

Office Market Report | Q2 2021

Norris & Stevens

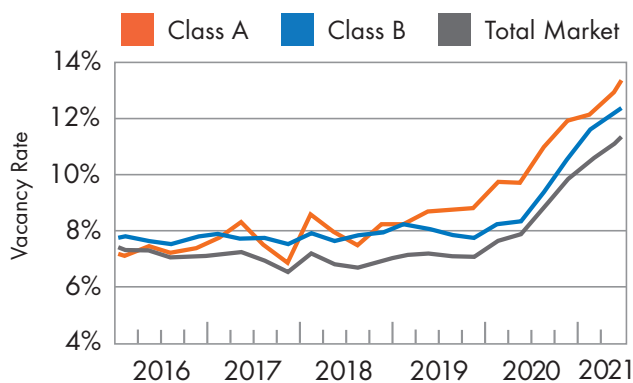
INVESTMENT REAL ESTATE SERVICES

OVERVIEW

The COVID-19 pandemic interrupted several years of sustained growth in the Portland market. Demand for office space in the Portland metro area remains low, as businesses continue to evaluate their space needs in the post-pandemic era. The central business district (CBD) was hit hardest by the pandemic. Many smaller businesses have sought to move out of downtown into areas such as Beaverton and Gresham, however, several major office leases have still been signed in the CBD in 2021.

Portland's office investment market has also remained slow through 2021 as a result of the pandemic. Annual sales volume exceeded \$1 billion between 2015 and 2019, but that came to an end in 2020.

Vacancy Rates by Class 2016 - 2021



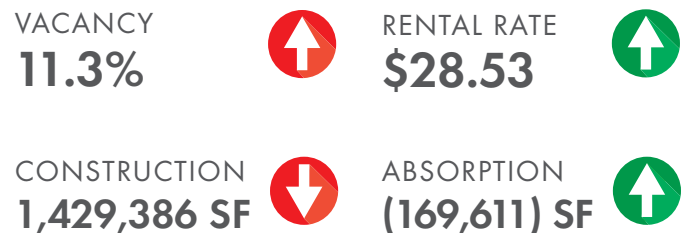
Source: CoStar Property

ABSORPTION & DELIVERIES

The overall office market saw negative (169,611) square feet in net absorption by the end of the second quarter 2021, compared to negative (521,556) square feet in the first quarter.

Class A: Negative (126,385) SF
 Class B: 1,071 SF
 Class C: Negative (44,297) SF

PORTLAND MARKET SNAPSHOT

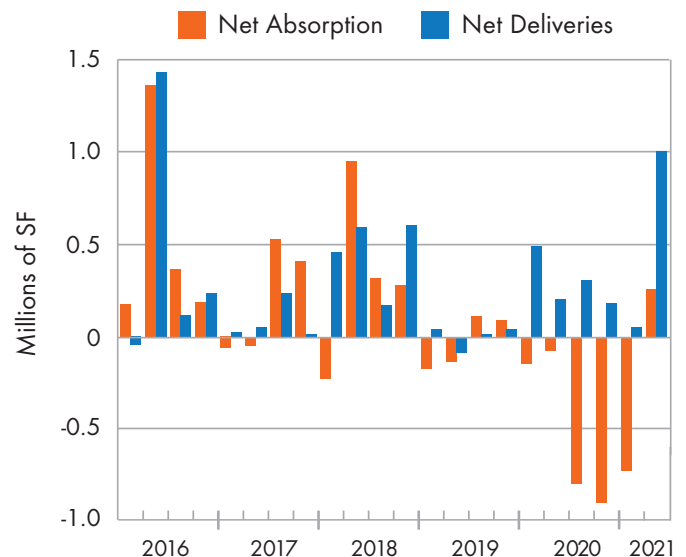


VACANCY

Negative net absorption has caused office vacancies to rise, leading to the first rent losses in the Portland market since the great recession. The vacancy rate increased slightly from the previous quarter to 11.3%, up from 11.1% at the end of the first quarter 2021.

