

Office Market Report | Q2 2022

Norris & Stevens

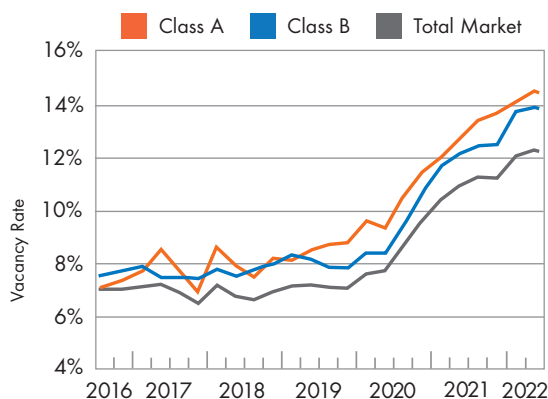
INVESTMENT REAL ESTATE SERVICES

OVERVIEW

The demand for Portland office space remains unsteady going into the second half of 2022, as significant portions of the workforce remains committed to a remote-work model. As companies continue to weigh their need for physical space, negative net absorption has caused vacancies to creep upwards. Despite the shift in vacancies, year-over-year rent growth has returned, posting gains of 2.1%.

New construction of office products has slowed considerably over the last three years, which will mean good news for rent growth and lowering vacancy rates going forward.

Vacancy Rates by Class 2016 - 2021



Source: CoStar Group

ABSORPTION & DELIVERIES

The overall office market saw 38 square feet in net absorption by the end of the second quarter 2022, a significant decrease from 17,125 square feet at the end of the first quarter.

Class A: Negative (2,058) SF
Class B: 39,972 SF
Class C: Negative (37,876) SF

PORTLAND MARKET SNAPSHOT

VACANCY
12.3%



RENTAL RATE
\$29.01



CONSTRUCTION
570,477 SF



ABSORPTION
38 SF



VACANCY

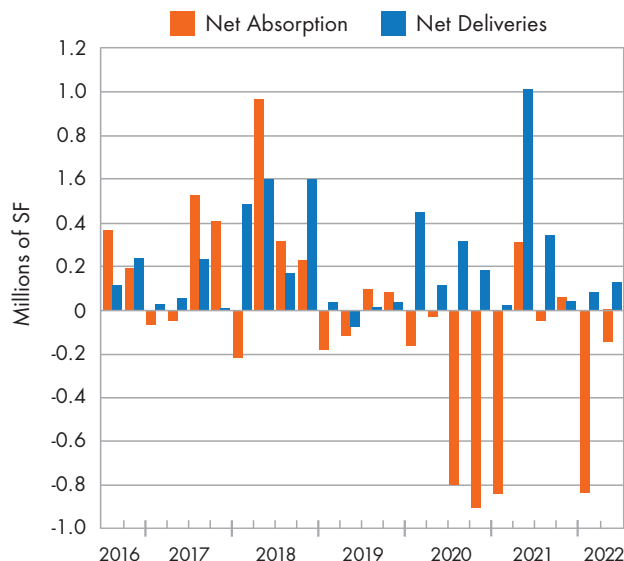
Negative net absorption has caused office vacancies to increase from 12.2% in the first quarter of 2022 to 12.3% at the end of the second quarter 2022. While both Class A and Class B office saw increases from the previous quarter, the Class C vacancy rate decreased from 7.6% to 7.4% by mid-year.

Class A: 14.6%

Class B: 13.9%

Class C: 7.4%

Absorption & Deliveries 2016 - 2022



Source: CoStar Group

DELIVERIES AND CONSTRUCTION

While no new square footage of office space was delivered to the market in the first quarter of 2022, the second quarter saw 35,810 square feet added, with 570,477 square feet still under construction.

A few projects set for completion in 2022 include the Reed's Crossing Wellness Center in Hillsboro at 108,000 square feet, set for completion in August of 2022, and the Advantis Credit Union headquarters in Oregon City at 76,211 square feet, set for completion in October of 2022. The largest project still under construction is Block 216 in Portland's CBD at 169,188 square feet, set for completion in April 2023.

RENTAL RATES

After suffering losses in 2020, office rents continue to post gains with a year-over-year average of 2.1% and a five-year average of 3.0%.

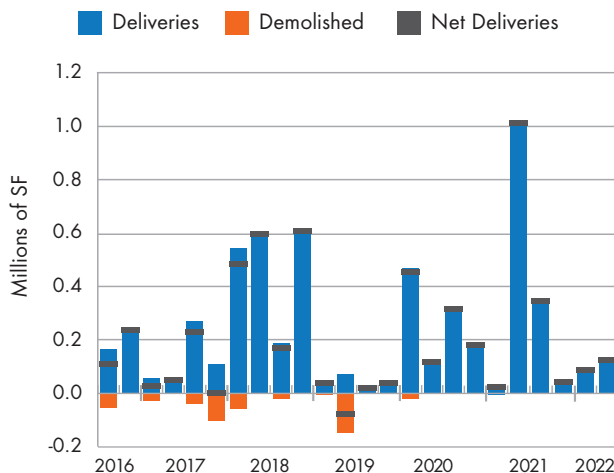
At the end of the second quarter 2022, the average quoted asking rental rate for all classes was \$29.01 per square foot per year, up slightly from \$28.73 in the previous quarter. Portland still offers a sizable discount to the national index of \$35 per square foot.

Class A: \$35.06

Class B: \$28.12

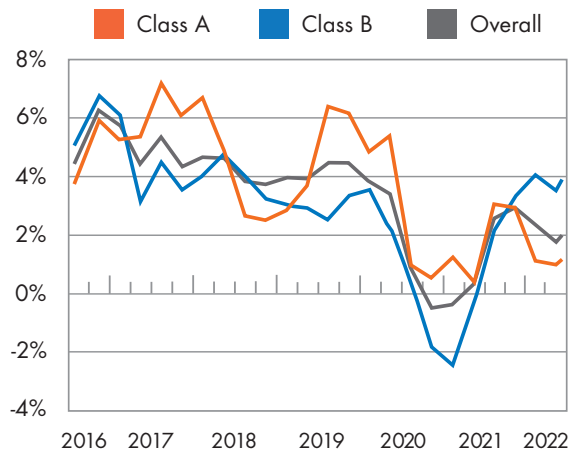
Class C: \$23.15

Historical Construction Starts & Demolitions Square Footage Per Quarter



Source: CoStar Group

Market Rent Growth 2016 - 2022



Source: CoStar Group

Construction Activity | Markets Ranked UNDER CONSTRUCTION RBA

Market	Under Construction Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Preleased SF	Preleased %	All Existing	U/C
CBD	2	303,000	20,000	6.6%	75,601	151,687
Westside Outlying	1	108,000	103,000	95.3%	6,151	108,000
SE Outlying	1	76,000	76,000	100%	5,114	76,211
North Beaverton	1	45,000	45,000	100%	21,181	45,000
Lloyd District	1	30,000	23,000	76.7%	25,253	30,000
Orchards	1	8,000	8,000	100%	9,446	7,893
217 Corridor/Beaverton	0	-	-	-	16,702	-
Airport Way	0	-	-	-	17,343	-
Barbur Blvd/Capitol Hwy	0	-	-	-	8,901	-
Camas/Washougal	0	-	-	-	15,514	-
All Other	0	-	-	-	14,406	-
Totals	7	570,000	275,000	48.2%	18,457	81,497

Source: CoStar Group

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.