

Office Market Report | Q3 2022

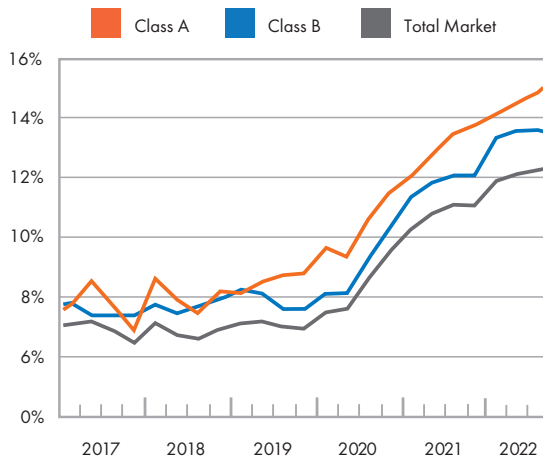
Norris & Stevens

INVESTMENT REAL ESTATE SERVICES

OVERVIEW

Portland's trend of moving away from a physical footprint continues to be most evident in the Central Business District, which is home to more than 25% of the city's office space. The largest office node in the region is a skeleton of what it once was, its reputation tarnished by a number of outside factors, such as safety worries and a lasting stigma related to social unrest during 2020. Some tenants have reacted by leaving for the suburbs, while other sizable enterprises that are still there are thinking twice about renewing contracts. The overall result has been a surplus of sublet opportunities that is straining the larger metro area.

Vacancy Rates by Class 2017 - 2021



Source: CoStar Group

ABSORPTION & DELIVERIES

The overall office market saw negative (300,210) square feet in net absorption by the end of the second quarter 2022, a significant decrease from the second quarter.

Class A: Negative (273,615) SF
Class B: 355 SF
Class C: Negative (26,950) SF

PORTLAND MARKET SNAPSHOT

VACANCY
12.5%



RENTAL RATE
\$29.00



CONSTRUCTION
493,437 SF



ABSORPTION
(300,210) SF

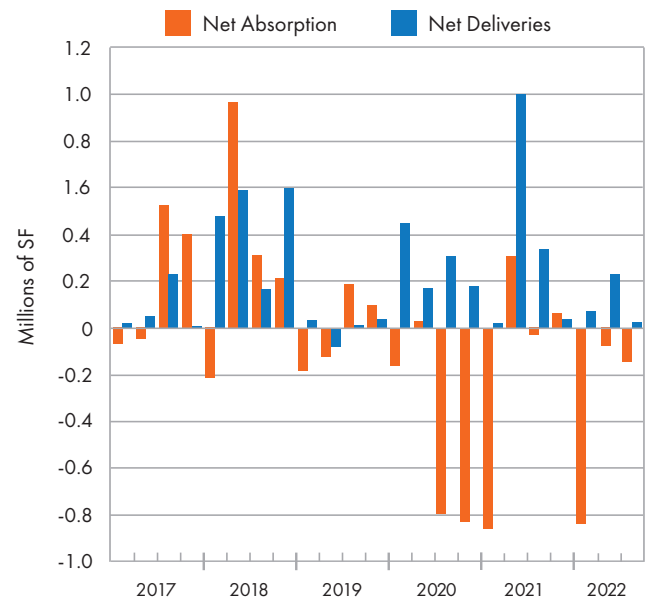


VACANCY

Suburban flight has caused office vacancies to increase from 12.3% in the second quarter of 2022 to 12.5% at the end of the second quarter 2022. All three classes saw vacancy rates increase, but Class A saw the largest increase, going from 14.6% in the second quarter to 19.2% to close out the third quarter of 2022.

Class A: 19.2%
Class B: 16.8%
Class C: 8.4%

Absorption & Deliveries 2017 - 2022



Source: CoStar Group

DELIVERIES AND CONSTRUCTION

While the second quarter saw 35,810 square feet added to the market, the third quarter saw no new deliveries, with 493,437 square feet still under construction.

The only significant office project remaining for completion in 2022 is the Advantis Credit Union headquarters in Oregon City at 76,211 square feet, set for completion in November. The largest projects still under construction are both in Portland's CBD, including Block 216 at 169,188 square feet, set for completion in April 2023, and The Offices at 11 W at 134,185 square feet, set for completion in January 2023.

RENTAL RATES

Despite all of the challenges the Portland office market has faced, rents continue to post gains with a year-over-year average of 2.3% and a ten-year average of 3.7%.

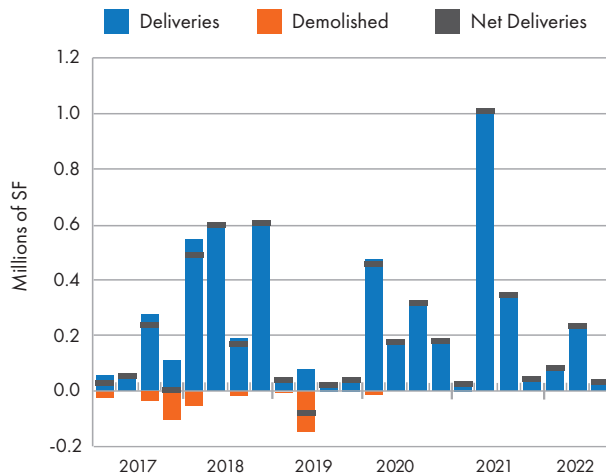
At the end of the third quarter 2022, the average quoted asking rental rate for all classes remained unchanged from the previous quarter at \$29.00 per square foot. Portland still offers a sizable discount to the national index of \$35.12 per square foot.

Class A: \$34.97

Class B: \$28.19

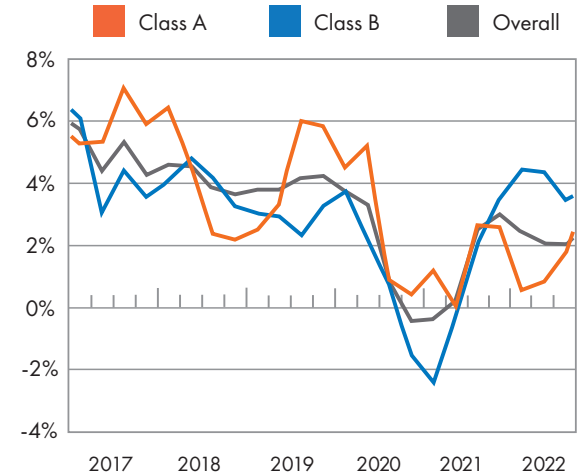
Class C: \$23.11

Historical Construction Starts & Demolitions Square Footage Per Quarter



Source: CoStar Group

Market Rent Growth 2017 - 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	6.60%	75,640	151,687
SE Outlying	1	76,000	76,000	100%	5,114	76,211
North Beaverton	1	45,000	45,000	100%	21,248	45,000
Lloyd District	1	30,000	23,000	76.70%	25,159	30,000
Camas/Washougal	1	15,000	5,000	32.00%	15,517	15,377
Clark County Outlying	1	9,000	0	0%	4,713	9,000
Orchards	1	8,000	8,000	100%	9,463	7,893
Lake Oswego/West Linn	2	7,000	0	0%	7,740	3,292
217 Corridor/Beaverton	0	-	-	-	16,702	-
Airport Way	0	-	-	-	17,343	-
All Other	0	-	-	-14,360	-	-
Totals	10	493,000	177,000	35.90%	18,493	49,344

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.