Class A: 13.3%
 Class B: 12.2%
 Class C: 7.5%

Absorption & Deliveries 2016 - 2021



Source: CoStar Property

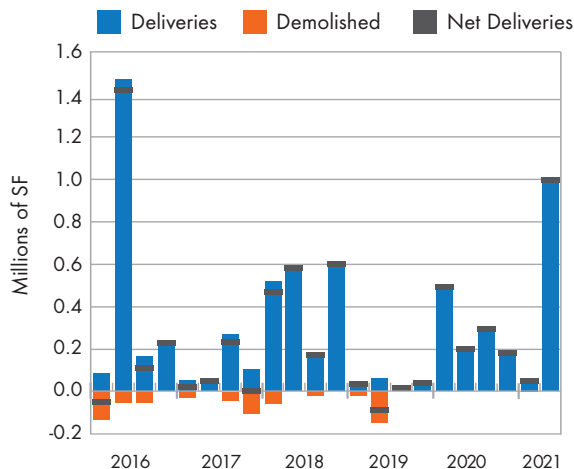


DELIVERIES AND CONSTRUCTION

While no new construction was delivered to the market so far this year, around 1.1 million square feet of office space came online in 2020. 1,429,386 square feet remained under construction, with a few larger projects set for completion in September 2021.

Most of the projects still under construction are build-to-suit. Some of these include 503 on 10th in SE Portland at 269,908 square feet, set for completion in January 2023, and the Adidas expansion at 180,000 square feet, set for completion in September 2021. The Block 216 Office project which began in July 2019 is set for completion in February 2023.

Historical Construction Starts & Demolitions Square Footage Per Quarter



Source: CoStar Property

RENTAL RATES

Increases in vacancies and sublease space, as well as general uncertainty for the future of the office market, are generating the the first rent losses in the Portland office market since the great recession. Office rents are now down 0.6% year-over-year.

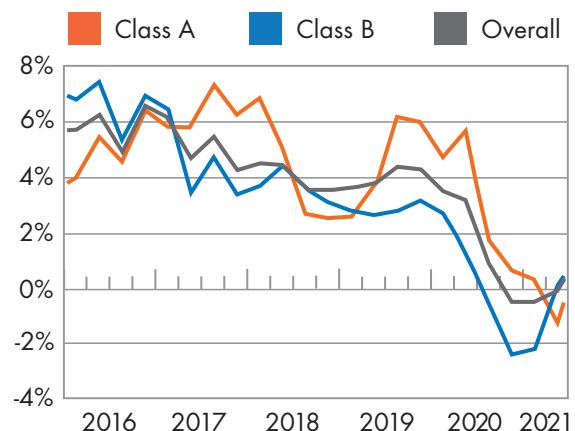
At the end of the second quarter 2021, the average quoted asking rental rate for all classes was \$28.53 per square foot per year.

Class A: \$35.12

Class B: \$27.16

Class C: \$22.95

Market Rent Growth 2016 - 2021



Source: CoStar Property

Construction Activity | Markets Ranked UNDER CONSTRUCTION RBA

Market	Under Construction Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Preleased SF	Preleased %	All Existing	U/C
Hayden Island/Swan Island	3	425,000	425,000	100%	19,500	141,667
SE Close-In	4	366,000	5,000	1.2%	16,874	91,390
CBD	3	347,000	45,000	13.0%	75,064	115,778
CBD/West Vancouver	2	128,000	83,000	64.8%	12,248	63,900
SE Outlying	1	76,000	76,000	100%	5,110	76,211
North Beaverton	1	45,000	45,000	100%	20,996	45,000
Cascade Park	1	29,000	6,000	21.0%	23,360	29,041
Clark County Outlying	1	9,000	7,000	76.4%	4,687	8,800
East Columbia Corridor	1	5,000	—	0%	9,094	4,640
217 Corridor/Beaverton	0	—	—	—	16,703	—
All Other	0	—	—	—	14,331	—
Totals	17	1,429,000	692,000	48.4%	18,364	84,082

Source: CoStar Property

For detailed information regarding this report, and to discuss how Norris & Stevens can assist with your real estate needs, please contact us at (503) 223-3171 or visit us at www.norris-stevens.com.