4%	12.6%	13.8%	11,804	-74,173	43,825	295,018	\$27.42
Tualatin	1,274,653	12.2%	12.2%	14.9%	19,298	12,131	17,187	49,198	\$26.27
Vancouver Mall	878,974	14.5%	15.3%	13.0%	-24,330	-33,915	27,045	88,481	\$22.36
Wilsonville	1,229,129	2.2%	3.4%	3.6%	-14,789	-15,901	2,686	22,437	\$25.30
Suburban	70,371,774	8.17%	8.90%	10.59%	-12,317	477,663	514,190	2,672,392	\$27.60
Portland Total	102,179,489	11.2%	12.2%	15.5%	(108,357)	(806,658)	646,511	3,703,755	\$28.00
Class A	34,300,282	13.5%	15.0%	19.4%	-109,444	138,551	212,622	1,288,740	\$32.01
Class B	50,173,118	10.8%	11.7%	14.9%	7,963	-624,533	357,071	1,927,468	\$27.12
Class C	17,650,127	7.9%	8.1%	9.4%	-2,715	-316,515	76,818	487,547	\$20.24

TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Kruse Woods(2 Bldgs)	Kruse Way	200,818	\$71,500,000	\$356.04	Unico Properties	Shorenstein Properties LLC
13221 SW 68th Pkwy	Tigard	127,504	\$27,000,000	\$211.76	DRA Advisors	KBS Realty Advisors
831 NW Council Dr	Gresham	80,642	\$24,997,934	\$309.99	Remedy Medical Properties	Stockdale Capital Partners

TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
100 SE Columbia Way	CBD/West Vancouver	366,000	Sept-2021	Port of Vancouver, Inc.	ZoomInfo
9800 NE Gibbs Dr	Sunset Corridor/Hillsboro	85,000	Jan-2021	Southwest Value Partners Enterprises	Microsoft Corporation
1195 NW Compton Dr	Sunset Corridor/Hillsboro	76,161	Aug-2021	City Office REIT, Inc.	Planar Systems, Inc.

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Delivery Date	Owner
503 SE 10th Ave	503 SE 10th Ave	SE Close-In	269,908	Summit Development Group, LLC	Q1 2023
Block 216	900 SW Washington St	CBD	169,188	BPM Real Estate Group	Q1 2023
The Offices at 11W	1102 SW Washington St	CBD	134,185	Downtown Development Group	Q4 2022

DATA SOURCE: COSTAR, FEDERAL RESERVE BANK OF ST. LOUIS

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
 Director of Research
 415.229.8925
gary.baragona@kidder.com

BRIAN HATCHER
 President & COO
 503.221.9900
brian.hatcher@kidder.com

**Commercial
 Brokerage**

\$8B
 TRANSACTION
 VOLUME (ANNUAL)

23M
 SALES SF
 (ANNUAL)

42M
 LEASING SF
 (ANNUAL)

**Valuation
 Advisory**

1,800+
 ASSIGNMENTS
 ANNUALLY

47/23
 TOTAL NO.
 APPRAISERS/MAI'S

**Asset
 Services**

64M
 MANAGEMENT
 PORTFOLIO SF

\$11B
 IN ASSETS UNDER
 MANAGEMENT

**km Kidder
 Mathews**